

VALASSIS COMMUNICATIONS INC  
Form SC 13G  
February 10, 2011

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934  
(Amendment No.        )\*

Valassis Communications Inc.  
(Name of Issuer)

Common Stock  
(Title of Class of Securities)

918866104  
(CUSIP Number)

December 31, 2010  
(Date of Event Which Requires Filing of this Statement)

Check appropriate box to designate the rule pursuant to which this Schedule is filed:

Rule 13d-1(b)

Rule 13d-1(c)

Rule 13d-1(d)

\* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be “filed” for the purpose of Section 18 of the Securities Exchange Act of 1934 (“Act”) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 918866104

1. NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (entities only)

Barrow, Hanley, Mewhinney & Strauss, LLC  
752403190

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a) ..

(b) ..

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

A Delaware limited liability company

NUMBER OF  
SHARES  
BENEFICIALLY  
OWNED BY  
EACH  
REPORTING  
PERSON  
WITH

5. SOLE VOTING POWER

6. SHARED VOTING POWER

7. SOLE DISPOSITIVE POWER

8. SHARED DISPOSITIVE POWER

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (See Instructions)

..

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

12. TYPE OF REPORTING PERSON (See Instructions)

IA

SCHEDULE 13G

Item  
1(a) Name of Issuer: Valassis Communications Inc.

1(b) Address of Issuer's Principal Executive Offices:  
  
19975 Victor Parkway  
Livonia, MI 48152

Item  
2(a) Name of Person Filing:

Barrow, Hanley, Mewhinney & Strauss, LLC

2(b) Address of Principal Business Office or, if none, Residence:  
  
2200 Ross Avenue, 31st Floor  
Dallas, TX 75201-2761

2(c) Citizenship:  
  
A Delaware limited liability company

2(d) Title of Class of Securities  
  
Common Stock

2(e) CUSIP Number: 918866104

Item 3 If this statement is filed pursuant to §§240.13d-1(b), or 240.13d-2(b) or (c), check whether the person filing is a:

- |     |    |                                                                                                        |
|-----|----|--------------------------------------------------------------------------------------------------------|
| (a) | .. | Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o);                               |
| (b) | .. | Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);                                         |
| (c) | .. | Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c);                           |
| (d) | .. | Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8); |
| (e) | p  | An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);                                      |

- (f)            "            An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);
- (g)            "            A parent holding company or control person in accordance with §240.13d-1(b)(ii)(G);
- (h)            "            A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i)            "            A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j)            "            Group, in a accordance with §240.13d-1(b)(1)(ii)(J).

Item 4 Ownership:

4(a) Amount beneficially owned:

4(b) Percent of Class:

4(c) Number of shares as to which person has:

(i) Sole power to vote or to direct the vote:

(ii) Shared power to vote or to direct the vote:

(iii) Sole power to dispose or to direct the disposition of:

(iv) Shared power to dispose or to direct the disposition of:

Item 5 Ownership of Five Percent or Less of a Class:

Yes.

Item 6 Ownership of More than Five Percent on Behalf of Another Person:

The right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the common stock is held by certain clients of the reporting person, none of which has such right or power with respect to five percent or more of the common stock.

Item 7 Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company:

Not Applicable.

Item 8 Identification and Classification of Members of the Group:

Not Applicable.

Item 9 Notice of Dissolution of Group:

Not Applicable.

Item

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Certification:

By signing below the undersigned certifies that, to the best of its knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

After reasonable inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC

By: /s/ James P. Barrow  
Name: James P. Barrow  
Title: President

February 10, 2011

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>  
246,264

\$  
918,553

October 2013

\$  
3.73

448,215

\$  
1,671,840

November 2013

\$  
3.73

136,402

\$  
508,778

December 2013

\$  
3.73

82,326

\$  
307,067

Subtotal

1,278,379



\$  
4,768,331

Total

1,315,671

\$  
4,918,331

As of December 31, 2013, \$6.9 million was outstanding under the Notes.

Subordinated Convertible Notes Issued in 2011 (the "2011 Notes")

On March 31, 2011, the Company entered into a Securities Purchase Agreement with certain accredited investors to sell and issue to them an aggregate of \$2.1 million in principal amount of the Company's subordinated convertible notes. On April 29, 2011, the Company issued an additional \$1.8 million in principal amount of the 2011 Notes. On May 6, 2011, the Company issued an additional \$0.6 in principal amount of the 2011 Notes. As of December 31, 2013, the total outstanding principal amount of the 2011 Notes is \$4.5 million. Approximately \$1.4 million of the proceeds obtained were used to repay the short-term promissory note that was issued March 31, 2011 and related accrued interest.

The 2011 Notes bear interest at 10% per annum and are payable quarterly in cash in arrears beginning June 30, 2011. The 2011 Notes mature on March 31, 2014. Debt issuance costs of \$0.6 million are being amortized over the life of the 2011 Notes.

The 2011 Notes are convertible at the option of the holder into shares of common stock of the Company at a conversion price of \$4.80 per share (adjusted for a 5% stock dividends paid on October 14, 2011 and October 22, 2012, as further discussed in Note 12 - Stockholders' Equity, and subject to adjustment for stock dividends, stock splits, combination of shares, recapitalization and other similar events). The initial conversion price is subject to adjustment for any stock dividend, stock split, combination of shares, reorganization, recapitalization, reclassification or other similar events. The 2011 Notes are unsecured and subordinated in right of payment to existing and future senior indebtedness.

Subordinated Convertible Notes Issued in 2012 (the "2012 Notes")

On June 28, 2012, the Company entered into a Securities Purchase Agreement, dated as of June 28, 2012, with certain accredited investors pursuant to which the Company issued and sold to them on July 2, 2012 an aggregate of \$7.5 million in principal amount of the Company's 8.0% subordinated convertible notes. The 2012 Notes bear interest at 8% per annum and such interest is payable quarterly in cash in arrears beginning on September 30, 2012. The 2012 Notes mature on July 31, 2015. The 2012 Notes are unsecured and subordinated in right of payment to existing and future senior indebtedness of the Company. The \$7.5 million principal amount of the 2012 Notes includes a refinancing of existing indebtedness of \$5.0 million of promissory notes issued to Cantone Asset Management LLC. At any time on or after the six-month anniversary of the date of issuance of the notes, the notes are convertible at the option of the holder into shares of the Company's common stock at a conversion price equal to \$3.97 per share (adjusted for a 5% stock dividend paid on October 22, 2012, as further discussed in Note 12 - Stockholders' Equity, and subject to adjustment for stock dividends, stock splits, combination of shares, recapitalization and other similar events).

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If at any time on or after the six-month anniversary date, the weighted average price of the common stock for any 20 trading days within a period of 30 days 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 the Company may, subject to the satisfaction of certain other conditions, redeem the 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 notes then outstanding may require the Company to redeem all or any portion of the notes upon a change of control transaction, at a redemption price in cash equal to 110% of the redemption amount. As of December 31, 2013, the outstanding principal amount of the 2012 Notes is \$7.5 million.

Approximately \$18.9 million of the scheduled maturities in 2014 and 2015, relate to the subordinated convertible notes issued in 2010, 2011 and 2012. While management cannot predict with certainty, we anticipate that some holders of the subordinated convertible notes will elect to convert their subordinated convertible notes into shares of common stock provided the common stock continues to trade above the applicable conversion price for such notes. The conversion prices are \$3.73, \$4.80 and \$3.97 for the subordinated convertible notes issued in 2010, 2011 and 2012, respectively. If all of the subordinated convertible notes had been converted to common stock at December 31, 2013, then the Company would have been required to issue approximately 5.9 million shares of common stock.

**NOTE 9. ACQUISITIONS**

On February 15, 2013, the Company entered into a Purchase and Sale Agreement with Avalon Health Care, LLC (“Avalon”) to acquire certain land, buildings, improvements, furniture, vehicles, contracts, fixtures and equipment comprising: (i) a 180-bed skilled nursing facility known as Bethany Health and Rehab; and (ii) a 240-bed skilled nursing facility known as Trevecca Health and Rehab, both located in Nashville, Tennessee. The Company deposited \$0.4 million of earnest money escrow deposits in February 2013. On June 1, 2013, the Purchase and Sale Agreement was terminated due to the failure of the transaction to close by May 31, 2013. In connection with the termination of the Purchase and Sale Agreement, the Company was seeking the return of \$0.4 million previously deposited earnest money escrow deposits. On August 1, 2013, the Company entered into a settlement agreement regarding the return of the \$0.4 million previously deposited earnest money escrow deposits. Pursuant to the agreement, the previously deposited earnest money escrow deposits were released and distributed, \$0.3 million to the Company and \$0.1 million to Avalon, respectively.

The Company incurred acquisition costs of approximately \$0.6 million and \$2.0 million during the years ended December 31, 2013 and 2012. Acquisition costs are recorded in “Other Income (Expense)” section of the Consolidated Statements of Operations.

**Summary of 2012 Acquisitions**

During the year ended December 31, 2012, the Company acquired a total of 11 skilled nursing facilities and one assisted living facility described further below. The total purchase price for each acquisition is after final closing adjustments.

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## Eaglewood Care Center and Eaglewood Village

On January 1, 2012, the Company acquired the Eaglewood Care Center, a skilled nursing facility and the Eaglewood Village facility, an assisted living facility each located in Springfield, Ohio. The total purchase price was \$12.4 million.

	(Amounts in 000's)	
Consideration transferred:		
Net proceeds from loans	\$4,693	
Seller notes	5,000	
Cash from earnest money deposits	250	
Cash (prepaid on December 30, 2011)	2,469	
Total consideration transferred	\$12,412	
Assets acquired:		
Land	\$370	
Building	9,656	
Equipment and Furnishings	1,199	
Intangible Assets—bed licenses	1,188	
Goodwill	87	
Total assets acquired	12,500	
Liabilities assumed:		
Real estate taxes and other	(88	)
Total identifiable net assets	\$12,412	
Little Rock, Northridge and Woodland Hills		

On April 1, 2012, the Company acquired the Little Rock, Northridge and Woodland Hills facilities, three skilled nursing facilities located in Little Rock, Arkansas. The total purchase price was \$27.2 million.

	(Amounts in 000's)	
Consideration transferred:		
Net proceeds from loans	\$19,732	
Cash	5,899	
Cash from earnest money deposits	1,600	
Total consideration transferred	\$27,231	
Assets acquired:		
Land	\$1,582	
Building	17,256	
Equipment and furnishings	1,620	
Intangible Assets—bed licenses	6,510	
Goodwill	312	
Total assets acquired	27,280	
Liabilities assumed:		
Real estate taxes and other	(49	)
Total identifiable net assets	\$27,231	

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## Abington Place

On April 30, 2012, the Company acquired Abington Place, a skilled nursing facility located in Little Rock, Arkansas. The total purchase price was \$3.6 million.

	(Amounts in 000s')
Consideration transferred:	
Net proceeds from loans	\$3,296
Cash from earnest money deposits	250
Security deposit for lease/May rent	35
Total consideration transferred	\$3,581
Assets acquired:	
Land	\$210
Building	225
Equipment and furnishings	2,090
Intangible assets—bed licenses	840
Goodwill	235
Total assets acquired	3,600
Liabilities assumed:	
Real estate taxes and other	(19 )
Total identifiable net assets	\$3,581

## Glenvue Nursing Home

On July 2, 2012, the Company acquired Glenvue Nursing, a skilled nursing facility located in Glennville, Georgia. The total purchase price was \$8.2 million.

	(Amounts in 000's)
Consideration transferred:	
Net proceeds from loans	\$6,573
Cash from earnest money deposits	1,667
Total consideration transferred	\$8,240
Assets acquired:	
Land	\$400
Building	3,815
Equipment and furnishings	285
Intangible Assets—bed licenses	3,020
Goodwill	720
Total assets acquired	8,240
Total identifiable net assets	\$8,240

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## Quail Creek Health and Rehab

On July 3, 2012, the Company acquired Quail Creek Health and Rehab a skilled nursing facility located in Oklahoma City, Oklahoma. The total purchase price was \$6.2 million with assumed fair valued indebtedness of \$3.2 million.

	(Amounts in 000's)
Consideration transferred:	
Assumed debt	\$3,200
Cash from earnest money deposits	3,000
Total consideration transferred	\$6,200
Assets acquired:	
Land	\$237
Building	3,743
Equipment and furnishings	220
Intangible assets—bed licenses	1,770
Goodwill	230
Total assets acquired	6,200
Total identifiable net assets	\$6,200

## Companions Specialized Care Center

On August 17, 2012, the Company acquired Companions Specialized Care Center, a skilled nursing facility located in Tulsa, Oklahoma. The total purchase price was \$5.9 million.

	(Amounts in 000's)
Consideration transferred:	
Net proceeds from loans	\$4,454
Cash from earnest money deposits	662
Common stock issued	750
Total consideration transferred	\$5,866
Assets acquired:	
Land	\$780
Building	2,588
Equipment and furnishings	191
Intangible assets—bed licenses	1,530
Goodwill	799
Total assets acquired	5,888
Liabilities assumed:	
Real estate taxes and other	(22 )
Total identifiable net assets	\$5,866

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## Sumter Valley Nursing and Rehab

On December 31, 2012, the Company acquired Sumter Valley Nursing and Rehab, a skilled nursing facility located in Sumter, South Carolina. The total purchase price was \$5.6 million.

	(Amounts in 000's)
Consideration transferred:	
Net proceeds from loans	\$4,215
Seller notes	250
Cash from earnest money deposits	1,085
Total consideration transferred	\$5,550
Assets acquired:	
Land	\$ 190
Building	2,797
Equipment and furnishings	140
Intangible assets—bed licenses	2,016
Goodwill	407
Total assets acquired	5,550
Total identifiable net assets	\$5,550

## Georgetown Healthcare and Rehab

On December 31, 2012, the Company acquired Georgetown Healthcare and Rehab, a skilled nursing facility located in Georgetown, South Carolina. The total purchase price was \$4.2 million.

	(Amounts in 000's)
Consideration transferred:	
Net proceeds from loans	\$ 1,968
Seller notes	1,850
Cash from earnest money deposits	382
Total consideration transferred	\$4,200
Assets acquired:	
Land	\$ 20
Building	2,179
Equipment and furnishings	160
Intangible assets—bed licenses	1,470
Goodwill	371
Total assets acquired	4,200
Total identifiable net assets	\$4,200

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## Northwest Nursing Center

On December 31, 2012, the Company acquired Northwest Nursing Center, a skilled nursing facility located in Oklahoma City, Oklahoma. The total purchase price was \$3.0 million.

	(Amounts in 000's)
Consideration transferred:	
Net proceeds from loans	\$2,850
Cash from earnest money deposits	150
Total consideration transferred	\$3,000
Assets acquired:	
Land	\$ 155
Building	1,045
Equipment and furnishings	185
Intangible assets—bed licenses	1,325
Goodwill	290
Total assets acquired	3,000
Total identifiable net assets	\$3,000

## Unaudited Pro forma Financial Information

The above acquisitions have been included in the consolidated financial statements since the dates of the acquisition. Combined revenue for all 2012 acquisitions since date of acquisition through December 31, 2012 was \$35.1 million and resulted in loss from operations of \$0.3 million for the year ended December 31, 2012.

The following table represents pro forma results of consolidated operations as if all of the 2012 acquisitions had occurred at the beginning of the earliest fiscal year being presented, after giving effect to certain adjustments.

(Amounts in 000's)	December 31, 2012
Pro forma revenue	\$220,745
Pro forma operating expenses	\$216,673
Pro forma income from operations	\$4,072

The foregoing pro forma information is not indicative of what the results of operations would have been if the acquisitions had actually occurred at the beginning of the periods presented and is not intended as a projection of future results or trends.

## NOTE 10. DISCONTINUED OPERATIONS

As part of the Company's strategy to focus on the growth of its skilled nursing segment, the Company decided in the fourth quarter of 2011 to exit the home health segment of the business. The Company sold the assets of the home health business in 2012. In the fourth quarter of 2012, the Company continued this strategy and entered into an agreement to sell six assisted living facilities located in Ohio. The Company also entered into a sublease arrangement in the fourth quarter of 2012 to exit the operations of a skilled nursing facility in Jeffersonville, Georgia. On June 12, 2013, the Company executed two sublease agreements to exit the skilled nursing business in Tybee Island, Georgia effective June 30, 2013 relating to two facilities. A sales listing agreement was executed for the 104-unit assisted living facility located in Hoover, Alabama, which is a consolidated variable interest entity, during the fourth quarter of 2013. The results of operations and cash flows for the home health business, the six Ohio assisted living facilities, the Jeffersonville, Georgia skilled nursing facility, the two facilities in Tybee Island, Georgia, and the assisted living facility located in Hoover, Alabama are reported as discontinued operations in 2013 and 2012.

On February 28, 2013, the Company completed the sale of the facility known as Lincoln Lodge Retirement Residence and used the proceeds to pay the principal balance of the HUD mortgage note with respect to the facility of \$1.9 million. The Company recognized a gain on the sale of approximately \$0.1 million and cash proceeds, net of costs and debt payoff, of \$0.6





million.

On May 6, 2013, Hearth & Home of Vandalia, Inc. (the “Vandalia Seller”), a wholly owned subsidiary of the Company, sold to H & H of Vandalia LLC (the “Vandalia Purchaser”), pursuant to that certain Agreement of Sale, dated October 11, 2012 and amended December 28, 2012 (as amended, the “Ohio Sale Agreement”), between the Company and certain of its subsidiaries, including the Vandalia Seller (together, the “Ohio ALF Sellers”), on the one hand, and CHP Acquisition Company, LLC (“CHP”) on the other hand, certain land, buildings, improvements, furniture, fixtures and equipment comprising the Vandalia facility located in Vandalia, Ohio. CHP had previously assigned its rights in the Ohio Sale Agreement with respect to the Vandalia facility to the Vandalia Purchaser.

The sale price for the Vandalia facility consisted of, among other items: (i) an assumption, by the Vandalia Purchaser, of a mortgage in an aggregate amount of \$3.6 million (the “Vandalia Mortgage”) that secures the Vandalia facility; and (ii) a release of the Vandalia Seller from its obligations to Red Mortgage Capital, LLC (the “Vandalia Mortgagee”) and HUD with respect to the Vandalia Mortgage, pursuant to a release and assumption agreement entered into among the Vandalia Purchaser, the Vandalia Seller, HUD and the Vandalia Mortgagee. In connection with the sale of the Vandalia facility, the Vandalia Seller and Vandalia Purchaser also entered into an assignment and assumption agreement of trust funds and service contracts, containing customary terms and conditions.

In June 2013, the Company entered into a Release Agreement with CHP amending the terms of the \$3.6 million Seller Note issued in the connection with the sale of four of the six Ohio assisted living facilities sold to CHP in the fourth quarter of 2012. In exchange for a reduction in the Vandalia purchase price by \$0.4 million, CHP agreed to immediately payoff the Seller Note resulting in a net payment of \$3.2 million. Proceeds from the \$3.2 million payment were used to fund a \$2.0 million increase in collateralized restricted cash required by one of the Company’s lenders and \$1.2 million was received by the Company for working capital purposes. The Company recognized a loss on the sale of Vandalia of \$0.4 million.

On June 11, 2013, the Company completed the sale of its former Springfield, Ohio corporate office building which was sold for the approximate net book value. The Company used the proceeds to pay off the principal balance of the mortgage note with respect to the building of approximately \$0.1 million.

The two remaining Ohio assisted living facilities held for sale at December 31, 2012 are Lincoln Lodge Retirement Residence (known as Lincoln Lodge) and Hearth & Home of Vandalia (known as Vandalia). The assets of Lincoln Lodge and Vandalia sold and the Vandalia HUD mortgage note of \$3.7 million assumed by the buyer are reflected as assets and liabilities of a disposal group held for sale at December 31, 2012. The Lincoln Lodge HUD mortgage note of \$1.9 million at December 31, 2012 is reflected in the current portion of notes payable and other debt and was paid off from the proceeds of the Lincoln Lodge sale that occurred on February 28, 2013. The sale of Vandalia closed on May 6, 2013. Pursuant to the purchase and sale agreement, the combined purchase price for the sale of Vandalia and Lincoln Lodge is \$6.0 million (\$2.3 million net of assumed debt).

The following table summarizes the activity of discontinued operations for the years ended December 31, 2013 and 2012:

(Amounts in 000’s)	December 31, 2013	December 31, 2012
Total revenues from discontinued operations	\$5,559	\$21,768
Net (loss) income from discontinued operations	\$(2,248)	) \$5,846
Interest expense, net from discontinued operations	\$591	\$1,183
Income tax (expense) benefit from discontinued operations	\$(33)	) \$20
Gain (loss) on disposal of assets from discontinued operations	\$(467)	) \$6,729

Assets and liabilities of the disposal groups held for sale at December 31, 2013 and 2012 are as follows:

Amounts in (000's)	December 31, 2013	December 31, 2012
Property and equipment, net	\$400	\$5,840
Other assets	—	319
Assets of disposal group held for sale	\$400	\$6,159
Notes payable	\$—	\$3,662
Liabilities of disposal group held for sale	\$—	\$3,662

During the second quarter of 2013, the Company executed two sublease arrangements to exit the skilled nursing business in Tybee Island, Georgia. The two skilled nursing facilities had an aggregate of 135 units in service. Certain assets of these two skilled nursing facilities are classified as Assets of disposal group held for use at December 31, 2012 are as follows:

Amounts in (000's)	December 31, 2012
Property and equipment, net	\$57
Intangible assets-lease rights, net	721
Assets of disposal group held for use	\$778

During the fourth quarter of 2013, Riverchase, our consolidated variable interest entity, executed a sales listing agreement for the 105-unit assisted living facility located in Hoover, Alabama to exit the operations, (for further information on our variable interest entity, see Note 14 - Variable Interest Entity). Assets and liabilities of the variable interest entity held for sale at December 31, 2013 are as follows:

Amounts in (000's)	December 31, 2013
Property and equipment, net	\$5,893
Other assets	52
Assets of variable interest entity held for sale	\$5,945
Bonds payable, net of discounts	\$6,034
Liabilities of variable interest entity held for sale	\$6,034

#### NOTE 11. PREFERRED STOCK

##### Preferred Stock Offerings

On October 28, 2013, the Company sold 500,000 shares of its Series A Preferred Stock at \$25 per share in a registered public offering. The Company received proceeds from the offering of \$11.3 million after deducting underwriting discounts and other offering-related expenses of \$1.2 million. The liquidation preference of the Series A Preferred Stock is \$25 per share. Cumulative dividends accrue and are paid in the amount of \$2.72 per share each year, which is equivalent to 10.875% of the \$25.00 liquidation preference per share. The dividend rate may increase under certain circumstances.

On November 7, 2012, the Company sold 450,000 shares of its Series A Preferred Stock offered at \$23 per share in a registered public offering. The Company received proceeds from the offering of \$9.2 million after deducting underwriting discounts and other offering-related expenses of \$1.2 million. The liquidation preference of the Series A Preferred Stock is \$25 per share. Cumulative dividends accrue and are paid in the amount of \$2.72 per share each year, which is equivalent to 10.875% of the \$25.00 liquidation preference per share. The dividend rate may increase under certain circumstances.

Holders of the Series A Preferred Stock generally have no voting rights but have limited voting rights under certain circumstances. The Company may not redeem the Series A Preferred Stock before December 1, 2017, except the

Company is

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required to redeem the Series A Preferred Stock following a "Change of Control," as defined in the Company's Articles of Incorporation. On and after December 1, 2017, the Company may, at its option, redeem the Series A Preferred Stock, in whole or in part, by paying \$25.00 per share, plus any accrued and unpaid dividends to the redemption date.

The change-in-control provision requires the preferred stock to be classified as temporary equity because, although deemed a remote possibility, a purchaser could acquire a majority of the voting power of the outstanding common stock without company approval, thereby triggering redemption. FASB ASC Topic 480-10-S99-3A, SEC Staff Announcement: Classification and Measurement of Redeemable Securities, requires classification outside of permanent equity for redeemable instruments for which the redemption triggers are outside of the issuer's control. The assessment of whether the redemption of an equity security could occur outside of the issuer's control is required to be made without regard to the probability of the event or events that may result in the instrument becoming redeemable.

**NOTE 12. STOCKHOLDERS' EQUITY****Shares Authorized and Reserved**

At December 31, 2013, the Company had reserved approximately 11.7 million shares of its authorized but unissued common stock for possible future issuance in connection with the following outstanding items:

	Shares (000's)
Options outstanding and authorized for future grants in approved plans for stock options	2,184
Common stock warrants outstanding — employees	1,876
Common stock warrants outstanding — nonemployees	1,989
Convertible shares issuable under debt agreements (including additional 20% required under agreements)	5,611
Total authorized shares reserved	11,660

**Stock Dividends**

On September 6, 2012, the Company's Board of Directors declared a 5% stock dividend issued on October 22, 2012 to holders of the common stock as of October 8, 2012. As a result of the stock dividend, the number of outstanding shares of common stock increased by 0.7 million shares in 2012.

All references to the number of common shares and per-share amounts included in these consolidated financial statements are restated based on the increased number of shares giving retroactive effect to the stock dividend to prior year amounts.

**2012 Public Common Stock Offering**

In March 2012, the Company sold 1.1 million shares of common stock at \$3.75 per share in a registered public offering. The Company also granted the underwriter in the offering an option for 45 days to purchase up to an additional 165,000 shares of common stock to cover over-allotments, if any. In connection with the underwriter's partial exercise of this option, the Company issued an additional 65,000 shares of common stock at an offering price to the public of \$3.75 per share on May 22, 2012. The Company received net proceeds of \$3.8 million after deducting underwriting discounts and other offering-related expenses of \$0.6 million.

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## NOTE 13. STOCK BASED COMPENSATION

The following table summarizes employee and nonemployee stock based compensation for the years ended December 31, 2013 and 2012:

Amounts in (000's)	December 31,	
	2013	2012
Employee compensation:		
Stock options	\$639	\$486
Common stock warrants	140	229
Employee stock-based compensation	779	715
Nonemployee compensation:		
Warrants	\$22	\$—
Board restricted stock	296	176
Nonemployee stock-based compensation	318	176
Total stock-based compensation	\$1,097	\$891

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:

**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.

**Expected Volatility:** The Company estimates the expected volatility factor using the Company's historical stock price volatility.

**Risk-Free Interest Rate:** The Company bases the risk-free interest rate on the U.S. Treasury yield curve in effect at the time of grant or warrant for the period of the expected term as described.

**Expected Term:** The Company currently uses a simplified method for calculating the expected term based on the historical exercises of employee options and warrants and contractual expiration dates. For nonemployee 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	—	% —		%
Expected Volatility	43.3% - 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 nonemployee stock options and warrants using the Black-Scholes-Merton option-pricing model are set forth in the following table:

	2013	2012		
Dividend Yield	—	% —		%
Expected Volatility	46.9% - 50.3%	38.5% - 47.8%		
Risk-Free Interest Rate	0.07% - 0.32%	0.25% - 0.72%		
Expected Term	2 - 10 years	3 - 10 years		

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## Employee Stock Options

The Company has three active employee stock option plans.

The 2004 Stock Incentive Plan expires March 31, 2014 and provides for a maximum of 347,288 shares of common stock to be issued.

The 2005 Stock Incentive Plan expires September 30, 2015 and provides for a maximum of 578,812 shares of common stock to be issued.

The 2011 Stock Incentive Plan expires March 28, 2021 and provides for a maximum of 2,152,500 shares of common stock to be issued.

All three plans permit the granting of incentive or nonqualified stock options. The 2011 Stock Incentive Plan also permits the granting of restricted stock. The plans are administered by the Board of Directors which has the authority to determine the employees to whom awards will be made, the amounts of the awards, and the other terms and conditions of the awards. The Company intends to use only the 2011 Stock Incentive Plan to make future grants.

The following summarizes the Company's employee stock option activity for the years ended December 31, 2013 and 2012:

	Number of Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2011	575	\$3.90		
Stock Dividend	73	\$4.25		
Granted	996	\$4.46		
Exercised	(67 )	\$1.39		
Forfeited	(186 )	\$4.31		
Expired	(40 )	\$2.78		
Outstanding at December 31, 2012	1,351	\$4.57	6.6 years	\$900
Vested at December 31, 2012	268	\$4.22	4.8 years	\$260
Vested or Expected to Vest at December 31, 2012 (a)	1,351	\$4.57	6.6 years	\$900
Outstanding at December 31, 2012	1,351	\$4.57		
Granted	778	\$4.23		
Exercised	(10 )	\$3.52		
Forfeited	(210 )	\$4.10		
Expired	(105 )	\$3.62		
Outstanding at December 31, 2013	1,804	\$4.54	7.5 years	\$448
Vested at December 31, 2013	539	\$4.77	5.9 years	\$177
Vested or Expected to Vest at December 31, 2013 (a)	1,592	\$4.59	5.9 years	\$400

(a) Includes forfeiture adjusted unvested shares.

The weighted average grant date fair value of options granted during the years ended December 31, 2013 and 2012 was \$1.92 and \$1.36, respectively. At December 31, 2013, the Company has approximately \$1.7 million of unrecognized compensation expense related to unvested options. Assuming no pre-vesting forfeitures, this expense will be recognized as a charge to earnings over a weighted-average remaining service period of 1.9 years. The total intrinsic value of options exercised during the years ended December 31, 2013 and 2012, was \$0.02 million and \$0.2 million, respectively.

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The following summary information reflects stock options outstanding, vested and related details as of December 31, 2013:

Exercise Price	Stock Options Outstanding			Options Exercisable	
	Number Outstanding (000's)	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Vested and Exercisable (000's)	Weighted Average Exercise Price
\$1.30	31	1.2 years	\$1.30	32	\$1.30
\$1.31 - \$3.99	668	6.4 years	\$3.93	189	\$3.93
\$4.00 - \$4.30	585	8.9 years	\$4.12	63	\$4.11
\$4.31 - \$4.99	150	9.0 years	\$4.85	8	\$4.61
\$5.00 - \$7.62	370	7.2 years	\$6.45	247	\$6.05
Total	1,804	7.5 years	\$4.54	539	\$4.77

**Employee Common Stock Warrants**

In addition to the Company's stock option plans, the Company grants stock warrants to officers, directors, employees and certain consultants to the Company from time to time as determined by the Board of Directors. The Board of Directors administers the granting of warrants, determines the persons to whom awards will be made, the amount of the awards, and the other terms and conditions of the awards.

The following summarizes the Company's employee common stock warrant activity for the years ended December 31, 2013 and 2012:

	Number of Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2011	1,720	\$3.10		
Stock Dividend	86	\$2.99		
Granted	—	\$—		
Exercised	—	\$—		
Forfeited	—	\$—		
Outstanding at December 31, 2012	1,806	\$2.98	5.6 years	3,196
Vested at December 31, 2012	1,539	\$2.79	5.1 years	3,029
Vested or Expected to Vest at December 31, 2012 (a)	1,806	\$2.98	5.6 years	3,196
Outstanding at December 31, 2012	1,806	\$2.98		
Granted	70	\$5.90		
Exercised	—	\$—		
Forfeited	—	\$—		
Outstanding at December 31, 2013	1,876	\$3.09	4.8 years	2,415
Vested at December 31, 2013	1,701	\$2.90	4.4 years	2,402
Vested or Expected to Vest at December 31, 2013 (a)	1,855	\$3.07	4.8 years	2,414

(a) Includes forfeiture adjusted unvested shares.

The weighted average grant date fair value of employee warrants granted during the year ended December 31, 2013 was \$3.06; there were no employee warrants granted in 2012. The Company has approximately \$0.3 million of unrecognized compensation expense related to unvested employee warrants as of December 31, 2013. Assuming no pre-vesting forfeitures, this expense will be recognized as a charge to earnings over a weighted-average remaining

service period of 2.00 years.

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## Restricted Stock

In December 2013, the Company approved issuing, pursuant to the 2011 Plan, 30,000 shares of common stock with a three-year restriction to its Chief Financial Officer. The restricted stock has all the rights of a shareholder from the date of grant, including, without limitation the right to receive dividends and the right to vote. The Company determined the fair value of the restricted stock at date of grant to be equal to the grant date closing stock price of \$4.34. The related compensation expense is being recognized over the three-year restricted period. The compensation expense for year ended December 31, 2013 was \$0.001 million with unrecognized compensation expense of \$0.1 million remaining at December 31, 2013.

On July 2, 2012, in connection with the issuance of the \$7.5 million principal amount of 8% subordinated convertible notes, the Company granted 50,000 shares of restricted common stock with a one-year restriction on transferability to the placement agent as partial consideration for its service on the offering. The Company determined the fair value of the restricted stock to be equal to the grant date closing stock price of \$3.50. The related compensation expense is included in deferred loan costs and is being amortized as interest expense over the term of the 8% subordinated convertible notes. The expense for the year ended December 31, 2013 was \$0.1 million with unrecognized expense of 0.1 million remaining at December 31, 2013.

In June 2012, the Company approved issuing, pursuant to the 2011 Stock Incentive Plan, 270,000 shares of common stock with a three-year restriction on transfer to its nine directors. The restricted stock has all the rights of a shareholder from the date of grant, including, without limitation the right to receive dividends and the right to vote. The Company determined the fair value of the restricted stock at date of grant to be equal to the grant date closing stock price of \$3.20. The related compensation expense is being recognized over the three-year restricted period. The compensation expense for year ended December 31, 2013 was \$0.3 million with unrecognized compensation expense of \$0.4 million remaining at December 31, 2013.

The following summarizes the Company's restricted stock activity for the year ended December 31, 2013 and 2012:

	Number of Shares (000's)	Weighted Avg. Grant Date Fair Value
Unvested at December 31, 2011	—	\$—
Granted	320	\$3.25
Stock Dividend	16	\$3.25
Vested	(52	) \$3.50
Forfeited	—	\$—
Unvested at December 31, 2012	284	\$3.20
Granted	30	\$4.34
Vested	—	\$—
Forfeited	—	\$—
Unvested at December 31, 2013	314	\$3.31

The weighted average grant date fair value of restricted stock awards granted during the years ended December 31, 2013 and 2012 was \$4.34 and \$3.25, respectively. The Company has approximately \$0.6 million of unrecognized compensation expense related to unvested restricted stock awards as of December 31, 2013. Assuming no pre-vesting forfeitures, this expense will be recognized as a charge to earnings over a weighted-average remaining service period of 1.6 years.

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## Nonemployee Common Stock Warrants

The following summarizes the Company's nonemployee common stock warrant activity for the period ended December 31, 2013 and 2012:

	Number of Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2011	1,154	\$3.85		
Stock Dividend	94	\$3.85		
Granted	777	\$3.82		
Exercised	(29 )	\$1.26		
Forfeited	(35 )	\$3.82		
Outstanding at December 31, 2012	1,961	\$3.77	1.9 years	\$1,935
Vested at December 31, 2012	1,961	\$3.77	1.9 years	\$1,935
Vested or Expected to Vest at December 31, 2012 (a)	1,961	\$3.77	1.9 years	\$1,935
Outstanding at December 31, 2012	1,961	\$3.77		
Granted	85	\$3.96		
Exercised	(28 )	\$1.05		
Forfeited	(29 )	\$2.27		
Outstanding at December 31, 2013	1,989	\$3.84	1.0 year	\$1,054
Vested at December 31, 2013	1,989	\$3.84	1.0 year	\$1,054
Vested or Expected to Vest at December 31, 2013 (a)	1,989	\$3.84	1.0 year	\$1,054

(a) Includes forfeiture adjusted unvested shares.

During the years ended December 31, 2013 and 2012, the Company granted warrants to nonemployees with a weighted-average grant date fair value of \$1.14 and \$0.99. The warrants have contractual terms between two and ten years. The majority vested immediately on the date of grant. The total intrinsic value of nonemployee common stock warrants exercised during the years ended December 31, 2013 and 2012, was \$0.1 million and \$0.1 million, respectively.

**NOTE 14. VARIABLE INTEREST ENTITIES**

The Company has certain variable interest entities that are required to be consolidated because AdCare is their primary beneficiary. A "primary beneficiary" is the party in a VIE that has both of the following characteristics: (a) The power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. For a further description of the VIEs, see Note 19 - Related Party Transactions - "Riverchase" and "Oklahoma Owners".

In 2011, the Company concluded it was the primary beneficiary of the Oklahoma Owners and pursuant to FASB ASC Topic 810-10, Consolidation-Overall, consolidated the Oklahoma Owners in its 2011 consolidated financial statements. During the process of finalizing the 2012 financial statements, the Company re-assessed its prior conclusion that it should consolidate the Oklahoma Owners. In the reassessment process, the Company concluded that it should not have consolidated the Oklahoma Owners. In the accompanying consolidated financial statements the Company has deconsolidated the Oklahoma Owners effective January 1, 2012 and the balance sheet, operations and cash flows of the Oklahoma Owners are not included in the Company's 2012 consolidated financial statements. The Company further concluded that including the Oklahoma Owners in its 2011 financial statements was not material to such consolidated financial statements and therefore no adjustments have been made to the previously issued 2011 financial statements.

On June 22, 2013, the Company and Riverchase, our consolidated variable interest entity which is owned and controlled by Christopher Brogdon (the Company's Vice Chairman and a greater than 5% beneficial owner of the common stock), agreed to mutually terminate the five year management agreement, dated June 22, 2010. Riverchase owns Riverchase Village, a 105-bed assisted living facility located in Hoover, Alabama. Pursuant to the management agreement, a subsidiary of the Company

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supervised the management of the Riverchase Village facility for a monthly fee equal to 5% of the monthly gross revenues of the Riverchase Village facility.

On June 22, 2013, a wholly owned subsidiary of the Company and Mr. Brogdon amended the Option Agreement, dated June 22, 2010, pursuant to which the Company has the exclusive and irrevocable right to acquire from Mr. Brogdon all of the issued and outstanding membership interests in Riverchase, which owns the Riverchase Village facility. The amendment extended the option provided for thereby from June 22, 2013 to June 22, 2014. The following summarizes the assets and liabilities of the variable interest entities included in the consolidated balance sheets (See Note 20—Subsequent Events for discussion of recent events):

## Riverchase Village Facility—Assets and Liabilities:

(Amounts in 000's)	December 31,	
	2013	2012
Cash	\$(2	) \$(38
Accounts receivable	119	—
Assets of variable interest entity held for sale	5,945	—
Restricted investments	—	343
Property and equipment, net	—	5,974
Other assets	371	391
Total assets	\$6,433	\$6,670
Accounts payable	\$1,791	\$1,316
Accrued expenses	58	66
Current portion of notes payable	184	92
Liabilities of variable interest entity held for sale	6,034	—
Notes payable, net of current portion	—	6,034
Noncontrolling interest	(1,634	) (838
Total liabilities	\$6,433	\$6,670

## NOTE 15. FAIR VALUE MEASUREMENTS

## Recurring Fair Value Measurements

The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the years ended December 31, 2013 and 2012, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

Amounts in (000's)	Level 1:	Level 2:	Level 3:	Total
Derivative Liability—2013	\$—	\$—	\$—	\$—
Derivative Liability—2012	\$—	\$—	\$3,630	\$3,630

Set forth below is a reconciliation of the beginning and ending balances for the derivative liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2013:

Amounts in (000's)	Derivative Liability
Beginning Balance	\$3,630
Debt extinguishment	\$(624
Derivative gain	) \$(3,006
Ending Balance	) \$—

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The derivative liability is the result of the Company issuing subordinated convertible notes in 2010. The notes are convertible into shares of common stock of the Company at a current conversion price of \$3.73 (adjusted for various stock dividends) that is subject to future reductions if the Company issues equity instruments at a lower price. Because there is no minimum conversion price, an indeterminate number of shares may be issued in the future. Accordingly, the Company determined an embedded derivative existed that was required to be bifurcated from the subordinated convertible notes and accounted for separately as a derivative liability recorded at fair value. The Company estimates the fair value of the derivative liability using the Black-Scholes-Merton option-pricing model with changes in fair value being reported in the consolidated statement of operations. This model requires certain key inputs that are significant unobservable inputs (Level 3).

Effective October 26, 2013, the Company entered into a Waiver, Amendment and Forbearance with holders of the 2010 convertible notes, pursuant to which the Company and the holders amended, among other items, to extend the maturity date until August 29, 2014 and to delete the requirement to adjust the conversion price of the Notes for dilutive equity issuances (i.e., the "full ratchet and anti-dilution" provision). Accordingly, a minimum conversion price of \$3.73 was set and a determinate number of shares was established, the result of which was that the embedded derivative ceased to exist. The Company adjusted the carrying value of the derivative to zero as of October 26, 2013.

### Nonrecurring Fair Value Measurements

During 2013, the Company recorded a goodwill impairment charge of approximately \$0.8 million which is reflected in loss from continuing operations. The impairment charge was a result of the required goodwill impairment test that requires the goodwill to be written down to the estimate of the implied fair value. The goodwill was measured using primarily an income approach with significant unobservable inputs (Level 3).

## NOTE 16. COMMITMENTS AND CONTINGENCIES

### Regulatory Matters

Laws and regulations governing Federal Medicare and State Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future governmental review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from certain governmental programs. The Company believes that it is in compliance in all material respects with all applicable laws and regulations.

A significant portion of the Company's revenue is derived from Medicaid and Medicare, for which reimbursement rates are subject to regulatory changes and government funding restrictions. Any significant future change to reimbursement rates could have a material effect on the Company's operations.

### Operating Leases

The Company leases certain office space and nine skilled nursing facilities under non-cancelable operating leases, most of which have initial lease terms of 10 to 12 years with rent escalation clauses and provisions for payments by the Company of real estate taxes, insurance and maintenance costs. For the years ended December 31, 2013 and 2012, facility rent expense totaled \$7.0 million and \$7.1 million, respectively.

Five of the Company's facilities are operated under a single master lease arrangement. The lease has a term of ten years into 2020. Under the master lease, a breach at a single facility could subject one or more of the other facilities covered by the same master lease to the same default risk. Failure to comply with regulations or governmental authorities, such as Medicaid and Medicare provider requirements, is a default under the Company's master lease agreement. In addition, other potential defaults related to an individual facility may cause a default of the entire master lease agreement. With an indivisible lease, it is difficult to restructure the composition of the portfolio or economic terms of the lease without the consent of the landlord. The Company is not aware of any defaults as of December 31, 2013.

Two of the Company's facilities are operated under a separate lease agreement. The lease is a single indivisible lease; therefore, a breach at a single facility could subject the second facility to the same default risk. The lease has a term of 12 years into 2022 and includes covenants and restrictions. The Company is required to make a minimum capital expenditures of \$375 per licensed bed per lease year at each facility which amounts to \$0.1 million per year for both

facilities. As of December 31, 2013, the Company is in compliance with all financial and administrative covenants of this lease agreement.

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Future minimum lease payments for each of the next five years ending December 31 are as follows:

	(Amounts in 000's)
2014	\$6,347
2015	6,190
2016	6,066
2017	5,971
2018	5,918
Thereafter	12,489
Total	42,981

The Company has also entered into lease agreements for various equipment used in the facilities. These leases are included in future minimum lease payments above.

#### Legal Matters

The skilled nursing business involves a significant risk of liability due to the age and health of the Company's patients and residents and the services the Company provides. The Company and others in the industry are subject to an increasing number of claims and lawsuits, including professional liability claims, which may allege that services have resulted in personal injury, elder abuse, wrongful death or other related claims. The defense of these lawsuits may result in significant legal costs, regardless of the outcome, and can result in large settlement amounts or damage awards.

In addition to the potential lawsuits and claims described above, the Company is also subject to potential lawsuits under the Federal False Claims Act and comparable state laws alleging submission of fraudulent claims for services to any healthcare program (such as Medicare) or payer. A violation may provide the basis for exclusion from federally funded healthcare programs. As of December 31, 2013 and 2012, the Company does not have any material loss contingencies recorded or requiring disclosure based upon the evaluation of the probability of loss from known claims, except as disclosed below.

In 2012, the Company was named as a defendant in two related lawsuits asserting breach of contract claims arising out of consulting agreements executed in 2010 in connection with the Company's becoming the operator of certain leased facilities that were previously operated by a third-party. The same transaction was already the subject of litigation commenced by the Company in 2011 against several entities which had previously operated the leased facilities. After becoming the operator of the leased facilities, the Company incurred certain losses for pre-closing activities for which the Company was entitled to indemnification. The Company sought to enforce its rights to indemnity by filing a lawsuit against the former operators of the leased facilities for breach of contract and related tort claims, and the Company proceeded to set off its losses against payment due under the consulting agreements referenced above. The defendants filed counterclaims against the Company. In the third quarter of 2012, a settlement was reached with respect to the three lawsuits that permitted the Company to eliminate a previously accrued liability in light of the lower than expected settlement amount of \$1.0 million resulting in a non-cash settlement gain of \$0.4 million recognized in the third quarter of 2012. During the third quarter of 2012, \$0.3 million of the settlement was paid. During 2013, the remaining settlement of \$0.2 million was paid.

On June 24, 2013, South Star Services, Inc. ("SSSI"), Troy Clanton and Rose Rabon (collectively, the "Plaintiffs") filed a complaint in the District Court of Oklahoma County, State of Oklahoma against: (i) AdCare, certain of its wholly owned subsidiaries and AdCare's Chief Executive Officer (collectively, the "AdCare Defendants"); (ii) Christopher Brogdon (Vice Chairman of the Board of Directors, owner of greater than 5% of the outstanding common stock and former Chief Acquisition Officer of the Company) and his wife; and (iii) five entities controlled by Mr. and Mrs. Brogdon, which entities own five skilled-nursing facilities located in Oklahoma (the "Oklahoma Facilities") that are managed by an AdCare subsidiary. The complaint alleges, with respect to the AdCare Defendants, that: (i) the AdCare Defendants tortuously interfered with contractual relations between the Plaintiffs and Mr. Brogdon, and with Plaintiffs' prospective economic advantage, relating to SSSI's right to manage the Oklahoma Facilities and seven other skilled-nursing facilities located in Oklahoma (collectively, the "Facilities"), respectively; (ii) the AdCare Defendants fraudulently induced the Plaintiffs to perform work and incur expenses with respect to the Facilities; and (iii) one of

the AdCare subsidiaries which is an AdCare Defendant provided false and defamatory information to an Oklahoma regulatory authority regarding SSSI's management of one of the Oklahoma Facilities. The complaint seeks damages against the AdCare Defendants, including punitive damages, in an unspecified amount, as well as costs and expenses, including reasonable attorney fees. On March 7, 2014, the Plaintiffs filed an amended complaint in which they alleged additional facts regarding the alleged fraudulent inducement caused by Mr. and Mrs. Brogdon and the AdCare Defendants. The Company intends to file a response to the amended complaint in a timely manner, and the trial is scheduled to begin in January 2015. The Company believes that the complaint is without merit and intends to vigorously defend itself

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against the claims set forth therein.

On October 2, 2013, the Company responded to certain letters received from Georgia Department of Community Health in September 2013 requesting payment of past due provider fees totaling \$1.2 million for certain nursing facilities for periods prior to the Company's operation of the facilities. The Company does not believe it is responsible for payment of these past due provider fees and has requested a final determination from Georgia Department of Community Health confirming that it is not responsible for paying the fees described in the letters.

On March 7, 2014 the Company responded to a letter received from the Ohio Attorney General ("OAG") dated February 25, 2014 demanding repayment of approximately \$1.0 million as settlement for alleged improper Medicaid payments related to seven Ohio facilities affiliated with the Company. The OAG alleged that the Company had submitted improper Medicaid claims for independent laboratory services for glucose blood tests and capillary blood draws. The Company intends to defend itself against the claims.

**Income Tax Examinations**

In early 2014, the Internal Revenue Service ("IRS") initiated an examination of the Company's income tax return for the 2011 income tax year. To date, the IRS has not proposed any adjustments. The Company is not currently under examination by any other major income tax jurisdiction. See Note 17 - Income Taxes.

**Commitments****Special Termination Benefits**

In 2011, the Company incurred certain salary retirement and continuation costs of \$1.5 million related to separation agreements with certain of the Company's former officers. The benefits include wage continuation and fringe benefits which are to be paid out to these former employees over various future periods ranging from a six-month period to a 24-month period. These costs were paid in full during the year ended December 31, 2013.

**Commitment to Future Lease Payments**

A leased skilled nursing facility has signed a security agreement associated with the lessor, Covington Realty, LLC, in conjunction with the lessor's refinancing of the project through HUD. The commitment gives the lender the right to pursue the facility for unpaid lease payments to the lessor.

**NOTE 17. INCOME TAXES**

The provision for income taxes attributable to continuing operations for the years ended December 31, 2013 and 2012 are presented below.

(Amounts in 000's)	December 31,	
	2013	2012
<b>Current Tax Expense:</b>		
Federal	\$—	\$(97 )
State	55	90
	\$55	\$(7 )
<b>Deferred Tax Expense:</b>		
Federal	\$87	\$104
State	—	—
	\$87	\$104
<b>Total income tax expense</b>	<b>\$142</b>	<b>\$97</b>

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The income tax expense applicable to continuing and discontinued operations is presented below.

(Amounts in 000's)	December 31,	
	2013	2012
Income tax expense on continuing operations	\$142	\$97
Income tax expense (benefit) on discontinued operations	33	(20)
Total income tax expense	\$175	\$77

At December 31, 2013 and 2012, the tax effect of significant temporary differences representing deferred tax assets and liabilities are as follows:

(Amounts in 000's)	December 31,	
	2013	2012
Net current deferred tax asset:		
Allowance for doubtful accounts	\$1,638	\$1,265
Accrued expenses	48	464
	1,686	1,729
Net long-term deferred tax asset (liability):		
Net operating loss carry forwards	8,789	4,825
Property, equipment & intangibles	(2,346)	(1,091)
Stock based compensation	1,081	848
Convertible debt adjustments	2,141	1,876
Other	—	(277)
	9,665	6,181
Total deferred tax assets	11,351	7,910
Valuation allowance	(11,542)	(8,014)
Net deferred tax liability	\$(191)	\$(104)

The items accounting for the differences between income taxes computed at the federal statutory rate and the provision for income taxes are as follows:

	December 31,	
	2013	2012
Federal income tax at statutory rate	34.0	% 34.0
State and local taxes	(0.5)	)% (0.8
Consolidated VIE LLC's	(2.0)	)% (3.0
Nondeductible expenses	(4.8)	)% (1.5
Other	(1.7)	)% (3.6
Change in valuation allowance	(26.3)	)% (26.1
Effective tax rate	(1.3)	)% (1.0

As of December 31, 2013 AdCare had consolidated federal net operating loss ("NOL") carry forwards of \$25.8 million. These NOLs begin to expire in 2018 through 2033 and currently are offset by a full valuation allowance. Given the Company's historical net operating losses, a full valuation allowance has been established on the Company's net deferred tax assets. The Company has generated additional deferred tax liabilities related to its tax amortization of certain acquired indefinite lived intangible assets because these assets are not amortized for book purposes. The tax amortization in current and future years gives rise to a deferred tax liability which will only reverse at the time of ultimate sale or book impairment. Due to the uncertain timing of this reversal, the temporary differences associated with indefinite lived intangibles cannot be considered a source of future taxable income for purposes of determining a valuation allowance. As such, the deferred tax liability cannot be used to support an equal amount of the deferred tax asset related to the NOL carry forward ("naked credit"). This resulted in recognizing deferred Federal tax expense of \$0.09 million and 104,000 for the years ended

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December 31, 2013 and 2012, respectively, and a deferred tax liability of \$0.2 million and \$0.1 million for the years ended December 31, 2013 and 2012, respectively.

In early 2014, the Internal Revenue Service ("IRS") initiated an examination of the Company's income tax return for the 2011 income tax year. To date, the IRS has not proposed any adjustments. The Company is not currently under examination by any other major income tax jurisdiction.

**NOTE 18. BENEFIT PLANS**

The Company sponsors a 401(k) plan, which provides retirement benefits to eligible employees. All employees are eligible once they reach age 21 years and complete one year of eligible service. The Company's plan allowed eligible employees to contribute up to 20% of their eligible compensation, subject to applicable annual Internal Revenue Code limits. The Company provides 50% matching on employee contributions, up to 2% of the employee's salary. Total matching contributions during the years ended December 31, 2013 and 2012 were approximately \$0.1 million and \$0.2 million, respectively.

The Company pursued remedial actions under the Voluntary Correction Programs ("VCP") of the Employee Compliance Resolution System contained in Internal Revenue Service ("IRS") Revenue Procedure 2008-50 to conform the 401(k) plan's terms to the plan's administration. The Company received notice on November 21, 2013 that the IRS accepted the Company's proposed correction without any assessment of fees or penalties.

**NOTE 19. RELATED PARTY TRANSACTIONS**

**Riverchase**

On April 9, 2010, Riverchase, then a wholly owned subsidiary of the Company, entered into a Purchase Agreement with an Oklahoma limited liability company controlled by a bank ("Riverchase Seller") to acquire the assets of Riverchase Village, a 105-bed assisted living facility located in Hoover, Alabama, for a purchase price of approximately \$5.0 million. On June 22, 2010, the Company assigned to Christopher Brogdon 100% of the membership interests in Riverchase. On June 25, 2010, Riverchase, then owned by Mr. Brogdon, purchased Riverchase Village pursuant to the terms of the Purchase Agreement.

In connection with financing of the acquisition of Riverchase Village, Riverchase borrowed from the Medical Clinic Board of the City of Hoover the proceeds from the issuance of \$5.9 million First Mortgage Healthcare Facility Revenue Bonds (Series 2010 A) and \$0.5 million First Mortgage Revenue Bonds (Series B), which proceeds were used to acquire Riverchase Village, pay the cost of certain repairs and improvements to Riverchase Village, fund certain services and pay the cost of the issuance of the bonds. As part of the financing, AdCare guaranteed Riverchase's obligations under the bonds. In June 2010, Riverchase Seller refunded to AdCare the \$250,000 of earnest money it had deposited in connection with the Riverchase Village transaction.

As consideration for the assignment of 100% of the membership interests in Riverchase to Mr. Brogdon and AdCare's guaranteeing the bonds, Mr. Brogdon granted to Hearth & Home of Ohio, Inc. ("Hearth & Home"), a wholly owned subsidiary of AdCare, an exclusive and irrevocable option pursuant to an Option Agreement to acquire Riverchase (the "Riverchase Option") through June 22, 2012 for an exercise price of \$100,000 and otherwise under the same terms and conditions set forth in the Purchase Agreement. In addition, a wholly owned subsidiary of AdCare entered into a five-year year Management Agreement with Riverchase pursuant to which such subsidiary supervised the management of the Riverchase Village facility for a monthly fee equal to 5% of the monthly gross revenues of the Riverchase Village facility. On June 22, 2013, the Management Agreement was mutually terminated by Riverchase and the Company.

On July 26, 2012, Hearth & Home and Mr. Brogdon amended the Option Agreement to extend the last date on which the Riverchase Option may be exercised through June 22, 2013. On June 22, 2013, Hearth & Home and Mr. Brogdon further amended the Option Agreement to extend the last date on which the Riverchase Option may be exercised through June 22, 2014. On March 3, 2014, Hearth & Home and Mr. Brogdon further amended the Option Agreement to: (i) extend the last date on which the Riverchase Option may be exercised through June 22, 2015; and (ii) reduce the purchase price for the Riverchase Option to \$1.00. See Note 20. - Subsequent Events - 2014 Brogdon Agreement.

**Office Subleases and Purchase**

**Roswell Office Space.** From April 2011 through November 2012, the Company subletted from JRT Group Properties, LLC ("JRT") on a month-to-month basis Building 1145 of the Offices at Hembree, a condominium used

by the Company as its service center and administrative offices, located in Roswell, Georgia (the "Hembree Facility"). Mr. Brogdon's son is a one-third owner of JRT. Pursuant to this sublease, the Company paid to JRT on a monthly basis base rent of approximately \$10,458. The Company paid an aggregate of \$115,035 in rent under this sublease in 2012. The Company also

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paid to unrelated third parties amounts for utilities, property taxes and building association dues with respect to the Hembree Facility.

On June 4, 2012, ADK Hembree Road Property, LLC ("ADK Hembree"), wholly owned subsidiary of the Company, entered into a Purchase Agreement with JRT to acquire the Hembree Facility. On November 30, 2012, ADK Hembree acquired the Hembree Facility from JRT pursuant to the Purchase Agreement for an aggregate purchase price of \$1,083,781 and, in connection therewith, ADK Hembree issued a promissory note in favor of Fidelity Bank for a principal amount of \$1,050,000.

Edwards Redeemer and Whispering Pines

In May 2011, First Commercial Bank and Brogdon Family, LLC, an entity owned and controlled by Mr. Brogdon, entered into a Purchase and Sale Agreement pursuant to which Brogdon Family, LLC has the right to acquire six skilled nursing facilities located in Oklahoma for an aggregate purchase price of \$16.0 million. These facilities were Edwards Redeemer Nursing Center, Harrah Nursing Center, Northwest Nursing Center, Whispering Pines Nursing Center, McLoud Nursing Center and Meeker Nursing Center. In October 2011, Brogdon Family, LLC assigned all of its rights under the Purchase and Sale Agreement to AdCare Property Holdings, LLC, a wholly owned subsidiary of the Company, ("AdCare Holdings"). In May 2013, AdCare Holdings assigned all of its rights under the Purchase and Sale Agreement with respect to the Harrah Nursing Center, McLoud Nursing Center and Meeker Nursing Center back to Brogdon Family, LLC.

In October 2012, AdCare Holdings assigned to Edwards Redeemer Property Holdings, LLC ("Edwards Redeemer") and ER Nursing, LLC ("ER Nursing") (then both wholly owned subsidiaries of AdCare and, collectively, the "Edwards Assignees") all of its right under that certain Purchase and Sale Agreement to purchase the Edwards Redeemer Nursing Center. The Edwards Assignees agreed to assume all obligations of AdCare Holdings under the Purchase and Sale Agreement with respect to the Edwards Redeemer Nursing Center, including reimbursement for out-of-pocket costs. In connection therewith: (i) AdCare Holdings (as the owner of all of the issued and outstanding membership interests of Edward Redeemer) assigned all of its interest in Edwards Redeemer to Mr. Brogdon; and (ii) AdCare Holdings assigned to WP Nursing, LLC, an entity owned and controlled by Mr. Brogdon, all of AdCare Holding's right under the Purchase and Sale Agreement to purchase the Whispering Pines Nursing Center. WP Oklahoma Nursing, LLC agreed to assume all obligations of the Company under the Purchase and Sale Agreement with respect to the Whispering Pines Nursing Center. In connection with the assignment with respect to the Whispering Pines Nursing Center, the Company has recorded a receivable of less than \$0.1 million.

In December 2012, ER Nursing (still a wholly owned subsidiary of AdCare and the licensed operator of the Edwards Redeemer Nursing Center) entered into a Facility Lease with Edwards Redeemer (now owned and controlled by Mr. Brogdon) pursuant to which ER Nursing leases to Edwards Redeemer the operations of the Edwards Redeemer Nursing Center. In connection with entering into the Facility Lease, ER Nursing also entered into a Management Agreement with New Beginnings Care, LLC ("New Beginnings") pursuant to which New Beginnings agreed to manage the Edwards Redeemer Nursing Center for a monthly fee equal to five percent (5%) of the aggregate gross revenues of the Edwards Redeemer Nursing Center. The Management Agreement terminates upon the date the Oklahoma State Department of Health approves the application for the appropriate permits and licenses to allow New Beginnings to become the licensed operator of the Edwards Redeemer Nursing Center (the "Approval Date"), and ER Nursing may terminate the Management Agreement at any time. ER Nursing also entered into an Operations and Indemnification Agreement with New Beginnings, ER Property, Edwards Redeemer Healthcare & Rehab, LLC and Mr. Brogdon (collectively, the "Indemnitors"), pursuant to which the Indemnitors have agreed to indemnify the Company for any of its losses: (x) arising out of the Management Agreement; or (y) resulting from any services provided by New Beginnings at or for the benefit of the Edwards Redeemer Nursing Center.

Pursuant to the Lease, ER Nursing pays Edwards Redeemer monthly rent in an amount equal to 120% of the monthly payment of principal and interest due to the lender holding a first priority mortgage on the Edwards Redeemer Nursing Center; provided, however, that pursuant to the Operations and Indemnification Agreement, the Indemnitors will indemnify the Company for any rent expenses arising out of the lease. The lease terminates upon the Approval

Date.

Harrah, McLoud and Meeker-Management Agreement

On July 26, 2013, a wholly-owned subsidiary of the Company entered into management agreements with entities owned and controlled by Mr. Brogdon, which entities own the skilled-nursing facilities located in Oklahoma known as Harrah Nursing Center, McLoud Nursing Center and Mecker Nursing Center. Pursuant to the management agreements, the AdCare subsidiary has agreed to manage the operations of these facilities. The management agreements have initial terms of five years and shall renew automatically for one-year terms thereafter. Pursuant to the management agreements, the entities owned and controlled by Mr. Brogdon which own the facilities shall pay to the AdCare subsidiary a fee equal to 5% of the monthly gross revenues of the facilities.

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Effective March 1, 2014, the Company terminated the management agreements with respect to Harrah Nursing Center, McCloud Nursing Center and Mecker Nursing Center. See "Note 20 - Subsequent Events - 2014 Brogdon Agreement."

### Oklahoma Owners

Effective August 1, 2011, the Oklahoma Owners, who are controlled by Mr. Brogdon and his spouse, acquired the Oklahoma Facilities. In connection with the closing of this acquisition: (i) the Company paid closing costs on behalf of the Oklahoma Owners in the amount of \$56,894 (which amount was refunded to the Company in February 2012); and (ii) AdCare Oklahoma Management, LLC, a wholly-owned subsidiary of the Company ("AdCare Oklahoma"), entered into a five-year Management Agreement with the Oklahoma Owners pursuant to which AdCare Oklahoma supervised the management of the Oklahoma facilities for a monthly fee equal to 5% of the monthly gross revenues of the Oklahoma Facilities.

In December 2012: (i) the Oklahoma Owners entered into a \$1.0 million senior secured credit agreement with Gemino; and (ii) AdCare Oklahoma entered into a Management Fee Subordination Agreement pursuant to which AdCare Oklahoma agreed to subordinate its right to payment of all management fees owed to AdCare Oklahoma by the Oklahoma Owners to such credit agreement with Gemino. However, AdCare Oklahoma could continue to accept such management fees owed to it under the Management Agreements, so long as no event of default has occurred under the credit agreement entered into among the third-party lender and the Oklahoma Owners.

Effective as of March 1, 2014, the Company terminated the Management Agreements with respect to the Oklahoma Facilities. On March 3, 2014, the Company, Mr. Brogdon and entities controlled by Mr. Brogdon entered into an agreement to provide for the orderly transition of the management of the Oklahoma Facilities from the Company to a third-party. See Note 20. - Subsequent Events - 2014 Brogdon Agreement.

### Red Rose Facility

In October 2011, pursuant to the terms of an Assignment of Lease and Landlord's Consent, Rose Missouri Nursing, LLC, a wholly owned subsidiary of the Company, became the tenant and operator of the Red Rose facility, a 90-bed skilled nursing facility located in Cassville, Missouri. In connection with this transaction, Mr. Brogdon and his spouse, each guaranteed the performance of the Company's obligations, including payment obligations, under the Lease. In consideration of these guaranties, the Company paid to Mr. Brogdon the amount of \$25,000 as a guaranty fee.

### Golden Years Manor

In January 2012, a wholly owned subsidiary of the AdCare entered into a Purchase and Sale Agreement with Gyman Properties, LLC to acquire a 141-bed skilled nursing facility located in Lonoke, Arkansas, known as Golden Years Manor, for an aggregate purchase price of \$6.5 million. Pursuant to the Purchase and Sale Agreement, the Company deposited approximately \$0.3 million into escrow to be held as earnest money. In May 2012, the Company decided not to pursue the acquisition of Golden Years Manor because it determined that the facility no longer met its investment criteria. At the time of such determination, the Company was not entitled to reimbursement of its deposit under the Purchase and Sale Agreement. Subsequently, the Company assigned all of its rights under the Purchase and Sale Agreement to GL Nursing, LLC, an entity affiliated with Mr. Brogdon. In connection with such assignment, GL Nursing, LLC agreed to reimburse to the Company the deposit and all of its out-of-pocket costs relating to Golden Years Manor upon the closing of the acquisition, which occurred on May 31, 2012. The assignment provided the Company with an opportunity to recoup the deposit and out-of-pocket costs which would otherwise have been forfeited if the assignment had not occurred. As of December 31, 2013, the Company has recorded a receivable of \$0.2 million in connection with the assignment. See Note 20. - Subsequent Events - 2014 Brogdon Agreement.

### Airplane

Between May 2012 and August 2013, the Company had access to an airplane on a month-to-month basis from JRT. Mr. Brogdon's son is a one-third owner of JRT. Pursuant to this arrangement, the Company paid to JRT on a monthly basis base rent of \$7,000. The Company paid an aggregate of \$42,000 and \$56,000 in rent in 2012 and 2013, respectively. The Company had the right to use the airplane with no limit on hours of usage and is responsible for all maintenance and operating costs such as inspections, fuel, pilot costs, and hanger rental. Effective August 31, 2013,

this arrangement was terminated.

Consulting Agreements

In December 2012, the Company entered into a Consulting Agreement with Mr. Brogdon pursuant to which Mr. Brogdon will be compensated by the Company for providing consulting services related to the acquisition and financing of skilled nursing facilities. The Consulting Agreement terminates on December 31, 2015 and, if it is not terminated prior to December 31, 2015, will renew automatically for successive one-year terms until terminated. As compensation for his services under the Consulting Agreement, Mr. Brogdon shall receive: (i) \$10,000 per month in year one; (ii) \$15,000 per month in year



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two; and (iii) \$20,000 per month in year three of the Consulting Agreement. In addition, Mr. Brogdon shall receive a success fee of \$20,000 for each completed transaction; provided, however, unless approved by a majority vote of the Board of Directors of the Company, such success fees on a one-year basis shall not exceed \$80,000 in year one, \$120,000 in year two and \$160,000 in year three of the Consulting 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. In the event the Consulting Agreement is terminated by the Company without cause, the Company shall provide severance pay to Mr. Brogdon in an amount equal to 18 months of Mr. Brogdon's maximum total compensation (including success fees). No success fee was paid to Mr. Brogdon pursuant to the Consulting Agreement in the year ended December 31, 2013.

In December 2012, the Company entered into agreements to indemnify Mr. Brogdon with respect to certain personal guarantees Mr. Brogdon previously made with respect to loans on the Hembree Facility and the Red Rose facility. The Company has agreed to reimburse Mr. Brogdon for any costs, losses, damages, claims and expenses under the guarantees so long they are not due to Mr. Brogdon's gross negligence, fraud, intentional misrepresentation, willful misconduct, bad faith or criminal act.

**Cantone**

In March 2012, the Company issued an unsecured promissory note to Cantone Asset Management LLC in the principle amount of \$3.5 million. In connection with the issuance of the promissory note to Cantone Asset Management LLC, the Company also issued to Cantone Asset Management LLC a warrant to purchase 300,000 shares of common stock. In April 2012, the Company issued an unsecured promissory note to Cantone Asset Management LLC in the principle amount of \$1.5 million. In July 2012, the Company and Cantone Asset Management LLC refinanced these two promissory notes. The promissory notes were canceled and terminated in exchange for the issuance by the Company to Cantone Asset Management LLC of an 8% convertible subordinated note in a principle amount of \$5.0 million.

In connection with the issuance of the promissory notes to Cantone Asset Management LLC in March and April of 2012, Cantone Research, Inc. agreed to provide the Company with certain consulting services for a monthly fee if the Company and Cantone Asset Management LLC (or an affiliated entity) did not agree to the terms of an additional financing arrangement pursuant to which it (or affiliated entity) would loan to the Company at least \$4.0 million for a four-year term. In July 2012, the consulting agreement was revised so as to provide for a certain monthly fee payable to Cantone Research, Inc. regardless of whether the Company and Cantone Asset Management LLC agreed to an additional financing arrangement. Furthermore, under the terms of the revised consulting agreement, the Company issued to Cantone Research, Inc. 50,000 shares of common stock and a warrant to purchase 100,000 shares of common stock. The Company paid to Cantone Research, Inc. \$30,000 and \$40,000 during 2013 and 2012, respectively, in fees pursuant to the consulting agreement.

In July 2012 and March 2011, the Company issued and sold to certain accredited investors an aggregate of \$7.5 million and \$4.5 million in principle amount of subordinated convertible promissory notes, respectively. In connection with the offerings, Cantone Research, Inc. acted as the exclusive agent with respect to the private placement of the notes. The Company paid to Cantone Research, Inc. \$42,500 and \$60,000 to act as the placement agent pursuant to the July 2012 and March 2011 offerings, respectively.

Other than the items discussed above, there are no other material undisclosed related party transactions. For purposes of the disclosure in this Note 19, note that (i) Mr. Brogdon is Vice Chairman of the Board of Directors, holds greater than 5% of the outstanding common stock and, during 2012, served as the Company's Chief Acquisition Officer ; and (ii) Cantone Asset Management LLC and Cantone Research, Inc. are affiliates of Anthony J. Cantone, who filed with the SEC in July 2013 a Form 4 reporting that he beneficially owned greater than 10% of the outstanding common stock.

**NOTE 20. SUBSEQUENT EVENTS**

The Company has evaluated all subsequent events through the date the consolidated financial statements were issued and filed with the SEC. The following is a summary of the material subsequent events.

**Debt Modifications**

On February 10, 2014, certain wholly-owned subsidiaries of the Company entered into a letter agreement with Gemino which modified the: (i) Northwest Credit Facility; and (ii) Gemino-Bonterra Credit Facility. The Waiver and Amendment, among other things, adjusted the required: (a) minimum fixed charge coverage ratio; (b) maximum loan turn days; (c) minimum earnings before interest, taxes, depreciation and amortization; and (d) waived certain specified defaults in existence as of the date of the Waiver and Amendment.

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On March 28, 2014, the Company entered into a Fourth Amendment to Secured Loan Agreement and Payment Guaranty with KeyBank, which amended the KeyBank Credit Facility. Pursuant to the amendment, among other things: (i) KeyBank waives the failure of certain financial covenants of such subsidiaries regarding fixed charge coverage ratio, implied debt service coverage, and compliance of making a certain sinking fund payment due on March 1, 2014 such that no default or events of default under the KeyBank Credit Facility occurred due to such failure; (ii) modified and amended certain financial covenants regarding the Company's fixed charge ratio and implied debt service coverage, and (iii) paid down \$3.4 million of loan principal from the release of \$3.4 million from a certain collateral account.

### 2014 Brogdon Agreement

On March 3, 2014, AdCare and certain of its subsidiaries entered into a letter agreement, dated as of February 28, 2014, with (i) the Oklahoma Owners, (ii) the entities owned and controlled by Mr. Brogdon which own Harrah Nursing Center, McCloud Nursing Center and Mecker Nursing Center (the "Brogdon Entities"), (iii) Christopher F. Brogdon, (iv) GL Nursing, LLC, an entity affiliated with Mr. Brogdon, and (v) Marsh Pointe Management, LLC. On December 31, 2013, the Company notified the Brogdon Entities of its intent to terminate: (i) that certain Management Agreement, dated September 19, 2011, by and between the Company and the Oklahoma Owners with respect to the management of the Oklahoma Facilities; and (ii) those certain Management Agreements, each dated July 26, 2013, by and between the Company and each of the Brogdon Entities with respect to the management of Harrah Nursing Center, McCloud Nursing Center and Mecker Nursing Center. Pursuant to the agreement: (i) the parties agreed that the termination of the Management Agreements shall be effective as of March 1, 2014 and that the Company will no longer provide any ongoing services to the facilities; and (ii) Mr. Brogdon executed a promissory note in favor of the Company in principal amount of \$523,663 which represents amounts owed as of March 1, 2014: (a) by the Oklahoma Owners and the Brogdon Entities to the Company pursuant to the Management Agreements and (b) by GL Nursing, LLC to the Company in connection with the Company's assignment in May 2012 of its rights to acquire Golden Years Manor. The note does not bear interest and is payable in five (5) equal monthly installments commencing on September 1, 2014 and ending on December 31, 2014.

In addition, the letter agreement amends that certain Option Agreement, entered into by Mr. Brogdon and Hearth & Home, dated as of June 22, 2010 and as amended to date, to: (i) extend the Riverchase Option until June 22, 2015; and (ii) reduce the purchase price for the exercise of the Riverchase Option to \$1.00. Furthermore, the letter agreement provides that, upon the closing of the sale of the Riverchase facility to an arms-length third party purchaser, regardless of whether Hearth & Home has exercised the Riverchase Option, the net sales proceeds from such sale shall be distributed as follows: (a) one-half of the net sales proceeds shall be paid to the Company; (b) the remaining net sales proceeds shall be paid to the Company to satisfy the outstanding principal balance and interest (if any) then due under the note, with such payment to be applied in the order of scheduled amortization under the note; and (c) the balance of net sales proceeds shall be paid to the Company.

### Conversion of Convertible Notes to Common Stock

Between January 2, 2014 and January 15, 2014, the Company issued to holders of the Company's subordinated convertible promissory notes dated October 31, 2010, shares of common stock upon conversion of \$2.9 million of the principal amount of the notes. The conversion price was \$3.73 per share for 788,828 shares.

### Exercise of Warrants

Between February 19, 2014 and March 13, 2014, the Company issued to holders of the Company's warrants dated September 30, 2010, shares of common stock upon conversion of 693,761 warrants at an exercise price of \$3.57 per share. The Company received proceeds of approximately \$2.3 million, net of broker commissions of approximately \$0.1 million.

### Quail Creek - Bonds

On March 3, 2014, a certain wholly-owned subsidiary of the Company, pursuant to a certain loan agreement, repaid the outstanding bonds at par plus accrued interest in the amount of \$3.1 million from funds that were deposited into a restricted defeased bonds escrow account.

### Ohio Medicaid Billing

On March 7, 2014, the Company responded to a letter received from the Ohio Attorney General ("OAG") dated February 25, 2014 demanding repayment of approximately \$1.0 million as settlement for alleged improper Medicaid payments related to seven Ohio facilities affiliated with the Company. The OAG alleged that the Company had submitted improper Medicaid claims for independent laboratory services for glucose blood tests and capillary blood draws. The Company intends to defend itself against the claims.

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Preferred Stock Dividends

On March 10, 2014, the Company declared a quarterly dividend of \$0.68 per share on the Series A Preferred Stock. The dividend payment is equivalent to an annualized 10.875% per share, based on the \$25.00 per share stated liquidation preference, accruing from January 1, 2013. The dividend will be paid on March 31, 2014 to holders of the Series A Preferred Stock of record on March 21, 2014.

Subordinated Convertible Notes Issued in 2014 (the "2014 Notes")

The Company entered into Subscription Agreements with certain accredited investors pursuant to which the Company issued and sold, on March 28, 2014 an aggregate of \$6,500,000 in principal amount of the Company's subordinated convertible promissory notes (the "2014 Notes"). The 2014 Notes bear interest at 10.0% per annum and such interest is payable quarterly in cash in arrears beginning on June 30, 2014. The 2014 Notes mature on April 30, 2015. The 2014 Notes are unsecured and subordinated in right of payment to existing and future senior indebtedness of the Company. At any time on or after the date of issuance of the 2014 Notes, the 2014 Notes are convertible at the option of the holder into shares of the common stock at an initial conversion price equal to \$4.50 per share, subject to adjustment for stock dividends, stock splits, combination of shares, recapitalization and other similar events.

The Company may prepay at any time, without penalty, upon 60 days prior notice, any portion of the outstanding principal amount and accrued and unpaid interest thereon with respect to any 2014 Note; provided, however, that: (i) the shares of common stock issuable upon conversion of any 2014 Note which is to be so prepaid must be: (a) registered for resale under the Securities Act; or (b) otherwise sellable under Rule 144 of the Securities Act without volume limitations thereunder; and (ii) at any time after the issue date of the 2014 Notes, the volume-weighted average price of the common stock for ten consecutive trading days has equaled or exceeded 105% of the then-current conversion price.

In addition, the holders holding a majority of the outstanding principal amount with respect to all the 2014 Notes may require the Company to redeem all or any portion of the 2014 Notes upon a change of control at a redemption price equal to the outstanding principal amount to be redeemed plus all accrued and unpaid interest thereon. Furthermore, upon a change of control, the Company may redeem all or any portion of the 2014 Notes for a redemption price equal to the outstanding principal amount to be redeemed plus all accrued and unpaid interest thereon.

Park City Capital Offshore Master, Ltd. ("Park City Offshore"), an affiliate of Michael J. Fox, entered into a Subscription Agreement with the Company pursuant to which the Company issued \$1,000,000 in principal amount of the 2014 Notes. Mr. Fox is a director of Park City Offshore and a director of the Company and beneficial owner of greater than 5% of the outstanding common stock. The 2014 Note was offered to and sold to Park City Offshore on the same terms and conditions as all other buyers in the offering. For more information regarding the 2014 Note offering, see Part II, Item 9B. "Other Information - 2014 Subordinated Convertible Note Offering." For a description of certain arrangements between the Company and Mr. Fox regarding his service as a director, see Part III, Item 10. "Directors Executive Officers and Corporate Governance. - Arrangements with Directors Regarding Election/Appointment".

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Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure  
None.

Item 9A. Controls and Procedures  
Audit Committee Review and Inquiry

As previously disclosed, the Audit Committee, in consultation with management, concluded in March 2013 that: (i) the Relevant Financial Statements (i.e., the Company's previously issued financial statements for the quarters ended March 31, 2012, June 30, 2012 and September 30, 2012) should no longer be relied upon due to errors in the Relevant Financial Statements identified in connection with the audit of the Company's consolidated financial statements for the year ended December 31, 2012; and (ii) the Company would restate the Relevant Financial Statements.

The Audit Committee initiated a further review of, and inquiry with respect to, the accounting and financial issues related to these and other potential errors and engaged counsel to assist the Audit Committee with such matters. The Audit Committee completed its inquiry and, in connection therewith, assisted in the correction of certain errors relating to accounting and financial matters and identified certain material weaknesses in the Company's internal control over financial reporting, including weakness in the Company's ability to appropriately account for complex or non-routine transactions and in the quality and sufficiency of the Company's finance and accounting resources.

On July 8, 2013, the Company restated the Relevant Financial Statements by filing with the SEC amendments to its Quarterly Reports on Form 10-Q/A for the quarters ended March 31, 2012, June 30, 2012 and September 30, 2012.  
Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report (the "Evaluation Date"). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective.

### Changes in Internal Control over Financial Reporting and Remediation

In response to the material weaknesses in the Company's internal control over financial reporting identified by the Audit Committee's review and inquiry discussed above and based in part on recommendations made by the Audit Committee to the Board of Directors following the completion of the Audit Committee's review and inquiry, we implemented the changes to our internal control over financial reporting discussed below.

We hired Ronald W. Fleming to serve as Chief Financial Officer of the Company effective May 15, 2013.

• Mr. Fleming has relevant industry experience as well as experience with generally accepted accounting principles and SEC reporting and compliance.

• We have empowered Mr. Fleming to hire additional accounting and finance staff to ensure adequate internal control over financial reporting and operations.

• We hired a Vice President, Controller and Chief Accounting Officer effective July 16, 2013.

We have expanded the scope of our annual internal audit plan to include quarterly internal audit procedures with emphasis on the review of journal entries and non-recurring transactions.

Since January 2013, the Company has hired 12 new finance and accounting personnel, including a Vice President of Facility Accounting Operations. Our new finance and accounting leadership continue to evaluate the qualifications and

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sufficiency of our accounting and finance department. An expanded internal audit scope was commenced and was completed prior to the Company filing its Quarterly Reports on Form 10-Q for each of the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013.

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting other than the remediation of the material weakness described above.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs.

Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this evaluation, management used the framework and criteria set forth in the report entitled *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The COSO framework summarizes each of the components of a company's internal control system, including: (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication and (v) monitoring. Based on this evaluation, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the rules of the SEC that permit us to provide only management's report in this Annual Report.

**Item 9B. Other Information**

**Exercise of Warrants**

Between February 19, 2014 and March 13, 2014, the Company issued to holders of its warrants dated September 30, 2010, 693,761 shares of common stock upon exercise of such warrants at an exercise price of \$3.57 per share. The shares of common stock issuable upon exercise of the warrants were issued pursuant to the exemption from the registration requirements of the Securities Act afforded by Section 4(a)(2) thereof. The Company relied upon such



exemption based upon the private nature of the transaction, the lack of general solicitation and representations made by each such holder regarding, among other things, the holder's sophistication and access to information about the Company.

The Company received proceeds of approximately \$2.3 million, net of broker commissions of approximately \$0.1 million.

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Bylaw Amendment

On March 27, 2014, the Board of Directors amended the Company's Bylaws to add a new Section 2.15 which sets forth procedures which shareholders must follow in order to submit a proposal of business for a shareholder vote or to nominate a person for election to the Board of Directors at an annual or special meeting of shareholders. A summary of these procedures is set forth below and is qualified in its entirety by reference to Amendment No. 1 to the Bylaws of AdCare Health Systems, Inc., which is set forth as Exhibit 3.7 to this Annual Report.

Shareholder Proposals (Excluding Director Nominations)

Section 2.15(a) of the Bylaws provides that no proposal for a shareholder vote (other than director nominations which are described below) shall be submitted by a shareholder (a "Shareholder Proposal") to the Company's shareholders unless the shareholder submitting such proposal (the "Proponent") shall have filed a written notice which includes, among other things:

- (i) the name and business address of the Proponent (including each beneficial owner, if any, on whose behalf the Shareholder Proposal is being made) and all Persons (as defined in Section 2.15(a) of the Bylaws) acting in concert with the Proponent (or such beneficial owner), and the name and address of all of the foregoing as they appear on the Company's books (if they so appear);
- (ii) the class and number of shares of the Company that are owned beneficially and of record by the Proponent (including each beneficial owner, if any, on whose behalf the Shareholder Proposal is being made) and the other Persons identified in clause (i);
- (iii) a description of the Shareholder Proposal containing all material information relating thereto, including the information identified in Section 2.15(a) of the Bylaws;
- (iv) a description of any agreement, arrangement or understanding with respect to the Shareholder Proposal between or among the Proponent and each beneficial owner, if any, on whose behalf the Shareholder Proposal is being made, any of their respective affiliates or associates, and any others acting in concert with any of the foregoing;
- (v) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, warrants, convertible securities, stock appreciation or similar rights, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of such written notice by, or on behalf of, the Proponent and each beneficial owner, if any, on whose behalf the Shareholder Proposal is being made, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of, the Proponent or such beneficial owner, with respect to the Company's securities;
- (vi) a representation that the Proponent is a holder of record of the capital stock of the Company entitled to vote at the meeting, will so remain at the time of the meeting, and intends to appear in person or by proxy at the meeting to propose such business;
- (vii) a representation whether the Proponent or any beneficial owner on whose behalf the Shareholder Proposal is being made intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Company's outstanding capital stock required to approve or adopt the Shareholder Proposal or (b) otherwise to solicit proxies from shareholders in support of such Shareholder Proposal; and
- (viii) any other information relating to the Proponent and such beneficial owner, if any, required to be disclosed in a proxy statement or other filing in connection with solicitations of proxies for the Shareholder Proposal under Section 14(a) of the Exchange Act.

The notice shall also include such other information as the Board of Directors reasonably determines is necessary or appropriate to enable it and the shareholders of the Company to consider the Shareholder Proposal. The information required by clauses (ii), (iv) and (v) above must be updated by the Proponent and each beneficial owner, if any, on whose behalf the Shareholder Proposal is being submitted not later than ten days following the record date for the meeting to disclose such information as of the record date.

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Director Nominations

Section 2.15(b) of the Bylaws provides that only persons who are selected and recommended by the Board of Directors or the committee of the Board of Directors designated to make nominations, or who are nominated by shareholders in accordance with the procedures set forth such section, shall be eligible for election as directors. Nominations of individuals for election to the Board of Directors at any annual meeting or any special meeting of shareholders at which directors are to be elected may be made by any shareholder of the Company entitled to vote for the election of directors at that meeting by compliance with the procedures set forth in Section 2.15(b) of the Bylaws. Nominations by shareholders shall be made by written notice (a "Nomination Notice"), which, as to each individual nominated, shall set forth, among other things: (i) the name, age, business address and residence address of such individual, (ii) the educational background and the business experience during the past five (5) years of such nominee, including the information identified in Section 2.15(b) of the Bylaws, (iii) whether the nominee is or has ever been at any time a director, officer or owner of five percent (5%) or more of any class of capital stock, partnership interests or other equity interest of any corporation, partnership or other entity, (iv) any directorships held by such nominee in any public reporting company or any company registered as an investment company under the Investment Company Act of 1940, (v) whether such nominee has ever been convicted in a criminal proceeding or has ever been subject to a judgment, order, finding or decree in the proceedings described in Section 2.15(b) of the Bylaws, (vi) information regarding whether such nominee is subject to any disqualifications described in Rule 506(d)(1)(i) to (vii) under the Securities Act; (vii) any other information relating to such nominee that is required to be disclosed in solicitations of proxies for election of directors in an election contest pursuant to Section 14(a) of the Exchange Act, (viii) a written statement from the shareholder making the recommendation stating why such recommended candidate meets the criteria and would be able to fulfill the duties of a director, and (ix) a written representation and agreement that (a) such nominee is not and will not become a party to (1) any agreement, arrangement or understanding with any person or entity as to how such nominee, if elected as a director of the Company, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Company or (2) any Voting Commitment that could limit or interfere with such nominee's ability to comply, if elected as a director of the Company, with such nominee's fiduciary duties under applicable law, (b) such nominee is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Company with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein, and (c) such nominee, in such nominee's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the Company, and will comply, with all applicable corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Company.

In addition, the Nomination Notice shall set forth, as to the Person submitting the Nomination Notice, each beneficial owner, if any, on whose behalf the nomination is made and any Person acting in concert with such Persons, among other things: (i) the name and business address of such Person, (ii) the name and address of each such Person as they appear on the Company's books (if they so appear), (iii) the class and number of shares of the Company that are owned beneficially and of record by each such Person, (iv) a description of any agreement, arrangement or understanding with respect to the nomination between or among such Persons, any of their respective affiliates or associates, and any others acting in concert with any of the foregoing, (v) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, warrants, convertible securities, stock appreciation or similar rights, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of such written notice by, or on behalf of, each such Person, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of, each such Person, with respect to securities of the Company, (vi) a representation that the Person submitting the Nomination Notice is a holder of record of stock of the Company entitled to vote at such meeting, will so remain at the time of such meeting, and intends to appear in person or by proxy at the meeting to make such nomination, (vii) a representation whether any such Person intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Company's outstanding capital stock required to elect each nominee or (b) otherwise to solicit proxies from shareholders in support of such nomination, and (viii) any other information relating

to such shareholder and such beneficial owner, if any, required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the election of directors in an election contest pursuant to Section 14(a) of the Exchange Act.

The information required by clauses (iii), (iv) and (v) above shall be updated by the Person delivering such Nomination Notice and each beneficial owner, if any, on whose behalf the Nomination Notice is being submitted not later than ten days after the record date for the meeting to disclose such information as of the record date. The Company may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility or qualification of such proposed nominee to serve as a director of the Company. A written consent to being named in a proxy statement as a nominee, and to serve as a director if elected, signed by each nominee, shall be filed with any Nomination Notice.

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Deadlines for Nomination Notices and Shareholder Proposals

Nomination Notices and Shareholder Proposals in connection with an annual meeting shall be delivered to the Company's Secretary at the Company's principal executive office not less than 90 nor more than 120 calendar days before the first anniversary of the date of the Company's notice of annual meeting sent to shareholders in connection with the previous year's annual meeting; provided that if no annual meeting was held in the previous year, or the date of the annual meeting has been established to be more than 30 calendar days earlier than, or 60 calendar days after, the anniversary of the previous year's annual meeting, notice by a shareholder, to be timely, must be so received not later than (i) the 90th day prior to the annual meeting or (ii) if later, the close of business on the 10th day following the day on which public announcement is first made of the date of the annual meeting. Nomination Notices in connection with a special meeting at which directors are to be elected shall be delivered to the Company's Secretary at the Company's principal executive office not later than the close of business on (i) the 90th prior to such special meeting or (ii) if later, the 10th day following the day on which public announcement is first made of the date of the special meeting and of the fact that directors are to be elected at such meeting. Shareholder Proposals in connection with a special meeting called by the Proponent in accordance with Section 2.02 of the Bylaws shall be included in the written requests delivered pursuant to such section. In no event shall the public announcement of an adjournment or postponement of an annual or special meeting commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above.

2014 Subordinated Convertible Note Offering

The Company entered into Subscription Agreements with certain accredited investors pursuant to which the Company issued and sold, on March 28, 2014, an aggregate of \$6,500,000 in principal amount of the Company's subordinated convertible notes. The 2014 Notes bear interest at 10.0% per annum and such interest is payable quarterly in cash in arrears beginning on June 30, 2014. The 2014 Notes mature on April 30, 2015. The 2014 Notes are unsecured and subordinated in right of payment to existing and future senior indebtedness of the Company.

At any time on or after the date of issuance of the 2014 Notes, the 2014 Notes are convertible at the option of the holder into shares of common stock at an initial conversion price equal to \$4.50 per share, subject to adjustment for stock dividends, stock splits, combination of shares, recapitalization and other similar events.

The Company may prepay at any time, without penalty, upon 60 days prior notice, any portion of the outstanding principal amount and accrued and unpaid interest thereon with respect to any 2014 Note; provided, however, that: (i) the shares of common stock issuable upon conversion of any 2014 Note which is to be so prepaid must be: (a) registered for resale under the Securities Act; or (b) otherwise sellable under Rule 144 of the Securities Act without volume limitations thereunder; and (ii) at any time after the issue date of the 2014 Notes, the volume-weighted average price of the common stock for ten consecutive trading days has equaled or exceeded 105% of the then-current conversion price.

The holders holding a majority of the outstanding principal amount with respect to all the 2014 Notes may require the Company to redeem all or any portion of the 2014 Notes upon a change of control for a redemption price equal to the outstanding principal amount to be redeemed plus all accrued and unpaid interest thereon. In addition, upon a change of control, the Company may redeem all or any portion of the 2014 Notes for a redemption price equal to the outstanding principal amount to be redeemed plus all accrued and unpaid interest thereon.

During the existence and continuance of an event of default under a 2014 Note, the outstanding principal amount of such 2014 Note shall incur interest at a rate of 14% per annum, and the holder of such 2014 Note may require the Company to redeem all or any portion of such 2014 Note at a redemption price in cash equal to the outstanding principal amount to be redeemed plus all accrued and unpaid interest thereon. An "event of default," with respect to a 2014 Note includes: (i) the Company's failure to pay to the holder of such 2014 Note any amount of principal or interest by the 7th business day following the date when due under such 2014 Note; and (ii) specific events of bankruptcy, insolvency, reorganization or liquidation.

In connection with the issuance of the 2014 Notes, the Company entered into a Registration Rights Agreement with the holders thereof pursuant to which the Company has agreed to file, within 75 days after the issuance of the 2014 Notes, a registration statement with the SEC to register the resale of the shares of common stock issuable upon conversion of the 2014 Notes and to use commercially reasonable efforts to cause such registration statement to

become effective as soon as practicable after filing.

The 2014 Notes were issued without registration under the Securities Act in reliance upon the exemption from registration set forth in Rule 506(b) of Regulation D promulgated pursuant to Section 4(a)(2) of the Securities Act. The Company based such reliance upon representations made by each buyer to the Company regarding lack of general solicitation and such buyer's investment intent, sophistication and status as an "accredited investor," as defined in Regulation D, among other things.

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In connection with the offer and sale of the 2014 Notes, the Company will issue to the placement agent as partial consideration for its services in the offering a five-year warrant to purchase 53,333 shares of common stock at an exercise price per share equal to \$4.50 per share. The warrant issuable to the placement agent will be issued without registration under the Securities Act in reliance upon the exemption from registration set forth in Rule 506(b) of Regulation D promulgated pursuant to Section 4(a)(2) of the Securities Act. The Company is basing such reliance upon representations made by the placement agent to the Company regarding lack of general solicitation and the placement agent's investment intent, sophistication and status as an "accredited investor," as defined in Regulation D, among other things.

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## PART III

Our website address is [www.adcarehealth.com](http://www.adcarehealth.com). You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports from the investors section of our website. These reports are available on our website as soon as reasonably practicable after we electronically file them with the SEC. These reports should also be available through the SEC's website at [www.sec.gov](http://www.sec.gov).

The charters for the Compensation Committee and the Audit Committee are available in the corporate governance subsection of the investors section of our website, [www.adcarehealth.com](http://www.adcarehealth.com), and are also available in print upon written request to the Corporate Secretary, AdCare Health Systems, Inc., 1145 Hembree Road, Roswell, Georgia 30076.

## Item 10. Directors, Executive Officers and Corporate Governance.

## Executive Officers and Directors

The following table sets forth certain information with respect to our executive officers and directors.

Name	Age	Position	Expiration of Term as a Director
David A. Tenwick	76	Director, Chairman of the Board	2015
Christopher Brogdon	65	Director, Vice-Chairman	2016
Boyd P. Gentry	55	Director, President and Chief Executive Officer	2014
Michael J. Fox	36	Director	2014
Peter J. Hackett	76	Director	2016
Philip S. Radcliffe	76	Director	2015
Laurence E. Sturtz	71	Director	2016
Ronald W. Fleming	55	Senior Vice President and Chief Financial Officer	N/A
David Rubenstein	47	Chief Operating Officer	N/A

Directors are elected at the annual meeting of shareholders and hold office for a term of three (3) years or until their successors have been duly elected and qualified. All executive officers serve at the discretion of the Board of Directors, subject to applicable employment agreements. See Part III, "Item 11. Executive Compensation—Employment Agreements."

Biographical information with respect to each of our directors and executive officers is set forth below.

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

**Christopher Brogdon.** Mr. Brogdon has served as a director since September 2009. Mr. Brogdon currently serves as the Company's Vice-Chairman. Previously, Mr. Brogdon served as the Company's Chief Acquisitions Officer from September 2009 through December 2012. Mr. Brogdon has been primarily responsible for directing the Company's acquisition strategy. Mr. Brogdon brings to AdCare more than 20 years of experience in the nursing home, assisted living and retirement community. Mr. Brogdon currently also serves as a director and President of Global Healthcare REIT, Inc., which owns skilled nursing facilities which are leased to third party operators and which is a reporting



company under the Exchange Act. Since 1998, Mr. Brogdon has owned and operated Brogdon Family LLC which owns and operates nursing homes, assisted living facilities and restaurants. Mr. Brogdon previously served as Chairman of the Board of NYSE-listed Retirement Care Associates and Chairman of the Board of NASDAQ-listed Contour Medical. Mr. Brogdon's extensive background with public companies and his experience in nursing home development, acquisitions and mergers as well as his experience in financing those activities provides experience the Board of Directors considers valuable.

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Boyd P. Gentry. Mr. Gentry was appointed as a director by existing members of the Board of Directors in December 2009 and became Co-Chief Executive Officer of the Company in January 2011 and President and Chief Executive Officer in June 2011. Mr. Gentry was employed by Mariner Health Care, Inc., a former NYSE publicly held long-term health care provider, from 1995 to 2007, and promoted to Chief Financial Officer subsequent to its 2004 going private transaction sponsored by National Senior Care. He transitioned to an ongoing consulting role for Mariner in September 2007 when he was recruited to Millennium Pharmacy Systems, Inc. to serve as Chief Financial Officer. He remained with Millennium until 2009 and rejoined Mariner Health Care, Inc. as its President in April of 2010. From 1982 until 1995, Mr. Gentry was employed with Bank of America and its predecessors with various financial responsibilities as Senior Vice President. Mr. Gentry received his Bachelor of Arts (BA) in Economics from Knox College in Galesburg, Illinois and his Master of Business Administration (MBA) in Finance and Accounting from Southern Methodist University in Dallas, Texas. Mr. Gentry's expertise and background in the healthcare industry provides experience the Board of Directors considers valuable, especially as the Company expands its operations and adds to the number of nursing home beds that it owns or leases.

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

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

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

Laurence E. Sturtz. Mr. Sturtz has served as a director since June 2005. Mr. Sturtz is a retired attorney at law. He received his B.A. degree in Economics and his J.D. degree from The Ohio State University in 1964 and 1967, respectively. Mr. Sturtz was a prominent trial lawyer in Columbus, Ohio and also specialized in representing

companies of all sizes until his retirement in 2002. Mr. Sturtz left the private practice of law for six years, from 1982 to 1988, during which time he served as Vice President and General Counsel, and then President and Chief Executive Officer, of Strata Corporation, a public company based in Columbus, Ohio. In 1988, Mr. Sturtz returned to the private practice of law and became the senior litigator with the firm of Carlile Patchen & Murphy LLP. Mr. Sturtz was admitted to practice before the United States Supreme Court and had five cases before the Court during the course of his career. Mr. Sturtz has served as a director of Advanced Biological Marketing, Inc. since 2005, and was Chairman of the Board of The Language Access Network from March 2006 until December 2007. Mr. Sturtz currently works as a mediator and arbitrator in Florida and Ohio. Mr. Sturtz's extensive legal experience, management background and experience with public companies provides experience the Board of Directors considers valuable.

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Ronald W. Fleming. Mr. Fleming has more than 26 years of experience in finance and was appointed to serve as the Company's Senior Vice President and Chief Financial Officer in May 2013. From 2001 until May 2013, Mr. Fleming served as Chief Financial Officer of Georgia Cancer Specialists I, P.C., where he was responsible for the financial reporting and oversight of the privately-held healthcare services company. Mr. Fleming was employed by Mariner Post-Acute Network, Inc., a publicly held long-term health care services provider from 1989 to 2000 and served as its Vice President, Controller and Chief Accounting Officer from 1996-2000. Mr. Fleming holds a B.S. in Accounting from Ball State University and is a Certified Public Accountant.

David Rubenstein. Mr. Rubenstein has more than 24 years of experience in long-term care facility management and was appointed to serve as the Company's Executive Vice President and Chief Operating Officer in December 2011. From March 2010 until December 2011, Mr. Rubenstein served as Chief Executive Officer of LaVie Management Services, where he was responsible for the management of operations of the skilled nursing facility company. From January 2009 to March 2010, Mr. Rubenstein was the Chief Executive Officer of Coastal Administrative Services as well as the Executive Vice President of Strategy and Support for Genoa Healthcare, where he was responsible for oversight of information technology, accounting and reimbursement issues for the skilled nursing facility companies. From January 2006 to December 2008, Mr. Rubenstein served as the Chief Development Officer for Genoa Healthcare Consulting, where he oversaw the acquisition and divestiture of skilled nursing facilities. Mr. Rubenstein holds a B.S. in Accounting from the University of Rhode Island.

Arrangements with Directors Regarding Election/Appointment

On October 1, 2013, we entered into a letter agreement (the "Fox Agreement") with Park City and Mr. Fox. Pursuant to the Fox Agreement, effective October 1, 2013, the Board of Directors increased the size of the Board of Directors from nine to ten members and appointed Mr. Fox as a director of the Company to fill the vacancy created thereby for a term that expired at the 2013 Annual Meeting of Shareholders. We also agreed: (i) to include Mr. Fox in our slate of nominees for election as a Class I director at the 2013 Annual Meeting of Shareholders held on December 12, 2013 to hold office until the 2014 Annual Meeting of Shareholders; and (ii) to use our reasonable best efforts to cause the re-election of Mr. Fox to the Board of Directors as a Class I director at the 2013 Annual Meeting of Shareholders. Pursuant to the Fox Agreement, for so long as Mr. Fox serves on the Board of Directors as a nominee of the Board of Directors, Park City shall take such action as may be required so that all of the capital stock of the Company which is entitled to vote generally in the election of directors (the "Voting Securities") and is beneficially owned by Park City, or any person who, within the meaning of Rule 12b-2 under the Exchange Act, is "controlling," "controlled by" or "under common control with" Park City (the "Park City Group"), is voted in favor of each of the Board of Directors' nominees to the Board of Directors at any and all meetings of our shareholders or at any adjournment or postponement thereof or in any other circumstance in connection with which a vote, consent or other approval of holders of Voting Securities is sought with respect to the election of any nominee to the Board of Directors.

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

- (i) solicit proxies or written consents of shareholders with respect to any Voting Securities, or make, or in any way participate in, any solicitation of any proxy to vote any Voting Securities (other than as conducted by us), or become a participant in any election contest with respect to us;
- (ii) seek to call, or request the call of, a special meeting of shareholders or seek to make, or make, any shareholder proposal at any meeting of shareholders that has not first been approved in writing by the Board of Directors;
- (iii) make any request or seek to obtain, in any fashion that would require public disclosure by us, Park City or their respective affiliates, any waiver or amendment of any provision of the Fox Agreement or take any action restricted thereby; and
- (vi) except as permitted by the Fox Agreement, make or cause to be made any statement or announcement that constitutes an ad hominem attack on us or our officers or directors in any document or report filed with or furnished to the SEC or any other governmental agency or in any press release or other publicly available format.

Furthermore, pursuant to the Fox Agreement, for so long as Mr. Fox serves on the Board of Directors as a nominee of the Board of Directors, Mr. Fox agrees to comply with all applicable policies and guidelines of the Company and, consistent with his fiduciary duties and his obligations of confidentiality as a member of the Board of Directors, to refrain from communicating to anyone any nonpublic information about us that he learns in his capacity as a member of the Board of Directors (which agreement shall remain in effect after Mr. Fox leaves the Board of Directors). Notwithstanding the foregoing, Mr. Fox may communicate such information to any member of the Park City Group who agrees to be bound by the same confidentiality

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restrictions applicable to Mr. Fox, provided that Mr. Fox shall be liable for any breach of such confidentiality by any such member. In addition, Mr. Fox has confirmed that each of the other members of the Park City Group has agreed not to trade in any of our securities while in possession of any nonpublic material information about us if and to the extent doing so would be in violation of applicable law or, without the prior written approval of the Board of Directors, to trade in any of our securities during any blackout period imposed by us.

**Audit Committee of the Board of Directors**

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

The Audit Committee was established in 1995, and its charter was adopted in December 2005. The Audit Committee is comprised of Messrs. Hackett, Radcliffe and Sturtz, each of whom is considered "independent," as independence for Audit Committee members is defined in the applicable rules of the NYSE MKT listing standards and the rules of the SEC. The Board of Directors has designated Peter J. Hackett as Chairman of the Audit Committee and has determined that Mr. Hackett is an "audit committee financial expert" as defined by Item 407 of Regulation S-K of the Exchange Act.

**Shareholder Nominations**

On March 27, 2014, the Board of Directors adopted an amendment to the Company's Bylaws to include procedures which shareholders must follow in order to submit a proposal of business for a shareholder vote or nominate a person for election to the Board of Directors at an annual or special meeting of shareholders. See "Bylaw Amendment" in Part II, Item 9B., "Other Information" of this Annual Report for a description of these procedures.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires executive officers and directors and persons who beneficially own more than 10% of our common stock (the "Reporting Persons") to file initial reports of ownership and reports of changes in ownership with the SEC. Reporting Persons are required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to the Company and written representations from the executive officers and directors, the Company believes that the Reporting Persons complied with all Section 16(a) filing requirements during fiscal 2013 except that: (i) Mr. Fleming filed one late report with one late transaction; and (ii) Mr. Fox filed one Form 3 late.

**Code of Ethics**

We have adopted a written code of conduct, our Code of Business Conduct and Ethics, which is applicable to all directors, officers and employees of AdCare (including our principal executive officer, principal financial officer, principal accounting officer or controller, and any person performing similar functions). Our Code of Business Conduct and Ethics is available in the corporate governance subsection of the investors section of our website, [www.adcarehealth.com](http://www.adcarehealth.com), and is also available in print upon written request to our Corporate Secretary, AdCare Health Systems, Inc., 1145 Hembree Road, Roswell, Georgia 30076.

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## Item 11. Executive Compensation.

## Summary Compensation Table

The following table sets forth the compensation paid to, earned by, or accrued for our principal executive officer and our other most highly compensated executive officers 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 (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(1)</sup>	Non-Equity Incentive Plan Compensation (\$)	Non-qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
Boyd Gentry, President and Chief Executive Officer (principal executive officer)	2013	\$447,917	\$—	\$—	\$379,820 (2 )	\$—	\$—	\$6,825 (3 )	\$834,562
	2012	\$408,043	\$50,000	\$100,800 (4)	\$227,080 (5 )	\$—	\$—	\$3,595 (6 )	\$789,518
David Rubenstein, Chief Operating Officer	2013	\$325,000	\$25,000	\$—	\$25,000 (7 )	\$—	\$—	\$1,080 (8 )	\$376,080
	2012	\$297,678	\$—	\$—	\$—	\$—	\$—	\$—	\$297,678
Ronald W. Fleming, Chief Financial Officer	2013	\$163,146	\$80,000	\$130,200 (9)	\$233,907 (10)	\$—	\$—	\$1,686 (11)	\$608,939
	2012	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—

The amounts set forth in Columns (E) and (F) reflect the full aggregate grant date fair value of the awards. See

(1) Note 13 to our Consolidated Financial Statements included in Part II, Item 8., "Financial Statements and Supplementary Data," for a description of the assumptions used to determine fair value.

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 1/2/2014, 41,663 shares on 1/2/2015, and 41,675 shares on 1/2/2016; and

(2) (ii) an option granted pursuant to the Cash Compensation Reduction Program described in "-Directors Compensation 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 of the year ending December 31, 2014.

(3) Represents: (i) matching contributions 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

(4) three years after the date of grant. The award was adjusted to represent 31,500 shares of common stock as a result of a 5% stock dividend paid in 2012.

Represents an option to purchase 125,000 shares of common stock with an exercise price of \$3.93 per share which

(5) vests on the following schedule: 41,662 shares on 11/16/2013, 41,663 shares on 11/16/2014, and 41,675 shares on 11/16/2015.

(6) Includes matching contributions to the Company's 401(k) plan for Mr. Gentry in the amount of \$3,595.

Represents an option granted pursuant to the Cash Compensation Reduction Program in respect of 2014

(7) 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 of the year ending December 31, 2014.

(8) 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 (9) agreement with the Company on December 23, 2013, which award vests as follows: 10,000 shares on 5/15/2014, 10,000 shares on 5/15/2015, and 10,000 shares on 5/15/2016.

Represents: (i) a warrant to purchase 70,000 shares of common stock with an exercise price of \$5.90 per share, which vest as follows: 23,333 shares on 5/15/2014, 23,333 shares on 5/15/2015, and 23,334 shares on 5/15/2016; (10) 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 of the year ending December 31, 2014.

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

#### 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 (as described in "-Directors Compensation"). 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



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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 "-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

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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 (½) 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 “-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 (½) 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 "-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, the Rubenstein Agreement, the Fleming Agreement and the Consulting Agreement with Mr. Brogdon (See "- Director Compensation - Brogdon Consulting 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

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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, the Rubenstein Agreement, the Fleming Agreement and the Consulting Agreement with Mr. Brogdon, 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.

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## 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:

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name and Principal Position	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 Earned 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	Equity Incentive Plan Award: Total Number of Shares, Units or Rights that have Not Vested	Equity Incentive Plan Award: Market or Payout Value of Unearned Shares, Units or Rights that have Not Vested	
Boyd	275,625	—	—	\$ 3.75	1/10/2021	—	—	—	—	
Gentry <sup>(1)</sup> , President	41,662	83,338	—	\$ 3.93	11/16/2022	—	—	—	—	
Chief Executive Officer	—	125,000	—	\$ 4.90	1/2/2023	—	—	—	—	
David Rubenstein <sup>(2)</sup> , Chief Operating Officer	—	27,778	—	\$ 4.06	11/12/2023	—	—	31,500	\$ 135,450	
David Rubenstein <sup>(2)</sup> , Chief Operating Officer	69,993	35,007	—	\$ 3.93	12/19/2021	—	—	—	—	
Ronald W. Fleming <sup>(3)</sup> , Chief Financial Officer	34,996	70,004	—	\$ 4.58	12/19/2021	—	—	—	—	
Ronald W. Fleming <sup>(3)</sup> , Chief Financial Officer	—	13,889	—	\$ 4.06	11/12/2023	—	—	—	—	
Ronald W. Fleming <sup>(3)</sup> , Chief Financial Officer	—	70,000	—	\$ 5.90	5/15/2023	—	—	—	—	
Ronald W. Fleming <sup>(3)</sup> , Chief Financial Officer	—	11,111	—	\$ 4.06	11/12/2023	—	—	—	—	
Ronald W. Fleming <sup>(3)</sup> , Chief Financial Officer	—	—	—	\$ —	—	—	—	30,000	\$ 129,000	

Options vest on the following schedule: 41,663 shares on 11/16/2014 and 41,675 shares on 11/16/2015; 41,662 (1) shares on 1/2/2014, 41,663 shares on 1/2/2015, and 41,675 shares on 1/2/2016; 27,778 shares vest 1/12 each month during the year ending December 31, 2014; 31,500 restricted shares vest on 6/1/2015.

(2) Warrants vest on the following schedule: 70,004 shares on 12/16/2014, and 35,007 shares on 12/19/2015; 13,889 shares vest 1/12 each month during the year ending December 31, 2014.

Warrants vest on the following schedule: 23,331 shares on 5/15/2014, and 23,331 shares on 5/15/2015, 23,338 (3) shares on 5/15/2016; 11,111 shares vest 1/12 each month during the year ending December 31, 2014; restricted shares vest on the following schedule: 10,000 shares on 5/15/2014, 10,000 shares on 5/15/2015, and 10,000 shares on 5/15/2016.

## 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 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

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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 for the year ended December 31, 2013. Directors who are employed by us do not receive any compensation for their activities related to serving on the Board of Directors.

## DIRECTOR COMPENSATION

Name (a)(1)	Fees earned or paid in cash (b)	Stock awards (c) <sup>(2)</sup>	Option awards (d) <sup>(3)</sup>	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 Levine *	\$80,300	\$—	—	—	—	—	\$80,300
Joshua J. McClellan *	\$67,000	\$—	—	—	—	—	\$67,000
Philip S. Radcliffe	\$97,600	\$—	\$48,000	<sup>(6)</sup> —	—	—	\$145,600
Laurence E. Sturtz	\$81,200	\$—	\$48,000	<sup>(6)</sup> —	—	—	\$129,200
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.

(1) Mr. Gentry is an employee of the Company, as well as a named executive officers 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."

(2) The amounts set forth in Column (d) reflect the full aggregate grant date fair value of the awards. See Note 13 to the Company's Consolidated Financial Statements included in Part II, Item 8., "Financial Statements and Supplementary Data," for a description of the assumptions used to determine fair value.

(3) The number of outstanding exercisable and unexercisable options and warrants, and the number of unvested shares of restricted stock held by each of our non-employee directors as of December 31, 2013 are shown below:



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Director	As of December 31, 2013		Number of Shares of Unvested Restricted Stock
	Number of Shares Subject to Outstanding Options or Warrants		
	Exercisable	Unexercisable	
Christopher F. Brogdon	557,288	105,000	(a) 31,500
Michael J. Fox	—	21,667	(b) —
Peter J. Hackett	14,204	26,667	(c) 31,500
Jeffrey Levine	28,326	—	31,500
Joshua J. McClellan	10,500	—	31,500
Philip S. Radcliffe	35,967	26,667	(c) 31,500
Laurence E. Sturtz	55,961	26,667	(c) 31,500
David A. Tenwick	437,890	27,778	(d) 31,500
Gary L. Wade	246,035	—	31,500

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(4) Represents (i) \$135,000 paid to or earned by Mr. Brogdon in 2013 pursuant to his Consulting Agreement with the 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 in respect of 2014 compensation 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. If the Consulting 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 Consulting 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 Consulting 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 Consulting 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 Consulting 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

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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 "-Employment Agreements-Applicable Terms."

**Deferred Compensation Plan**

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

**Purpose of the Compensation Committee of the Board of Directors**

The Compensation Committee advises the Board of Directors with respect to the compensation of each senior executive and each member of the Board of Directors. The Compensation Committee is also charged with the oversight of compensation plans and practices for all employees of the Company. The Compensation Committee relies upon data made available for the purpose of providing information on organizations of similar or larger scale engaged in similar activities. The purpose of the Compensation Committee's activity is to assure that the Company's resources are used appropriately to recruit and maintain competent and talented executives and employees able to operate and grow the Company successfully.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

For information regarding securities authorized for issuance under equity compensation plans, see "Part II, Item 5. "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

**Beneficial Ownership of Common Stock**

The following table furnishes information, as of March 12, 2014, as to shares of the common stock beneficially owned by: (i) each person or entity known to us to be the beneficial owner of more than 5% of the common stock, (ii) each of our directors and our named executive officers identified in Part III, Item 11., "Executive Compensation Table"; and (iii) our directors and executive officers as a group. As of March 12, 2014, there were 17,462,497 shares of the common stock outstanding.

Name of Beneficial Owner(1)	Number of Shares of Common Stock Beneficially Owned(2)		Percent of Outstanding Common Stock(3)	
<b>5% Beneficial Owners (Excluding Directors and Executive Officers):</b>				
Connie B. Brogdon <sup>(4)</sup>	1,616,620	(5)	9.1	%
AQR Capital Management, LLC <sup>(6)</sup>	1,272,803	(7)	7.3	%
Anthony J. Cantone <sup>(8)</sup>	2,464,173	(9)	13.7	%
Park City Capital, LLC <sup>(10)</sup>	915,442	(11)	5.0	%
<b>Directors and Executive Officers:</b>				
Christopher Brogdon	1,616,620	(12)	9.1	%
Ronald W. Fleming	3,703	(13)	*	
Michael J. Fox	915,442	(14)	5.0	%
Boyd P. Gentry	415,549	(15)	2.3	%
Peter J. Hackett	49,394	(16)	*	
Philip S. Radcliffe	72,347	(17)	*	
David Rubenstein	109,617	(18)	*	
Laurence E. Sturtz	127,537	(19)	*	
David A. Tenwick	775,067	(20)	4.3	%

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All directors and executive officers as a group	4,085,276	21.8	%
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\* Less than one percent.

- (1) The address for each of our directors and executive officers is c/o AdCare Health Systems, Inc., 1145 Hembree Road, Roswell, Georgia 30076.
- (2) Except as otherwise specified, each individual has sole and direct beneficial voting and dispositive power with respect to shares of the common stock indicated.
- (3) Percentage is calculated based on 17,462,497 shares of common stock outstanding as of March 12, 2014.
- (4) The address for Connie B. Brogdon is 88 West Paces Ferry Road N.W., Atlanta, Georgia 30305.  
Includes: (i) 221,296 shares of common stock held directly by Christopher Brogdon (her spouse); (ii) 938,035 shares of common stock held by Connie B. Brogdon; (iii) warrants to purchase 115,763 shares of common stock held by Christopher Brogdon at an exercise price of \$2.59 per share; (iv) warrants to purchase 115,763 shares of common stock held by Christopher Brogdon at an exercise price of \$3.46 per share; (v) warrants to purchase 115,762 shares of common stock held by Christopher Brogdon at an exercise price of \$4.32 per share; (vi) an option to purchase 105,000 shares of common stock held by Christopher Brogdon at an exercise price of \$5.71 per share; and (vii) an option to purchase 105,000 shares of common stock held by Christopher Brogdon at an exercise price of \$6.67 per share.
- (6) The address for AQR Capital Management, LLC ("AQR") is Two Greenwich Plaza, 3rd Floor, Greenwich, Connecticut 06830.  
The information set forth in this table regarding AQR is based on an Amendment No. 3 to a Schedule 13G filed with the SEC by AQR on March 1, 2012, and other information known to the Company. AQR has shared voting and dispositive power with respect to 1,272,803 shares.
- (8) The address for Anthony J. Cantone is 766 Shrewsbury Avenue, Tinton Falls, New Jersey 07724.  
The information set forth in this table regarding Mr. Cantone is based on a Form 4 filed with the SEC by Mr. Cantone on July 13, 2012, and other information known to the Company. Includes: (i) 201,831 shares of common stock held by Mr. Cantone; (ii) 269,266 shares of common stock held by affiliates of Mr. Cantone; (iii) a convertible promissory note held by an affiliate of Mr. Cantone convertible into 134,048 shares of common stock at a conversion price of \$3.73 per share; (iv) a convertible promissory note held by an affiliate of Mr. Cantone convertible into 938,338 shares of common stock at a conversion price of \$3.73 per share; (v) convertible promissory notes held by affiliates of Mr. Cantone convertible into 20,790 shares of common stock at a conversion price of \$4.81 per share; (vi) a convertible promissory note held by an affiliate of Mr. Cantone convertible into 1,384,635 shares of common stock at a conversion price of \$3.97 per share; (vii) a convertible promissory note held by Mr. Cantone convertible into 218,640 shares of common stock at a conversion price of \$3.97 per share; (viii) warrants held by affiliates of Mr. Cantone to purchase 420,000 shares of common stock at an exercise price of \$3.81 per share; (ix) warrants held by affiliates of Mr. Cantone to purchase 275,625 shares of common stock at \$4.81 per share; and (x) warrants held by affiliates of Mr. Cantone to purchase 75,000 shares of common stock at \$3.96 per share. The convertible promissory notes beneficially owned by Mr. Cantone are subject to certain beneficial ownership limitations.
- (10) The address for Park City Capital, LLC is 12400 Coit Road, Suite 800, Dallas, Texas 75251.
- (11) The information set forth in this table regarding Park City is based on a Schedule 13G filed with the SEC by Park City and other reporting persons on April 4, 2013, a Form 3 filed with the SEC by Park City, Mr. Fox and other reporting persons on October 15, 2013, and other information known to the Company. Park City Capital Offshore Master, Ltd. has sole voting and dispositive power with respect to 562,250 of the shares. Park City Special Opportunity Fund, Ltd. has sole voting and dispositive power with respect to 102,250 of the shares. CCM Opportunistic Partners, LP has sole voting and dispositive power with respect to 85,500 of the shares. Park City has sole voting and dispositive power with respect to 744,750 of the shares. PCC SOF GP, LLC has sole voting and dispositive power with respect to 102,250 of the shares. Michael J. Fox has sole voting and dispositive power with respect to 5,250 of the shares and shared voting and dispositive power with respect to 744,750 of the shares. CCM Opportunistic Advisors, LLC has sole voting power with respect to 85,500 of the shares. A. John Knapp, Jr. has shared voting and dispositive power with respect to 85,500 of the shares. Park City Capital Offshore Master,

Ltd. has a convertible promissory note convertible into 222,222 shares of common stock at a conversion price of \$4.50 per share. The convertible promissory note is subject to certain beneficial ownership limitations.

Includes: (i) 938,035 shares of common stock held directly by Connie B. Brogdon (his spouse); (ii) 221,296<sup>(12)</sup> shares of common stock held by Christopher Brogdon; (iii) warrants to purchase 115,763 shares of common stock held by

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Christopher Brogdon at an exercise price of \$2.59 per share; (iv) warrants to purchase 115,763 shares of common stock held by Christopher Brogdon at an exercise price of \$3.46 per share; (v) warrants to purchase 115,762 shares of common stock held by Christopher Brogdon at an exercise price of \$4.32 per share; (vi) an option to purchase 105,000 shares of common stock held by Christopher Brogdon at an exercise price of \$5.71 per share; and (vii) an option to purchase 105,000 shares of common stock held by Christopher Brogdon at an exercise price of \$6.67 per share.

(13) Includes options to purchase 3,703 shares of common stock at an exercise price of \$4.06 per share.

Includes: (i) 5,250 shares held directly by Mr. Fox; (ii) 744,750 shares held by affiliates of Mr. Fox; (iii) options to purchase 7,220 shares of common stock held by Mr. Fox at an exercise price of \$4.06 per share; and (iv) a

(14) convertible promissory note held by an affiliate of Mr. Fox convertible into 222,222 shares of common stock at a conversion price of \$4.50 per share. The convertible promissory note beneficially owned by Mr. Fox is subject to certain beneficial ownership limitations.

Includes (i) warrants to purchase 275,625 shares of common stock at an exercise price of \$3.75 per share; (ii)

(15) options to purchase 41,662 shares of common stock at an exercise price of \$3.93 per share; (iii) options to purchase 41,662 shares of common stock at an exercise price of \$4.90 per share; and (iv) options to purchase 9,258 shares of common stock at an exercise price of \$4.06 per share.

Includes: (i) options to purchase 10,500 shares of common stock at an exercise price of \$4.11 per share; (ii)

(16) options to purchase 8,888 shares of common stock at an exercise price of \$4.06 per share; (iii) warrants to purchase 926 shares of common stock at an exercise price of \$1.04 per share; (iv) warrants to purchase 926 shares of common stock at an exercise price of \$1.93 per share; (v) warrants to purchase 926 shares of common stock at an exercise price of \$2.57 per share; and (vi) warrants to purchase 926 shares of common stock at an exercise price of \$3.43 per share.

Includes: (i) options to purchase 4,861 shares of common stock at an exercise price of \$1.30 per share; (ii) options

(17) to purchase 10,500 shares of common stock at an exercise price of \$4.11 per share; and (iii) options to purchase 8,888 shares of common stock at an exercise price of \$4.06 per share; (iv) warrants to purchase 5,151 shares of common stock at an exercise price of \$1.04 per share; (v) warrants to purchase 5,151 shares of common stock at an exercise price of \$1.93 per share; (vi) warrants to purchase 5,152 shares of common stock at an exercise price of \$2.57 per share; and (vii) warrants to purchase 5,152 shares of common stock at an exercise price of \$3.43 per share.

Includes: (i) options to purchase 4,628 shares of common stock at an exercise price of \$4.06 per share; (ii)

(18) warrants to purchase 69,993 shares of common stock at an exercise price of \$3.93 per share; and (iii) warrants to purchase 34,996 shares of common stock at an exercise price of \$4.58 per share.

Includes: (i) options to purchase 10,500 shares of common stock at an exercise price of \$4.11 per share;

(19) (ii) options to purchase 4,861 shares of common stock at an exercise price of \$1.30 per share; (iii) options to purchase 8,888 shares of common stock at an exercise price of \$4.06 per share; (iv) warrants to purchase 10,150 shares of common stock at an exercise price of \$1.04 per share; (v) warrants to purchase 10,150 shares of common stock at an exercise price of \$1.93 per share; (vi) warrants to purchase 10,150 shares of common stock at an exercise price of \$2.57 per share; and (vii) warrants to purchase 10,150 shares of common stock at an exercise price of \$3.43 per share.

Includes: (i) options to purchase 9,258 shares of common stock at an exercise price of \$4.06 per share; (ii)

(20) warrants to purchase 109,472 shares of common stock at an exercise price of \$1.04 per share; (iii) warrants to purchase 109,472 shares of common stock at an exercise price of \$1.93 per share; (iv) warrants to purchase 109,473 shares of common stock at an exercise price of \$2.57 per share; (v) 109,473 shares of common stock at an exercise price of \$3.43 per share.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Related Party Transactions

Riverchase

On April 9, 2010, Riverchase, then a wholly owned subsidiary of the Company, entered into a Purchase Agreement with the Riverchase Seller to acquire the assets of Riverchase Village, a 105-bed assisted living facility located in Hoover, Alabama, for a purchase price of approximately \$5,000,000. On June 22, 2010, the Company assigned to

Mr. Brogdon 100% of the membership interests in Riverchase. On June 25, 2010, Riverchase, then owned by Mr. Brogdon, purchased the Riverchase Village facility pursuant to the terms of the Purchase Agreement.

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In connection with financing of the acquisition of Riverchase Village facility, Riverchase borrowed from the Medical Clinic Board of the City of Hoover the proceeds from the issuance of \$5,845,000 First Mortgage Healthcare Facility Revenue Bonds (Series 2010 A) and \$520,000 First Mortgage Revenue Bonds (Series B), which proceeds were used to acquire Riverchase Village, pay the cost of certain repairs and improvements to Riverchase Village, fund certain services and pay the cost of the issuance of the bonds. As part of the financing, each of AdCare and Mr. Brogdon guaranteed Riverchase's obligations under the bonds. In June 2010, Riverchase Seller refunded to AdCare the \$250,000 of earnest money it had deposited in connection with the Riverchase Village transaction.

As consideration for the assignment of 100% of the membership interests in Riverchase to Mr. Brogdon and AdCare's guaranteeing the bonds, Mr. Brogdon granted to Hearth & Home, a wholly owned subsidiary of AdCare, the Riverchase Option (an exclusive and irrevocable option pursuant to the Riverchase for an exercise price of \$100,000 and otherwise under the same terms and conditions set forth in the Purchase Agreement). In addition, a wholly owned subsidiary of AdCare entered into a five-year year Management Agreement with Riverchase pursuant to which such subsidiary supervised the management of the Riverchase Village facility for a monthly fee equal to 5% of the monthly gross revenues of the Riverchase Village facility. On June 22, 2013, the Management Agreement was terminated. On July 26, 2012, Hearth & Home and Mr. Brogdon amended the Option Agreement to extend the last date on which the Riverchase Option may be exercised through June 22, 2013. On June 22, 2013, Hearth & Home and Mr. Brogdon further amended the Option Agreement to extend the last date on which the Riverchase Option may be exercised through June 22, 2014. On March 3, 2014, Hearth & Home and Mr. Brogdon further amended the Option Agreement to: (i) extend the last date on which the Riverchase Option may be exercised through June 22, 2015; and (ii) reduce the purchase price for the Riverchase Option to \$1.00. See "Certain Relationships and Related Transactions and Director Independence - Related Party Transactions - 2014 Brogdon Agreement."

### Mountain Trace

Effective January 1, 2011, pursuant to a purchase and sale agreement and operations transfer agreement, the Company acquired the options and selected assets of Mountain Trace, a 106-bed skilled nursing facility located in Sylva, North Carolina. To complete the acquisition, the Company issued a secured promissory note in the amount of \$5,000,000. The promissory note was secured by the Mountain Trace facility and was guaranteed by each of Mr. Brogdon and his spouse.

### Office Subleases and Purchase

From April 2011 through November 2012, the Company subletted from JRT on a month-to-month basis the Hembree Facility. Mr. Brogdon's son is a one-third owner of JRT. Pursuant to this sublease, the Company paid to JRT on a monthly basis base rent of approximately \$10,458. The Company paid an aggregate of \$115,035 in rent under this sublease in 2012. The Company also paid to unrelated third parties amounts for utilities, property taxes and building association dues with respect to the Hembree Facility.

On June 4, 2012, ADK Hembree, a wholly owned subsidiary of the Company, entered into a Purchase Agreement with JRT to acquire the Hembree Facility. On November 30, 2012, ADK Hembree acquired the Hembree Facility from JRT pursuant to the Purchase Agreement for an aggregate purchase price of \$1,083,781 and, in connection therewith, ADK Hembree issued a promissory note in favor of Fidelity Bank for a principal amount of \$1,050,000.

### Edwards Redeemer and Whispering Pines

In May 2011, First Commercial Bank and Brogdon Family, LLC, an entity owned and controlled by Mr. Brogdon, entered into a Purchase and Sale Agreement pursuant to which Brogdon Family, LLC had the right to acquire six skilled nursing facilities located in Oklahoma for an aggregate purchase price of \$16.0 million. These facilities were Edwards Redeemer Nursing Center, Harrah Nursing Center, Northwest Nursing Center, Whispering Pines Nursing Center, McLoud Nursing Center and Meeker Nursing Center. In October 2011, Brogdon Family, LLC, assigned all of its rights under the Purchase and Sale Agreement to AdCare Holdings, a wholly owned subsidiary of the Company. In May 2013, AdCare Holdings assigned all of its rights under the Purchase and Sale Agreement with respect to the Harrah Nursing Center, McLoud Nursing Center and Meeker Nursing Center to Brogdon Family, LLC.

In October 2012, AdCare Holdings assigned to the Edwards Redeemer and ER Nursing (then wholly owned subsidiaries of the Company) all of its right under that certain Purchase and Sale Agreement to purchase the Edwards Redeemer Nursing Center. Edwards Redeemer and ER Nursing agreed to assume all obligations of AdCare Holdings

under the Purchase and Sale Agreement with respect to the Edwards Redeemer Nursing Center, including reimbursement for out-of-pocket costs. In connection therewith: (i) AdCare Holdings (as the owner of all of the issued and outstanding membership interests of Edward Redeemer) assigned all of its interest in Edwards Redeemer to Mr. Brogdon; and (ii) AdCare Holdings assigned to WP Nursing, LLC, an entity owned and controlled by Mr. Brogdon, all of AdCare Holding's right under the Purchase and Sale

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Agreement to purchase the Whispering Pines Nursing Center. WP Oklahoma Nursing, LLC has agreed to assume all obligations of the Company under the Purchase and Sale Agreement with respect to the Whispering Pines Nursing Center. In connection with the assignment with respect to the Whispering Pines Nursing Center, the Company has recorded a receivable of less than \$0.1 million.

In December 2012, ER Nursing (still a wholly owned subsidiary of AdCare and the licensed operator of the Edwards Redeemer Nursing Center) entered into a Facility Lease with Edwards Redeemer (now owned and controlled by Mr. Brogdon) pursuant to which ER Nursing leases to Edwards Redeemer the operations of the Edwards Redeemer Nursing Center. In connection with entering into the Facility Lease, ER Nursing also entered into a Management Agreement with New Beginnings Care, LLC pursuant to which New Beginnings agreed to manage the Edwards Redeemer Nursing Center for a monthly fee equal to five percent (5%) of the aggregate gross revenues of the Edwards Redeemer Nursing Center. The Management Agreement terminates upon the Approval Date., and ER Nursing may terminate the Management Agreement at any time. ER Nursing also entered into an Operations and Indemnification Agreement with the Indemnitors pursuant to which the Indemnitors have agreed to indemnify the Company for any of its losses: (x) arising out of the Management Agreement; or (y) resulting from any services provided by New Beginnings at or for the benefit of the Edwards Redeemer Nursing Center.

Pursuant to the Lease, ER Nursing pays Edwards Redeemer monthly rent in an amount equal to one hundred-twenty percent (120%) of the monthly payment of principal and interest due to the lender holding a first priority mortgage on the Edwards Redeemer Nursing Center; provided, however, that pursuant to the Operations and Indemnification Agreement, the Indemnitors will indemnify the Company for any rent expenses arising out of the lease. The lease terminates upon the Approval Date.

**Harrah, McCloud and Mecker - Management Agreement**

On July 26, 2013, a wholly-owned subsidiary of the Company entered into management agreements with entities owned and controlled by Mr. Brogdon, which entities own the skilled-nursing facilities located in Oklahoma known as Harrah Nursing enter, McCloud Nursing Center and Mecker Nursing Center. Pursuant to the management agreements, the AdCare subsidiary has agreed to manage the operations of these facilities. The management agreements have initial terms of five years and shall renew automatically for one-year terms thereafter. Pursuant to the management agreements, the entities owned and controlled by Mr. Brogdon which own the facilities shall pay to the AdCare subsidiary a fee equal to 5% of the monthly gross revenues of the facilities.

Effective March 1, 2014, the Company terminated the management agreements with respect to Harrah Nursing Center, McCloud Nursing Center and Mecker Nursing Center. See “Certain Relationships and Related Transactions and Director Independence - Related Party Transactions - 2014 Brogdon Agreement.”

**Oklahoma Owners**

Effective August 1, 2011, the Oklahoma Owners (entities controlled by Mr. Brogdon and his spouse) acquired the Oklahoma Facilities. In connection with the closing of this acquisition: (i) the Company paid closing costs on behalf of the Oklahoma Owners in the amount of \$56,894 (which amount was refunded to the Company in February 2012); and (ii) AdCare Oklahoma, a wholly owned subsidiary of the Company, entered into five-year year Management Agreements with the Oklahoma Owners pursuant to which AdCare Oklahoma supervised the management of the Oklahoma Facilities for a monthly fee equal to 5% of the monthly gross revenues of the Oklahoma Facilities.

In December 2012: (i) the Oklahoma Owners entered into a \$1.0 million senior secured credit agreement with Gemino; and (ii) AdCare Oklahoma entered into a Management Fee Subordination Agreement pursuant to which AdCare Oklahoma agreed to subordinate its right to payment of all management fees owed to AdCare Oklahoma by the Oklahoma Owners to such credit agreement with Gemino. However, AdCare Oklahoma could continue to accept such management fees owed to it under the Management Agreements, so long as no event of default has occurred under the credit agreement entered into among the third-party lender and the Oklahoma Owners.

Effective as of March 1, 2014, the Company terminated the Management Agreements with respect to the Oklahoma Facilities. On March 3, 2014, the Company, Mr. Brogdon and entities controlled by Mr. Brogdon entered into an agreement to provide for the orderly transition of the management of the Oklahoma Facilities from the Company to a third-party. See “Certain Relationships and Related Transactions and Director Independence - Related Party

Transactions - 2014 Brogdon Agreement.”

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Red Rose Facility

In October 2011, pursuant to the terms of an Assignment of Lease and Landlord's Consent, Rose Missouri Nursing, LLC, a wholly owned subsidiary of the Company, became the tenant and operator of the Red Rose facility, a 90-bed skilled nursing facility located in Cassville, Missouri. In connection with this transaction, Mr. Brogdon and his spouse, each guaranteed the performance of the Company's obligations, including payment obligations, under the Lease. In consideration of these guaranties, the Company paid to Mr. Brogdon in 2011 the amount of \$25,000 as a guaranty fee.

Golden Years Manor

In January 2012, a wholly owned subsidiary of AdCare entered into a Purchase and Sale Agreement with Gyman Properties, LLC, to acquire a 141-bed skilled nursing facility located in Lonoke, Arkansas, known as Golden Years Manor, for an aggregate purchase price of \$6.5 million. Pursuant to the Purchase and Sale Agreement, the Company deposited approximately \$0.3 million into escrow to be held as earnest money. In May 2013, the Company decided not to pursue the acquisition of Golden Years Manor because it determined that the facility no longer met its investment criteria. At the time of such determination, the Company was not entitled to reimbursement of its deposit under the Purchase and Sale Agreement. Subsequently, on May 9, 2012, the Company assigned all of its rights under the Purchase and Sale Agreement to GL Nursing, LLC, an entity affiliated with Mr. Brogdon. In connection with such assignment, GL Nursing, LLC agreed to reimburse to the Company the deposit and all of its out-of-pocket costs relating to Golden Years Manor upon the closing of the acquisition, which occurred on May 31, 2012. The assignment provided the Company with an opportunity to recoup the deposit and out-of-pocket costs which would otherwise have been forfeited if the assignment had not occurred. As of December 31, 2013, the Company has recorded a receivable of \$0.2 million in connection with the assignment. See "Certain Relationships and Related Transactions, and Director Independence - Related Party Transactions - 2014 Brogdon Agreement."

Airplane

Between May 2012 and August 2013, the Company had access to an airplane on a month-to-month basis from JRT. Mr. Brogdon's son is a one-third owner of JRT. Pursuant to this arrangement, the Company paid to JRT on a monthly basis base rent of \$7,000. The Company paid an aggregate of \$42,000 and \$56,000 in rent during 2013 and 2012, respectively. The Company had the right to use the airplane with no limitation on hours of usage and is responsible for all costs associated with maintenance such as inspections, fuel, pilot costs and hangar rental. Effective August 31, 2013, this arrangement was terminated.

Consulting Agreement

In December 2012, the Company entered into a Consulting Agreement with Mr. Brogdon pursuant to which Mr. Brogdon will be compensated by the Company for providing consulting services related to the acquisition and financing of skilled nursing facilities. The Consulting Agreement terminates on December 31, 2015 and, if it is not terminated prior to December 31, 2015, will renew automatically for successive one-year terms until terminated. As compensation for his services under the Consulting 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 Consulting 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 of the Company, such success fees on a one-year basis shall not exceed \$80,000 in year one, \$120,000 in year two and \$160,000 in year three of the Consulting 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. In the event the Consulting Agreement is terminated by the Company without cause, the Company 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). No success fee was paid to Mr. Brogdon pursuant to the Consulting Agreement in the year ended December 31, 2013.

In December 2012, the Company entered into agreements to indemnify Mr. Brogdon with respect to certain personal guaranties Mr. Brogdon previously made with respect to loans on the Hembree Facility and the Red Rose facility. The Company has agreed to reimburse Mr. Brogdon for any costs, losses, damages, claims and expenses under the guaranties so long they are not due to Mr. Brogdon's gross negligence, fraud, intentional misrepresentation, willful misconduct, bad faith or criminal act.

Cantone

In March 2012, the Company issued an unsecured promissory note to Cantone Asset Management LLC in the principle amount of \$3,500,000. In connection with the issuance of the promissory note to Cantone Asset Management LLC, the Company also issued to Cantone Asset Management LLC a warrant to purchase 300,000 shares of common stock. In April 2012, the Company issued an unsecured promissory note to Cantone Asset Management LLC in the principle amount of \$1,500,000. In July 2012, the Company and Cantone Asset Management LLC refinanced these two promissory notes. The

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promissory notes were canceled and terminated in exchange for the issuance by the Company to Cantone Asset Management LLC of an 8% convertible subordinated note in a principle amount of \$5,000,000.

In connection with the issuance of the promissory notes to Cantone Asset Management LLC in March and April of 2012, Cantone Research, Inc. agreed to provide the Company with certain consulting services for a monthly fee if the Company and Cantone Asset Management LLC (or an affiliated entity) did not agree to the terms of an additional financing arrangement pursuant to which it (or affiliated entity) would loan to the Company at least \$4,000,000 for a four-year term. In July 2012, the consulting agreement was revised so as to provide for a certain monthly fee payable to Cantone Research, Inc. regardless of whether the Company and Cantone Asset Management LLC agreed to an additional financing arrangement. Furthermore, under the terms of the revised consulting agreement, the Company issued to Cantone Research, Inc. 50,000 shares of common stock and a warrant to purchase 100,000 shares of common stock. The Company paid to Cantone Research, Inc. \$30,000 and \$40,000 during 2013 and 2012, respectively, in fees pursuant to the consulting agreement.

In July 2012 and March 2011, the Company issued and sold to certain accredited investors an aggregate of \$7,500,000 and \$4,508,700 in principle amount of subordinated convertible notes, respectively. In connection with the offerings, Cantone Research, Inc. acted as the exclusive agent with respect to the private placement of the notes. The Company paid to Cantone Research, Inc. \$42,500 and \$60,000 to act as the placement agent pursuant to the July 2012 and March 2011 offerings, respectively.

Cantone Asset Management LLC and Cantone Research, Inc. are affiliates of Anthony J. Cantone, who filed with the SEC in July 2012 a Form 4 reporting that he beneficially owned greater than 10% of the outstanding common stock.

**2014 Brogdon Agreement**

On March 3, 2014, AdCare and certain of its subsidiaries entered into a letter agreement, dated as of February 28, 2014, with (i) the Oklahoma Owners, (ii) the Brogdon Entities (entities owned and controlled by Mr. Brogdon which own Harrah Nursing Center, McCloud Nursing Center and Mecker Nursing Center), (iii) Christopher F. Brogdon, (iv) GL Nursing, LLC, an entity affiliated with Mr. Brogdon, and (v) Marsh Pointe Management, LLC.

On December 31, 2013, the Company notified the Brogdon Entities of its intent to terminate: (i) that certain Management Agreement, dated September 19, 2011, by and between the Company and the Oklahoma Owners with respect to the management of the Oklahoma Facilities; and (ii) those certain Management Agreements, each dated July 26, 2013, by and between the Company and each of the Brogdon Entities, with respect to the management of Harrah Nursing Center, McCloud Nursing Center and Mecker Nursing Center. Pursuant to the agreement: (i) the parties agreed that the termination of the Management Agreements shall be effective as of March 1, 2014 and that the Company will no longer provide any ongoing services to the facilities; and (ii) Mr. Brogdon executed a promissory note in favor of the Company in principal amount of \$523,663 which represents amounts owed as of March 1, 2014: (a) by the Oklahoma Owners and the Brogdon Entities to the Company pursuant to the Management Agreements and (b) by GL Nursing, LLC to the Company in connection with the Company's assignment in May 2012 of its rights to acquire Golden Years Manor. The note does not bear interest and is payable in five (5) equal monthly installments commencing on September 1, 2014 and ending on December 31, 2014.

In addition, the letter agreement amends that certain Option Agreement, entered into by Mr. Brogdon and Hearth & Home, dated as of June 22, 2010 and as amended to date, to: (i) extend the Riverchase Option until June 22, 2015; and (ii) reduce the purchase price for the exercise of the Riverchase Option to \$1.00. Furthermore, the letter agreement provides that, upon the closing of the sale of the Riverchase facility to an arms-length third party purchaser, regardless of whether Hearth & Home has exercised the Riverchase Option, the net sales proceeds from such sale shall be distributed as follows: (a) one-half of the net sales proceeds shall be paid to the Company; (b) the remaining net sales proceeds shall be paid to the Company to satisfy the outstanding principal balance and interest (if any) then due under the note, with such payment to be applied in the order of scheduled amortization under the note; and (c) the balance of net sales proceeds shall be paid to the Company.

**Other Transactions**

In 2007, Mr. Tenwick advanced \$155,000 to the Company as a loan from his retirement plan. This loan currently accrues interest at the rate of 8% per annum, with total payments made to Mr. Tenwick in 2011 of interest in the amount of \$7,270. The principal amount of this loan was repaid by the Company in full in January of 2012.

Other than the items above, the Company does not believe there are any other material undisclosed related party transactions. For purposes of the disclosure in this Item 13, note that Mr. Brogdon is Vice Chairman of the Board of Directors, holds in excess of 10% of the outstanding common stock and, during 2012, served as the Company's Chief Acquisition Officer.

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## 2014 Note Offering

On March 27, 2014, Park City Capital Offshore Master, Ltd. ("Park City Offshore"), an affiliate of Michael J. Fox, entered into a Subscription Agreement with the Company pursuant to which the Company issued \$1,000,000 in principal amount of the 2014 Notes. Mr. Fox is a director of Park City Offshore and a director of the Company and a beneficial owner 5% of the outstanding common stock. The 2014 Note was offered to and sold to Park City Offshore on the same terms and conditions as all other buyers in the offering. For more information regarding the 2014 Note offering, see Part II, Item 9B. "Other Information - 2014 Subordinated Convertible Note Offering." For a description of certain arrangements between the Company and Mr. Fox regarding his service as a director, see Part III, Item 10. "Directors Executive Officers and Corporate Governance. - Arrangements with Directors Regarding Election/Appointment."

## Approval of Related Party Transactions

Each of the foregoing transactions was approved by the independent members of the Board of Directors of the Company without the related party having input with respect to the discussion of such approval. In addition, the Board of Directors believes that each of the foregoing transactions were necessary for the Company's business and are on terms no less favorable to the Company than could be obtained from independent third parties.

## Director Independence

In 2013, six out of ten of our directors, Messrs. Fox, Hackett, Levine, McClellan, Radcliffe, and Sturtz, were independent as determined utilizing the standards for director "independence" set forth in the applicable rules of the NYSE MKT listing standards. Effective January 1, 2014, Messrs. Levine, McClellan and Wade resigned from the Board of Directors. Since January 1, 2014, four out of seven of our directors, Messrs. Fox, Hackett, Radcliffe and Sturtz were independent as determined utilizing the standards for director "independence" set forth in the applicable rules of the NYSE MKT listing standards. Since January 1, 2012, all of the members of the Audit Committee were considered "independent," as independence for Audit Committee members is defined in the applicable rules of the NYSE MKT listing standards and the rules of the SEC.

## Item 14. Principal Accountant Fees and Services

## Fees

Pursuant to appointment by the Audit Committee, KPMG LLP ("KPMG") has audited the financial statements of the Company and its subsidiaries for the years ended December 31, 2013 and 2012.

The following table sets forth the aggregate fees that KPMG billed to the Company for the years ended December 31, 2013 and 2012, respectively. All of the fees were approved by the Audit Committee in accordance with its policies and procedures.

	December 31,	
(000's)	2013	2012
Audit fees (total) <sup>(1)</sup>	\$484	\$714
Audit-related fees (total) <sup>(2)</sup>	92	—
Tax fees	—	—
All other fees	—	—
Total fees	\$576	\$714

(1) Audit fees include fees associated with professional services rendered by KPMG for the audit of AdCare's annual financial statements and review of financial statements included in AdCare's 10Q's and 10Q/A's.

(2) Audit related fees include fees for the audit of our HUD properties and additional services related to acquisitions, registration statements and other regulatory filings.

## Pre-Approval Policy

The Audit Committee is required to pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed by our independent registered public accounting firm, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act that are approved by

the Audit Committee prior to completion of the audit.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements. The following financial statements of AdCare Health Systems, Inc. and its Subsidiaries are included in Part II, Item 8 of this Annual Report.

(i) Consolidated Balance Sheets—December 31, 2013 and 2012;

(ii) Consolidated Statements of Operations—Years ended December 31, 2013 and 2012;

(iii) Consolidated Statements of Stockholders' Equity—Years ended December 31, 2013 and 2012;

(iv) Consolidated Statements of Cash Flows—Years ended December 31, 2013 and 2012; and

(v) Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules. Financial statement schedules are omitted because they are not required, are not material, are not applicable, or the required information is shown in the financial statements or notes thereto.

(a)(3) Exhibits. A list of the Exhibits required by Item 601 of Regulation S-K to be filed as a part of this Annual Report is shown on the "Exhibit Index" filed herewith and incorporated herein by this reference.

In reviewing the agreements included as exhibits to this Annual Report, investors are reminded that they are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about AdCare or the other parties to the agreements. Some of the agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- Should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- Have been qualified by the disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- May apply standards of materiality in a way that is different from what may be viewed as material to you or other investors, and
- Were made only as of the date of the applicable agreement or such other date or dates may be specified in the agreement and are subject to more recent developments.

Accordingly, the representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about us may be found elsewhere in this Annual Report and our other public filings with the SEC, which are available without charge on our website at [www.adcarehealth.com](http://www.adcarehealth.com).

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## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AdCare Health Systems, Inc.  
 by: /s/ BOYD P. GENTRY  
 Boyd P. Gentry  
 President and Chief Executive Officer  
 March 31, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ DAVID A. TENWICK David A. Tenwick	Director, Chairman	March 31, 2014
/s/ CHRISTOPHER F. BROGDON Christopher F. Brogdon	Director, Vice Chairman	March 31, 2014
/s/ BOYD P. GENTRY Boyd P. Gentry	Director, Chief Executive Officer (Principal Executive Officer)	March 31, 2014
/s/ RONALD W. FLEMING Ronald W. Fleming	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2014
/s/ MICHAEL J. FOX Michael J. Fox	Director	March 31, 2014
/s/ PETER J. HACKETT Peter J. Hackett	Director	March 31, 2014
/s/ PHILIP S. RADCLIFFE Philip S. Radcliffe	Director	March 31, 2014
/s/ LAURENCE E. STURTZ Laurence E. Sturtz	Director	March 31, 2014

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## EXHIBIT INDEX

Exhibit No.	Description	Method of Filing
2.1	Purchase Agreement, dated as of September 15, 2011, by and between JRT Group Properties, LLC and AdCare Hembree Road Property, LLC	Incorporated by reference to Exhibit 10.160 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
2.2	Purchase and Sale Agreement, dated as of January 3, 2012, between SCLR, LLC and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
2.3	Purchase and Sale Agreement, dated as of January 17, 2012, between Gyman Properties, LLC and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
2.4	Purchase and Sale Agreement, dated March 12, 2012, by and between Westlake Nursing Home Limited and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed March 15, 2012
2.5	Purchase and Sale Agreement, dated March 14, 2012, by and between F & F Ventures, LLC, Tulsa Christian Care, Inc., d/b/a/ Companions Specialized Care Center and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed March 15, 2012
2.6	Purchase and Sale Agreement, dated as of April 3, 2012, between Evans Memorial Hospital, Inc. and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed April 9, 2012
2.7	Third Amendment to Purchase and Sale Agreement, dated as of April 17, 2012, by and between First Commercial Bank and AdCare Property Holdings, LLC.	Incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed April 23, 2012
2.8	Purchase Agreement, dated as of April 27, 2012, between AdCare Property Holdings, LLC and 1761 Pinewood Holdings, LLC	Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed May 3, 2012
2.9	Second Amendment to Purchase and Sale Agreement, dated April 30, 2012, by and between Gyman Properties, LLC and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed May 3, 2012
2.10	First Amendment to Purchase and Sale Agreement, dated May 15, 2012, by and between AdCare Property Holdings, LLC and Westlake Nursing Home Limited	Incorporated by reference to Exhibit 2.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
2.11	Purchase Agreement, dated June 4, 2012, by and between AdCare Hembree Road Property, LLC and JRT Group Properties, LLC	Incorporated by reference to Exhibit 2.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
2.12	Second Amendment to Purchase and Sale Agreement, dated June 19, 2012, by and among F & F Ventures, LLC, Tulsa Christian Care, Inc., d/b/a Companions Specialized Care Center, George Perry Farmer, Jr., Jessica L. Farmer and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
2.13	Amendment to Purchase Agreement, dated July 19, 2012, between 1761 Pinewood Holdings, LLC and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
2.14		

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- |      |                                                                                                                                                            |                                                                                                                                     |
|------|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
|      | Purchase and Sale Agreement, dated as of August 9, 2012, between Winyah Nursing Home, Inc. and AdCare Property Holdings, LLC                               | Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed August 15, 2012                       |
| 2.15 | Second Amendment to Purchase Agreement, dated as of August 31, 2012, between Winyah Nursing Home, Inc. and AdCare Property Holdings, LLC                   | Incorporated by reference to Exhibit 2.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 |
| 2.16 | Third Amendment to Purchase Agreement, dated as of September 27, 2012, between 1761 Pinewood Holdings, LLC and AdCare Property Holdings, LLC               | Incorporated by reference to Exhibit 2.4 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 |
| 2.17 | Agreement of Sale, dated October 11, 2012, between AdCare Health Systems, Inc., certain of its subsidiaries named therein and CHP Acquisition Company, LLC | Incorporated by reference to Exhibit 2.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 |

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Exhibit No.	Description	Method of Filing
2.18	Assignment of Purchase and Sale Agreement, dated October 12, 2012, executed by AdCare Property Holdings, LLC in favor of Edwards Redeemer Property Holdings, LLC and ER Nursing, LLC	Incorporated by reference to Exhibit 2.6 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
2.19	Assignment of Purchase and Sale Agreement, dated October 12, 2012, executed by AdCare Property Holdings, LLC in favor of WP Oklahoma Nursing, LLC	Incorporated by reference to Exhibit 2.7 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
2.20	Membership Interest Power (transferring membership interests of Edwards Redeemer Property Holdings, LLC from AdCare Property Holdings, LLC to Christopher Brogdon), dated October 12, 2012	Incorporated by reference to Exhibit 2.8 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
2.21	Fourth Amendment to Purchase and Sale Agreement, dated October 8, 2012, between AdCare Property Holdings, LLC and First Commercial Bank	Incorporated by reference to Exhibit 2.5 to the Registrant's Current Report on Form 8-K filed October 10, 2012
2.22	Membership Interest Purchase Agreement, dated as of September 25, 2012, by and between John B. Montgomery and Michael Morton and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed October 1, 2012
2.23	Addendum to Membership Interest Purchase Agreement, dated as of September 26, 2012, by and between John B. Montgomery and Michael Morton and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed October 1, 2012
2.24	First Amendment to Purchase and Sale Agreement, effective as of October 31, 2012, between AdCare Property Holdings, LLC and Winyah Nursing Home, LLC	Incorporated by reference to Exhibit 2.12 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
2.25	Fifth Amendment to Purchase and Sale Agreement, dated as of November 30, 2012, by and between First Commercial Bank and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 2.6 of the Registrant's Current Report on Form 8-K filed December 19, 2012
2.26	First Amendment to Asset Purchase Agreement, dated December 28, 2012, among CHP Acquisition Company, LLC, AdCare Health Systems Inc. and certain of its subsidiaries named therein	Incorporated by reference to Exhibit 2.25 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012
2.27	Assignment of Purchase and Sale Agreement, dated December 31, 2012, by and between AdCare Property Holdings, LLC, Northwest Property Holdings, LLC and NW 61st Nursing, LLC	Incorporated by reference to Exhibit 2.26 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
2.28	Purchase and Sale Agreement, dated February 15, 2013, between AdCare Property Holdings, LLC and Avalon Health Care, LLC	Incorporated by reference to Exhibit 2.27 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
2.29	First Amendment to Purchase and Sale Agreement, dated March 14, 2013, between AdCare Property Holdings, LLC and Avalon Health Care, LLC	Incorporated by reference to Exhibit 2.28 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
2.30		

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- First Amendment to Purchase and Sale Agreement, dated March 20, 2012, by and between Gyman Properties, LLC and AdCare Property Holdings, LLC Incorporated by reference to Exhibit 2.30 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
- 2.31 First Amendment to Purchase and Sale Agreement, dated April 19, 2012, by and among AdCare Property Holdings, LLC, F & F Ventures, LLC and Tulsa Christian Care, Inc., d/b/a Companions Specialized Care Center Incorporated by reference to Exhibit 2.31 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
- 2.32 Reinstatement, Sixth Amendment and Assignment of Purchase and Sale Agreement, dated May 7, 2013, by and among First Commercial Bank, Brogdon Family, LLC and AdCare Property Holdings, LLC Incorporated by reference to Exhibit 2.3 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
- 2.33 Third Amendment to Purchase and Sale Agreement, dated July 31, 2012, by and among AdCare Property Holdings, LLC, F & F Ventures, LLC and Tulsa Christian Care, Inc., d/b/a Companions Specialized Care Center Incorporated by reference to Exhibit 2.32 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012



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Exhibit No.	Description	Method of Filing
2.34	Second Amendment to Purchase and Sale Agreement, dated August 31, 2012, by and between AdCare Property Holdings, LLC and 1761 Pinewood Holdings, LLC	Incorporated by reference to Exhibit 2.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
3.1	Declaration of Conversion of AdCare Health Systems, Inc., an Ohio corporation, to AdCare Health Systems, Inc., a Georgia corporation	Incorporated by reference to Appendix A of the Registrant's Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on October 29, 2013
3.2	Certificate of Conversion of AdCare Health Systems, Inc.	Incorporated by reference to Exhibit 3.2 of the Registrant's Current report on Form 8-K filed on December 18, 2013
3.3	Certificate for Conversion for Entities Converting Within or Off the Records of the Ohio Secretary of State.	Incorporated by reference to Exhibit 3.1 of the Registrant's Current report on Form 8-K filed on December 18, 2013
3.4	Articles of Incorporation of AdCare Health Systems, Inc., filed with the Secretary of State of the State of Georgia on December 12, 2013	Incorporated by reference to Exhibit 3.3 of the Registrant's Current report on Form 8-K filed on December 27, 2013
3.5	Articles of Correction to Articles of Incorporation of AdCare Health Systems, Inc., filed with the Secretary of State of the State of Georgia on December 12, 2013.	Incorporated by reference to Exhibit 3.1 of the Registrant's Current report on Form 8-K filed on December 27, 2013
3.6	Bylaws of AdCare Health Systems, Inc.	Incorporated by reference to Exhibit 3.4 of the Registrant's Current report on Form 8-K filed on December 27, 2013
3.7	Amendment No. 1 to the Bylaws of AdCare Health Systems, Inc.	Filed herewith
4.1	Specimen Common Stock Certificate of AdCare Health Systems, Inc.	Incorporated by reference to Exhibit 3.1 of the Registrant's Current report on Form 8-K filed on December 18, 2013
4.2*	2004 Stock Option Plan of AdCare Health Systems, Inc.	Incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-8 (Registration No. 333-131542) filed October 27, 2011
4.3*	2005 Stock Option Plan of AdCare Health Systems, Inc.	Incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-8 (Registration No. 333-131542) filed October 27, 2011
4.4*	AdCare Health Systems, Inc. 2011 Stock Incentive Plan	Incorporated by reference to Exhibit 4.3 of the Registrant's Registration Statement on Form S-8 (Registration No. 333-131542) filed October 27, 2011
4.5*	Form of Non-Statutory Stock Option Agreement	Incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form S-8 (Registration No. 333-131542) filed October 27, 2011
4.6*	Form of Incentive Stock Option Agreement	Incorporated by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form S-8

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(Registration No. 333-131542) filed October 27, 2011

- 4.7 Form of Subordinated Convertible Note, issued April 29, 2011, by AdCare Health Systems, Inc. Incorporated by reference to Exhibit 4.2 to the Registrant's Form S-3 (File No. 333-175541)
- 4.8\* Warrant to Purchase Shares of Common Stock, dated January 10, 2011, issued by AdCare Health Systems, Inc. to Boyd P. Gentry Incorporated by reference to Exhibit 10.158 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
- 4.9 Warrant to Purchase Shares of Common Stock, dated March 31, 2011, issued by AdCare Health Systems, Inc. to Cantone Research, Inc. Incorporated by reference to Exhibit 4.3 to the Registrant's Form S-3 (File No. 333-175541)
- 4.10 Registration Rights Agreement, dated April 29, 2011, by and among AdCare Health Systems, Inc. and the investors named therein Incorporated by reference to Exhibit 4.5 to the Registrant's Form S-3 (File No. 333-175541)
- 4.11 Registration Rights Agreement, dated March 31, 2011, by and among AdCare Health Systems, Inc. and the investors named therein Incorporated by reference to Exhibit 10.2 to the Registrant's Form S-3 (File No. 333-175541)
- 4.12 Form of Registration Rights Agreement, dated as of June 28, 2012, between AdCare Health Systems, Inc. and the Buyers signatory thereto Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed July 5, 2012

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Exhibit No.	Description	Method of Filing
4.13	Form of 8% Subordinated Convertible Note Due 2015 issued by AdCare Health Systems, Inc.	Incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed July 5, 2012
4.14	Form of Warrant to Purchase Common Stock of the Company	Incorporated by reference to Exhibit 4.3 to the Registrant's Form S-3 (File No. 333-175541)
4.15	Form of Subordinated Convertible Note, issued March 31, 2011, by AdCare Health Systems, Inc.	Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed April 6, 2011
4.16	Warrant to Purchase 312,500 Shares of Common Stock, dated April 1, 2012, issued by AdCare Health Systems, Inc. to Strome Alpha Offshore Ltd.	Incorporated by reference to Exhibit 4.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
4.17	Warrant to Purchase 300,000 Shares of Common Stock, dated March 30, 2012, issued by AdCare Health Systems, Inc. to Cantone Asset Management LLC	Incorporated by reference to Exhibit 4.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
4.18	Warrant to Purchase 100,000 Shares of Common Stock, dated July 2, 2012, issued by AdCare Health Systems, Inc. to Cantone Research, Inc.	Incorporated by reference to Exhibit 4.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
4.19	Warrant to Purchase 50,000 Shares of Common Stock, dated December 28, 2012, issued by AdCare Health Systems, Inc. to Strome Alpha Offshore Ltd.	Incorporated by reference to Exhibit 4.21 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
4.20	Warrant to Purchase 15,000 Shares of Common Stock, dated August 31, 2012, issued by AdCare Health Systems, Inc. to Hayden IR, LLC	Incorporated by reference to Exhibit 4.22 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
4.21*	Warrant to Purchase 70,000 Shares of Common Stock, dated May 15, 2013, issued by AdCare Health Systems, Inc. to Ronald W. Fleming	Incorporated by reference to Exhibit 4.23 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
4.22	Warrant to Purchase 75,000 shares of Common Stock, dated October 26, 2013, issued by AdCare Health Systems, Inc. to Cantone Research, Inc.	Incorporated by reference to Exhibit 4.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013
4.23	Form of Registration Rights Agreement, dated March 28, 2014, by and among AdCare Health Systems, Inc. and the investors named therein	Filed herewith
4.24	Form of 10% Subordinated Convertible Note Due April 30, 2015 issued by AdCare Health Systems, Inc.	Filed herewith
10.1*	Employment Agreement between AdCare Health Systems, Inc. and David A. Tenwick, dated September 1, 2008	Incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed September 8, 2008
10.2	Reimbursement Agreement between Community's Hearth & Home, Ltd. and Cornerstone Bank dated December 1, 2002	Incorporated by reference to Exhibit 10.14 of the Registrant's Registration Statement Form SB (Registration No. 333-131542) filed February 3, 2006
10.3	Reimbursement Agreement between Community's Hearth & Home, Ltd. and The Huntington National Bank dated September 13, 2007	Incorporated by reference to Exhibit 10.19 of the Registrant's annual report on form 10-KSB as amended March 31, 2008
10.4		

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	Form of Warrant granted to management to Purchase Shares of AdCare Health Systems, Inc. dated November 20, 2007	Incorporated by reference to Exhibit 10.19 of the Registrant's annual report on form 10-KSB as amended March 31, 2008
10.5	Regulatory Agreement and Mortgage Note between The Pavilion Care Center, LLC and Red Mortgage Capital, Inc, in the original amount of \$2,108,800 dated November 27, 2007	Incorporated by reference to Exhibit 10.19 of the Registrant's annual report on form 10-KSB as amended March 31, 2008
10.6	Regulatory Agreement and Mortgage Note between Hearth & Home of Urbana and Red Mortgage Capital, Inc, in the original amount of \$2,142,700 dated June 26, 2008	Incorporated by reference to Exhibit 10.26 of the Registrant's annual report on form 10-K filed March 31, 2009
10.7	Regulatory Agreement and Mortgage Note between Community's Hearth & Home and Red Mortgage Capital, Inc, in the original amount of \$1,863,800 dated June 26, 2008	Incorporated by reference to Exhibit 10.27 of the Registrant's annual report on form 10-K filed March 31, 2009

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Exhibit No.	Description	Method of Filing
10.8	Promissory Note between Assured Health Care and Huntington National Bank in the original amount of \$760,000 dated July 24, 2008	Incorporated by reference to Exhibit 10.28 of the Registrant's annual report on form 10-K filed March 31, 2009
10.9	Promissory Note between AdCare Health Systems, Inc. and Huntington National Bank in the original amount of \$300,000 dated October 17, 2008	Incorporated by reference to Exhibit 10.29 of the Registrant's annual report on form 10-K filed March 31, 2009
10.10	Promissory Note between AdCare Health Systems, Inc. and Huntington National Bank in the original amount of \$100,000 dated November 14, 2008	Incorporated by reference to Exhibit 10.30 of the Registrant's annual report on form 10-K filed March 31, 2009
10.11	Regulatory Agreement and Mortgage Note between Hearth & Care of Greenfield and Red Mortgage Capital, Inc. in the original amount of \$2,524,800 dated July 29, 2008	Incorporated by reference to Exhibit 10.31 of the Registrant's annual report on form 10-K filed March 31, 2009
10.12	Promissory Note between AdCare Health Systems and the AdCare Deferred Compensation plan for a \$150,000 line of credit dated January 2008	Incorporated by reference to Exhibit 10.32 of the Registrant's annual report on form 10-K filed March 31, 2009
10.13	Loan Agreement and Secured Promissory Note between Coosa Nursing ADK, LLC, and Metro City Bank in the original amount of \$7,500,000 dated September 30, 2010	Incorporated by reference to Exhibits 10.1 and 10.2 of the Registrant's Form 8-K filed October 6, 2010
10.14	Mt. Kenn Property Holdings, LLC Deed to Secure Debt, Assignment of Rents and Security Agreement dated April 29, 2011	Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed May 5, 2011
10.15	CP Property Holdings, LLC Business Loan Agreement dated May 25, 2011	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 6, 2011
10.16	CP Property Holdings, LLC Loan Agreement dated May 27, 2011	Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed June 6, 2011
10.17	Form of Promissory Note, issued by Mount Trace Nursing ADK, LLC	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 16, 2011
10.18	Amendment, dated June 22, 2011, between Hearth & Home of Ohio, Inc. and Christopher F. Brogdon	Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed June 22, 2011
10.19	Guaranty, dated May 26, 2011, made by Christopher F. Brogdon	Incorporated by reference to Exhibit 10.34 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011
10.20	Guaranty, dated May 26, 2011, made by Connie B. Brogdon	Incorporated by reference to Exhibit 10.35 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011
10.21	Operations Transfer Agreement, dated May 1, 2011, between Five Star Quality Care-GA, LLC and Erin Nursing, LLC	Incorporated by reference to Exhibit 10.36 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011
10.22	Operations Transfer Agreement, dated May 1, 2011, between Five Star Quality Care-GA, LLC and Mt. Kenn Nursing, LLC	Incorporated by reference to Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011

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- 10.23 Operations Transfer Agreement, dated May 1, 2011, between Five Star Quality Care-GA, LLC and Mt. Kenn Nursing, LLC Incorporated by reference to Exhibit 10.38 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011
- 10.24 Commercial Guaranty, dated May 25, 2011, made by Christopher F. Brogdon Incorporated by reference to Exhibit 10.39 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011
- 10.25 Commercial Guaranty, dated May 25, 2011, made by Connie B. Brogdon Incorporated by reference to Exhibit 10.40 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011
- 10.26 Joinder Agreement, Third Amendment and Supplement to Credit Agreement, dated June 2, 2011, among Gemino Healthcare Finance, LLC and the subsidiaries of the Company named therein Incorporated by reference to Exhibit 10.41 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011

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Exhibit No.	Description	Method of Filing
10.27	Loan Agreement, dated July 27, 2011, between Erin Property Holdings, LLC and Bank of Atlanta, with respect to the SBA Loan #47671350-10	Incorporated by reference to Exhibit 10.42 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011
10.28	Term Note, dated July 27, 2011, made by Erin Property Holdings, LLC in favor of Bank of America, with respect to the USDA Loan	Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011
10.29	Note, dated July 27, 2011, made by Erin Property Holdings, LLC, in favor of Bank of America, with respect to the SBA Loan	Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.30	Term Loan Agreement, dated July 27, 2011, among Erin Property Holdings, LLC, Erin Nursing, LLC, AdCare Health Systems, Inc. and Bank of Atlanta, with respect to the USDA Loan	Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.31	Loan Agreement, dated July 27, 2011, between Erin Property Holdings, LLC and Bank of Atlanta, with respect to the SBA Loan	Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.32	Deed to Secure Debt and Security Agreement, dated July 27, 2011, between Erin Property Holdings, LLC and Bank of Atlanta, with respect to the USDA Loan	Incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.33	Deed to Secure Debt and Security Agreement, dated July 27, 2011, between Erin Property Holdings, LLC and Bank of Atlanta, with respect to the SBA Loan	Incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.34	Deed to Secure Debt and Security Agreement, dated July 27, 2011, between Erin Property Holdings, LLC and Bank of Atlanta, with respect to the SBA Loan	Incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.35	Assignment of Leases and Rents, dated July 27, 2011, between Erin Property Holdings, LLC and Bank of Atlanta, with respect to the USDA Loan	Incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.36	Assignment of Leases and Rents, dated July 27, 2011, between Erin Property Holdings, LLC and Bank of Atlanta, with respect to the SBA Loan	Incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.37	Indemnity Agreement, Regarding Hazardous Materials, dated July 27, 2011, between Erin Property Holdings, LLC and Bank of Atlanta, with respect to the USDA Loan	Incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.38	Indemnity Agreement, Regarding Hazardous Materials, dated July 27, 2011, between Erin Property Holdings, LLC and Bank of Atlanta, with respect to the USDA Loan	Incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.39	Security Agreement, dated July 27, 2011, between Erin Property Holdings, LLC, Erin Nursing, LLC and Bank of Atlanta, with respect to the USDA Loan	Incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.40	Security Agreement, dated July 27, 2011, between Erin Property Holdings, LLC, Erin Nursing, LLC and Bank of Atlanta, with respect to the SBA Loan	Incorporated by reference to Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.41	Guaranty, dated July 27, 2011, made by Erin Nursing, LLC, with respect to the USDA Loan	Incorporated by reference to Exhibit 10.13 to the Registrant's Quarterly Report on Form 10-Q for the

10.42	Guaranty, dated July 27, 2011, made by AdCare Health Systems, Inc., with respect to the USDA Loan	Quarter ended June 30, 2011 Incorporated by reference to Exhibit 10.14 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.43	Unconditional Guarantee Business and Industry Guarantee Loan Program, dated July 27, 2011, made by Erin Nursing, LLC, with respect to the USDA Loan	Incorporated by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.44	Unconditional Guarantee Business and Industry Guarantee Loan Program, dated July 27, 2011, made by AdCare Health Systems, Inc., with respect to the USDA Loan	Incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011

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Exhibit No.	Description	Method of Filing
10.45	Unconditional Guarantee, dated July 27, 2011, made by Erin Nursing, LLC, with respect to the SBA Loan	Incorporated by reference to Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.46	Unconditional Guarantee, dated July 27, 2011, made by AdCare Health Systems, Inc., with respect to the SBA Loan	Incorporated by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.47	Escrow Agreement, dated July 27, 2011, between Erin Property Holdings, LLC, Bank of Atlanta, and Bank of Atlanta as Escrow Agent, with respect to the USDA Loan and the SBA Loan	Incorporated by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.48	Loan Agreement, dated July 27, 2011, between Erin Property Holdings, LLC and Bank of Atlanta, with respect to the SBA Loan #47671350-10	Incorporated by reference to Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011
10.49	Securities Purchase Agreement dated April 29, 2011, by and among AdCare Health Systems, Inc. and the investors named therein	Incorporated by reference to Exhibit 10.2 of the Registrant's Form S-3 (File No. 333-175541)
10.50	Loan Agreement, made and entered into September 1, 2011, by and between Homestead Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.51	Promissory Note, dated September 1, 2011, issued by Homestead Property Holdings, LLC, in favor of Metro City Bank, in the amount of \$3,600,000	Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.52	Mortgage and Security Agreement, dated September 1, 2011, between Homestead Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.53	Security Agreement, dated September 1, 2011, between Homestead Property Holdings, LLC and Homestead Nursing, LLC, as the debtor, and Metro City Bank, as the secured party	Incorporated by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.54	Guaranty, dated as of September 1, 2011, issued by Homestead Nursing, LLC in favor of Metro City Bank	Incorporated by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.55	Guaranty, dated as of September 1, 2011, issued by AdCare Health Systems, Inc., in favor of Metro City Bank	Incorporated by reference to Exhibit 99.6 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.56	Guaranty, dated as of September 1, 2011, issued by AdCare Health Systems, Inc., in favor of Metro City Bank	Incorporated by reference to Exhibit 99.6 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.57	Guaranty, dated as of September 1, 2011, issued by Christopher F. Brogdon in favor of Metro City Bank	Incorporated by reference to Exhibit 99.7 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.58	Loan Agreement, dated as of September 1, 2011, by and among Benton Property Holdings, LLC; Park Heritage Property Holdings, LLC and Valley River Property Holdings, LLC, as borrowers, and The PrivateBank and Trust Company, as lender	Incorporated by reference to Exhibit 99.8 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.59		

	Promissory Note, dated September 1, 2011, issued by Benton Property Holdings, LLC; Park Heritage Property Holdings, LLC and Valley River Property Holdings, LLC, in favor of The PrivateBank and Trust Company, in the amount of \$11,800,000	Incorporated by reference to Exhibit 99.9 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.60	Term Loan Agreement, dated July 27, 2011, among Erin Property Holdings, LLC, Erin Nursing, LLC, AdCare Health Systems, Inc. and Bank of Atlanta, with respect to the USDA Loan	Incorporated by reference to Exhibit 99.10 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.61	Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing, dated as of September 1, 2011, executed by Benton Property Holdings, LLC, to and for the benefit of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 99.11 to the Registrant's Current Report on Form 8-K filed September 7, 2011

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Exhibit No.	Description	Method of Filing
10.62	Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing, dated as of September 1, 2011, executed by Valley River Property Holdings, LLC, to and for the benefit of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 99.12 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.63	Guaranty of Payment and Performance, dated as of September 1, 2011, issued by AdCare Health Systems, Inc.; Benton Nursing, LLC; Park Heritage Nursing, LLC; and Valley River Nursing, LLC in favor of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 99.13 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.64	Guaranty of Payment and Performance, dated as of September 1, 2011, issued by AdCare Health Systems, Inc.; Benton Nursing, LLC; Park Heritage Nursing, LLC; and Valley River Nursing, LLC in favor of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 99.13 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.65	Secured Promissory Note, dated August 31, 2011, issued by Benton Property Holdings, LLC; Valley River Property Holdings, LLC; Homestead Property Holdings, LLC; Park Heritage Property Holdings, LLC and Home Office Property Holdings, LLC, in favor of KMJ Management, LLC (d/b/a Pinnacle Healthcare, LLC), in the amount of \$2,400,000	Incorporated by reference to Exhibit 99.14 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.66	Mortgage, made and entered into as of August 31, 2011, by and between Benton Property Holdings, LLC and KMJ Management, LLC	Incorporated by reference to Exhibit 99.15 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.67	Mortgage, made and entered into as of August 31, 2011, by and between Park Heritage Property Holdings, LLC and KMJ Management, LLC	Incorporated by reference to Exhibit 99.16 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.68	Mortgage, made and entered into as of August 31, 2011, by and between Valley River Property Holdings, LLC and KMJ Management, LLC	Incorporated by reference to Exhibit 99.17 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.69	Pledge and Security Agreement with Power of Sale, entered into and executed as of August 31, 2011, by and between AdCare Property Holdings, LLC and KMJ Management, LLC, with respect to one hundred percent (100%) of the ownership interest in Benton Property Holdings, LLC	Incorporated by reference to Exhibit 99.18 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.70	Pledge and Security Agreement with Power of Sale, entered into and executed as of August 31, 2011, by and between AdCare Property Holdings, LLC and KMJ Management, LLC, with respect to one hundred percent (100%) of the ownership interest in Valley River Property Holdings, LLC	Incorporated by reference to Exhibit 99.19 to the Registrant's Current Report on Form 8-K filed September 7, 2011
10.71	Pledge and Security Agreement with Power of Sale, entered into and executed as of August 31, 2011, by and between AdCare Property Holdings, LLC and KMJ Management, LLC, with respect to one	Incorporated by reference to Exhibit 99.20 to the Registrant's Current Report on Form 8-K filed September 7, 2011

- 10.72 hundred percent (100%) of the ownership interest in Homestead Property Holdings, LLC  
Pledge and Security Agreement with Power of Sale, entered into and executed as of August 31, 2011, by and between AdCare Property Holdings, LLC and KMJ Management, LLC, with respect to one hundred percent (100%) of the ownership interest in Park Heritage Property Holdings, LLC  
Pledge and Security Agreement with Power of Sale, entered into and executed as of August 31, 2011, by and between AdCare Property Holdings, LLC and KMJ Management, LLC, with respect to one hundred percent (100%) of the ownership interest in Home Office Property Holdings, LLC
- Incorporated by reference to Exhibit 99.21 to the Registrant's Current Report on Form 8-K filed September 7, 2011
- Incorporated by reference to Exhibit 99.22 to the Registrant's Current Report on Form 8-K filed September 7, 2011

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Exhibit No.	Description	Method of Filing
10.74	Loan Agreement, dated September 6, 2011, by and between CP Property Holdings, LLC; CP Nursing, LLC; and Economic Development Corporation of Fulton County	Incorporated by reference to Exhibit 10.43 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011
10.75	Promissory Note, dated September 6, 2011, issued by CP Property Holdings, LLC, in favor of Economic Development Corporation of Fulton County, in the amount of \$2,034,000	Incorporated by reference to Exhibit 10.44 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011
10.76	Deed to Secure Debt and Security Agreement, made and entered into September 6, 2011, by and between CP Property Holdings, LLC and Economic Development Corporation of Fulton County	Incorporated by reference to Exhibit 10.45 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011
10.77	Security Agreement, made and entered into as of September 6, 2011, between CP Property Holdings, LLC and CP Nursing, LLC, as grantors, and Economic Development Corporation of Fulton County, as the secured party	Incorporated by reference to Exhibit 10.46 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011
10.78	Unconditional Guarantee, dated September 6, 2011, issued by AdCare Health Systems, Inc. in favor of Economic Development Corporation of Fulton County	Incorporated by reference to Exhibit 10.47 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011
10.79	Unconditional Guarantee, dated September 6, 2011, issued by CP Nursing, LLC in favor of Economic Development Corporation of Fulton County	Incorporated by reference to Exhibit 10.48 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011
10.80	Unconditional Guarantee, dated September 6, 2011, issued by Hearth and Home of Ohio, Inc. in favor of Economic Development Corporation of Fulton County	Incorporated by reference to Exhibit 10.49 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011
10.81	Loan Agreement, dated as of September 30, 2011, by and among Benton Nursing, LLC, Park Heritage Nursing, LLC and Valley River Nursing, LLC, as borrowers, and The PrivateBank and Trust Company, as lender	Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed October 6, 2011
10.82	Promissory Note, dated September 30, 2011, issued by Benton Nursing, LLC, Park Heritage Nursing, LLC and Valley River Nursing, LLC, in favor of The PrivateBank and Trust Company, in the amount of \$2,000,000	Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed October 6, 2011
10.83	Guaranty of Payment and Performance, dated September 30, 2011, executed by AdCare Health Systems, Inc., Benton Property Holdings, LLC, Park Heritage Property Holdings, LLC and Valley River Property Holdings, LLC, in favor of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed October 6, 2011
10.84	Term Loan Agreement, dated as of October 14, 2011, by and among Homestead Property Holdings, LLC and Homestead Nursing, LLC, as borrowers;	Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed October 20, 2011

- AdCare Health Systems, Inc., as guarantor; and  
Square 1 Bank, as lender
- 10.85 Term Note, dated October 14, 2011, issued by  
Homestead Property Holdings, LLC and Homestead  
Nursing, LLC, in favor of Square 1 Bank, in the  
amount of \$3,600,000 Incorporated by reference to Exhibit 99.2 to the  
Registrant's Current Report on Form 8-K filed  
October 20, 2011
- 10.86 Mortgage and Security Agreement, dated  
October 14, 2011, by and between Homestead  
Property Holdings, LLC and Square 1 Bank Incorporated by reference to Exhibit 99.3 to the  
Registrant's Current Report on Form 8-K filed  
October 20, 2011
- 10.87 Security Agreement, dated October 14, 2011, by and  
between Homestead Property Holdings, LLC and  
Homestead Nursing, LLC, as debtors, and Square 1  
Bank, as the secured party Incorporated by reference to Exhibit 99.4 to the  
Registrant's Current Report on Form 8-K filed  
October 20, 2011
- 10.88 Guaranty, dated October 14, 2011, issued by AdCare  
Health Systems, Inc. in favor of Square 1 Bank Incorporated by reference to Exhibit 99.5 to the  
Registrant's Current Report on Form 8-K filed  
October 20, 2011

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Exhibit No.	Description	Method of Filing
10.89	United States Department of Agriculture Rural Development, Unconditional Guarantee, Business and Industry Guaranteed Loan Program, on Form RD 4279-14, dated October 13, 2011, issued by AdCare Health Systems, Inc. in favor of Square 1 Bank	Incorporated by reference to Exhibit 99.6 to the Registrant's Current Report on Form 8-K filed October 20, 2011
10.90	Escrow Agreement, dated October 14, 2011, by and among Homestead Property Holdings, LLC and Homestead Nursing, LLC, as borrowers, and Square 1 Bank, as both lender and escrow agent	Incorporated by reference to Exhibit 99.7 to the Registrant's Current Report on Form 8-K filed October 20, 2011
10.91	Purchase and Sale Agreement, made and entered into as of May 5, 2011, by and between First Commercial Bank and Brogdon Family, LLC	Incorporated by reference to Exhibit 99.8 to the Registrant's Current Report on Form 8-K filed October 20, 2011
10.92	First Amendment to Purchase and Sale Agreement, made and entered into as of June 13, 2011, by and between First Commercial Bank and Brogdon Family, LLC	Incorporated by reference to Exhibit 99.9 to the Registrant's Current Report on Form 8-K filed October 20, 2011
10.93	Amendment and Assignment of Purchase and Sale Agreement, made and entered into as of September 30, 2011, by and among First Commercial Bank, Brogdon Family, LLC and AdCare Property Holdings, LLC	Incorporated by reference to Exhibit 99.10 to the Registrant's Current Report on Form 8-K filed October 20, 2011
10.94	Guaranty of AdCare Health Systems, Inc., dated August 31, 2011, issued in favor of KMJ Management, LLC	Incorporated by reference to Exhibit 10.63 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011
10.95	Assignment of Lease and Landlord's Consent, made and entered into as of October 31, 2011, by and among Cassville Real Estate, Inc. (f/k/a Cassville Manor, Inc.), KMJ Enterprises Cassville, LLC and Rose Missouri Nursing, LLC	Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed November 4, 2011
10.96	Operations Transfer Agreement, dated as of November 1, 2011, by and between KMJ Management, LLC (d/b/a Pinnacle Healthcare, LLC) and Rose Missouri Nursing, LLC	Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed November 4, 2011
10.97	Guaranty of Lease, made as of November 1, 2011, issued by each of AdCare Health Systems, Inc., Christopher F. Brogdon and Connie B. Brogdon in favor of Cassville Real Estate, Inc	Incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed November 4, 2011
10.98	Loan Agreement, made and entered into November 30, 2011, issued by Mt. V Property Holdings, LLC, Mountain View Nursing, LLC and Metro City Bank	Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed December 6, 2011
10.99	Promissory Note, dated November 30, 2011, issued by Mt. V Property Holdings, LLC and Mountain View Nursing, LLC in favor of Metro City Bank in the amount of \$3,114,000	Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed December 6, 2011
10.100	Mortgage and Security Agreement, dated as of November 30, 2011, between Mt. V Property	Incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed

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10.101	Holdings, LLC and Metro City Bank Security Agreement, dated November 30, 2011, between Mt. V Property Holdings, LLC, Mountain View Nursing, LLC and Metro City Bank	December 6, 2011 Incorporated by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K filed December 6, 2011
10.102	Guaranty, dated as of November 30, 2011, issued by Mt. V Property Holdings, LLC and Mountain View Nursing, LLC in favor of Metro City Bank	Incorporated by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K filed December 6, 2011
10.103	Term Note, dated as of November 29, 2011, issued by Mountain Top AFL, LLC and Mountain Top Property Holdings, LLC, in favor of White River Health System, Inc., in the amount of \$750,000	Incorporated by reference to Exhibit 99.6 to the Registrant's Current Report on Form 8-K filed December 6, 2011
10.104	Mortgage (with Security Agreement and Absolute Assignment of Rents and Leases) and Fixture Filing, dated as of November 30, 2011, executed by Mountain Top Property Holdings, LLC in favor of White River Health System, Inc.	Incorporated by reference to Exhibit 99.7 to the Registrant's Current Report on Form 8-K filed December 6, 2011



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Exhibit No.	Description	Method of Filing
10.105*	Employment Agreement, dated December 1, 2011, between AdCare Health Systems, Inc. and David Rubenstein	Incorporated by reference to Exhibit 10.118 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.106*	Employment Agreement, dated December 16, 2011, between AdCare Health Systems, Inc. and David Rubenstein	Incorporated by reference to Exhibit 10.119 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.107	Promissory Note, dated November 4, 2011, issued by Mt. Kenn Property Holdings, LLC in favor of The Bank of Las Vegas, in the amount of \$3,175,200	Incorporated by reference to Exhibit 10.120 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.108	Loan Agreement, dated November 4, 2011, by and between Mt. Kenn Property Holdings, LLC and The Bank of Las Vegas	Incorporated by reference to Exhibit 10.121 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.109	Guaranty, dated November 4, 2011, issued by Mt. Kenn Nursing, LLC in favor of The Bank of Las Vegas	Incorporated by reference to Exhibit 10.122 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.110	Guaranty, dated November 4, 2011, issued by Hearth & Home of Ohio, Inc. in favor of The Bank of Las Vegas	Incorporated by reference to Exhibit 10.123 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.111	Guaranty, dated November 4, 2011, issued by AdCare Health Systems, Inc. in favor of The Bank of Las Vegas	Incorporated by reference to Exhibit 10.124 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.112	Promissory Note, dated November 4, 2011, issued by Mt. Kenn Property Holdings, LLC in favor of Apax Capital, LLC, in the amount of \$2,222,640	Incorporated by reference to Exhibit 10.125 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.113	Loan Agreement, dated November 4, 2011, by and between Mt. Kenn Property Holdings, LLC and Apax Capital, LLC	Incorporated by reference to Exhibit 10.126 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.114	Guaranty, dated November 4, 2011, issued by Mt. Kenn Nursing, LLC in favor of Apax Capital, LLC	Incorporated by reference to Exhibit 10.127 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.115	Guaranty, dated November 4, 2011, issued by Hearth & Home of Ohio, Inc. in favor of Apax Capital, LLC	Incorporated by reference to Exhibit 10.128 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.116	Guaranty, dated November 4, 2011, issued by AdCare Health Systems, Inc. in favor of Apax Capital, LLC	Incorporated by reference to Exhibit 10.129 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.117	Promissory Note, dated November 4, 2011, issued by Mt. Kenn Property Holdings, LLC in favor of Economic Development Corporation of Fulton County, in the amount of \$2,274,000	Incorporated by reference to Exhibit 10.130 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.118	Loan Agreement, dated November 4, 2011, by and between Mt. Kenn Property Holdings, LLC and Economic Development Corporation of Fulton County	Incorporated by reference to Exhibit 10.131 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.119	Unconditional Guarantee, dated November 4, 2011, issued by Mt. Kenn Nursing, LLC in favor of Economic Development Corporation of Fulton	Incorporated by reference to Exhibit 10.132 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011

- County
- 10.120 Unconditional Guarantee, dated November 4, 2011, issued by Hearth & Home of Ohio, Inc. in favor of Economic Development Corporation of Fulton County Incorporated by reference to Exhibit 10.133 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
- 10.121 Unconditional Guarantee, dated November 4, 2011, issued by AdCare Health Systems, Inc. in favor of Economic Development Corporation of Fulton County Incorporated by reference to Exhibit 10.134 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
- 10.122 Joinder Agreement, Fifth Amendment and Supplement to Credit Agreement, dated November 29, 2011, by and among Gemino Healthcare Finance, LLC and the subsidiaries of the Company named therein Incorporated by reference to Exhibit 10.135 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
- 10.123 Third Amended and Restated Revolving Note, dated November 29, 2011, dated November 29, 2011, by and among Gemino Healthcare Finance, LLC and the subsidiaries of the Company named therein Incorporated by reference to Exhibit 10.136 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011

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Exhibit No.	Description	Method of Filing
10.124	Guaranty, dated as of November 29, 2011, issued by AdCare Operations, LLC in favor of Gemino Healthcare Finance, LLC	Incorporated by reference to Exhibit 10.137 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.125	Loan Agreement, dated as of December 30, 2011, by and between Woodland Manor Property Holdings, LLC and The PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.138 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.126	Promissory Note, dated as of December 30, 2011, issued by Woodland Manor Property Holdings, LLC in favor of The PrivateBank and Trust Company in the amount of \$4,800,000	Incorporated by reference to Exhibit 10.139 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.127	Guaranty of Payment and Performance, dated as of December 30, 2011, executed by Woodland Manor Property Holdings, LLC and Adcare Health Systems, Inc. in favor of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.140 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.128	Cognovit Promissory Note, dated as of January 1, 2012, issued by Eaglewood Property Holdings, LLC and Eaglewood Village, LLC in favor of Eaglewood Villa, Ltd. in the amount of \$500,000	Incorporated by reference to Exhibit 10.141 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.129	Cognovit Promissory Note, dated as of January 1, 2012, issued by Eaglewood Property Holdings, LLC and Eaglewood Village, LLC in favor of Eaglewood Villa, Ltd. in the amount of \$4,500,000	Incorporated by reference to Exhibit 10.142 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.130	Guaranty Agreement, dated as of December 30, 2011, executed by AdCare Health Systems, Inc. and AdCare Property Holdings, LLC in favor of Eaglewood Villa, Ltd	Incorporated by reference to Exhibit 10.143 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.131	Third Amended And Restated Multiple Facilities Lease, dated October 29, 2010, between Georgia Lessor - Bonterra/Parkview, Inc. and ADK Bonterra/Parkview, LLC	Incorporated by reference to Exhibit 10.144 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.132	Guaranty, dated October 29, 2010, executed by AdCare Health Systems, Inc. in favor of Georgia Lessor - Bonterra/Parkview, Inc.	Incorporated by reference to Exhibit 10.145 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.133	Guaranty, dated October 29, 2010, executed by Hearth & Home of Ohio, Inc. in favor of Georgia Lessor - Bonterra/Parkview, Inc.	Incorporated by reference to Exhibit 10.146 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.134	Security Agreement, dated October 29, 2010, by and between AdCare Health Systems, Inc. and Georgia Lessor - Bonterra/Parkview, Inc.	Incorporated by reference to Exhibit 10.147 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.135	Security Agreement, dated October 29, 2010, by and between ADK Bonterra/Parkview, LLC and Georgia Lessor - Bonterra/Parkview, Inc.	Incorporated by reference to Exhibit 10.148 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.136	Security Agreement, dated October 29, 2010, by and between Hearth & Home of Ohio, Inc. and Georgia Lessor - Bonterra/Parkview, Inc.	Incorporated by reference to Exhibit 10.149 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.137	Pledge Agreement, dated October 29, 2010, between Hearth & Home of Ohio, Inc. and Georgia Lessor -	Incorporated by reference to Exhibit 10.150 to the Registrant's Annual Report on Form 10-K for the

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- |        |                                                                                                                                                                                                         |                                                                                                                                 |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
|        | Bonterra/Parkview, Inc.                                                                                                                                                                                 | year ended December 31, 2011                                                                                                    |
| 10.138 | Subordination Agreement, dated October 29, 2010, between AdCare Health Systems, Inc., ADK Bonterra/Parkview, LLC and Georgia Lessor - Bonterra/Parkview, Inc.                                           | Incorporated by reference to Exhibit 10.151 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 |
| 10.139 | Letter of Credit Agreement, dated October 29, 2010, by and between ADK Bonterra/Parkview, LLC and Georgia Lessor - Bonterra/Parkview, Inc.                                                              | Incorporated by reference to Exhibit 10.152 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 |
| 10.140 | Subordination, Non-Disturbance and Attornment Agreement, dated October 29, 2010, by and among Omega Healthcare Investors, Inc., ADK Bonterra/Parkview, LLC and Georgia Lessor - Bonterra/Parkview, Inc. | Incorporated by reference to Exhibit 10.153 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 |

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Exhibit No.	Description	Method of Filing
10.141	Assignment and Assumption of Second Amended and Restated Multiple Facilities Lease And Consent of Lessor, dated October 29, 2010, by and among Georgia Lessor - Bonterra/Parkview, Inc., Triad Health Management of Georgia II, LLC, AdCare Health Systems, Inc., Hearth & Home of Ohio, Inc., ADK Bonterra/Parkview, LLC and the other entities signatory thereto	Incorporated by reference to Exhibit 10.154 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.142	Lease Agreement, dated August 1, 2010, between William M. Foster and ADK Georgia, LLC	Incorporated by reference to Exhibit 10.155 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.143	First Amendment to Lease, dated August 31, 2010, between William M. Foster and ADK Georgia, LLC	Incorporated by reference to Exhibit 10.156 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.144	Guaranty Agreement, dated as of June 1, 2010, entered into by AdCare Health Systems, Inc. to and for the benefit of Bank of Oklahoma, N.A.	Incorporated by reference to Exhibit 10.159 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.145	First Amendment to Purchase Agreement, dated as of October 31, 2011, by and between JRT Group Properties, LLC and AdCare Hembree Road Property, LLC	Incorporated by reference to Exhibit 10.161 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011
10.146	Mortgage Note, dated January 1, 2012, entered into by Hearth & Home of Vandalia, Inc. in favor of Red Mortgage Capital, LLC	Incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.147	Security Agreement, dated January 1, 2012, by and between Hearth and Home of Vandalia, Inc. and Red Mortgage Capital, LLC	Incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.148	Lessee Security Agreement, dated January 1, 2012, by and among AdCare Health Systems, Inc., Hearth & Home of Vandalia, Inc. and Red Mortgage Capital, LLC	Incorporated by reference to Exhibit 10.4 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.149	Mortgage Deed, recorded January 31, 2012, executed by Hearth and Home of Vandalia, Inc. in favor of Red Mortgage Capital, LLC	Incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.150	Modification Agreement, dated as of March 9, 2012, by and among Benton Nursing, LLC, Park Heritage Nursing, LLC, Valley River Nursing, LLC, Homestead Nursing, LLC, Woodland Manor Nursing, LLC, Mountain View Nursing, LLC, AdCare Health Systems, Inc. and the PrivateBank and Trust Company	Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed March 15, 2012
10.151	Loan Agreement, dated as of March 30, 2012, by and among Little Rock HC&R Property Holdings, LLC, Northridge HC&R Property Holdings, LLC, Woodland Hills HC Property Holdings, LLC and The PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.6 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.152		

- Promissory Note, dated as of March 30, 2012, issued by Little Rock HC&R Property Holdings, LLC, Northridge HC&R Property Holdings, LLC and Woodland Hills HC Property Holdings, LLC in favor of The PrivateBank and Trust Company in the amount of \$21,800,000 Incorporated by reference to Exhibit 10.7 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
- 10.153 Note Purchase Agreement, dated March 29, 2012, by and between AdCare Health Systems, Inc. and Cantone Asset Management LLC Incorporated by reference to Exhibit 10.10 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
- 10.154 Promissory Note, dated March 30, 2012, issued by AdCare Health Systems, Inc. in favor of Cantone Asset Management LLC, in the amount of \$3,500,000 Incorporated by reference to Exhibit 10.9 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
- 10.155 Guaranty of Payment and Performance, dated as of March 30, 2012, made by AdCare Health Systems, Inc., Little Rock HC&R Property Holdings, LLC, Northridge HC&R Property Holdings, LLC and Woodland Hills HC Property Holdings, LLC, to and for the benefit of The PrivateBank and Trust Company Incorporated by reference to Exhibit 10.11 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012

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Exhibit No.	Description	Method of Filing
10.156	Promissory Note, dated April 1, 2012, issued by AdCare Health Systems, Inc. in favor of Strome Alpha Offshore Ltd., in the amount of \$5,000,000 Mortgage, Security Agreement, Assignment of Rents and Leases & Fixture Filing, dated as of April 1,	Incorporated by reference to Exhibit 10.8 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.157	2012, executed by Little Rock HC&R Property Holdings, LLC to and for the benefit of The PrivateBank and Trust Company Mortgage, Security Agreement, Assignment of Rents and Leases & Fixture Filing, dated as of April 1,	Incorporated by reference to Exhibit 10.12 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.158	2012, executed by Northridge HC&R Property Holdings, LLC to and for the benefit of The PrivateBank and Trust Company Mortgage, Security Agreement, Assignment of Rents and Leases & Fixture Filing, dated as of April 1,	Incorporated by reference to Exhibit 10.13 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.159	2012, executed by Woodland Hills HC Property Holdings, LLC to and for the benefit of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.160	Absolute Assignment of Rents and Leases, dated as of April 1, 2012, executed by Little Rock HC&R Property Holdings, LLC to and for the benefit of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.15 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.161	Absolute Assignment of Rents and Leases, dated as of April 1, 2012, executed by Northridge HC&R Property Holdings, LLC to and for the benefit of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.16 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.162	Absolute Assignment of Rents and Leases, dated as of April 1, 2012, executed by Woodland Hills HC Property Holdings, LLC to and for the benefit of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.17 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.163	Loan Agreement, dated as of April 12, 2012, between the City of Springfield, Ohio and Eaglewood Property Holdings, LLC	Incorporated by reference to Exhibit 10.18 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.164	Guaranty Agreement, dated as of April 12, 2012, made and entered into by AdCare Health Systems, Inc., to and for the benefit of BOKF, NA dba Bank of Oklahoma	Incorporated by reference to Exhibit 10.19 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.165	Land Use Restriction Agreement, dated as of April 12, 2012, by and between BOKF, NA dba Bank of Oklahoma and Eaglewood Property Holdings, LLC	Incorporated by reference to Exhibit 10.20 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.166	Open-End Mortgage, Assignment of Leases and Security Agreement, dated April 12, 2012, from Eaglewood Property Holdings, LLC to BOKF, NA dba Bank of Oklahoma	Incorporated by reference to Exhibit 10.21 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012
10.167	Assignment of Purchase and Sale Agreement, dated May 9, 2012, between AdCare Property Holdings, LLC and GL Nursing, LLC	Incorporated by reference to Exhibit 10.30 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012

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|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| 10.168 | Form of Securities Purchase Agreement, dated as of June 28, 2012, between AdCare Health Systems, Inc. and the Buyers signatory thereto                       | Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed July 5, 2012                      |
| 10.169 | Assignment and Assumption Agreement, dated as of July 1, 2012, by and between Westlake Nursing Home Limited Partnership and QC Property Holdings, LLC        | Incorporated by reference to Exhibit 10.37 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 |
| 10.170 | Loan Agreement, dated as of July 2, 2012, by and between Glenvue H&R Property Holdings, LLC and the PrivateBank and Trust Company                            | Incorporated by reference to Exhibit 10.32 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 |
| 10.171 | Promissory Note, dated July 2, 2012, issued by Glenvue H&R Property Holdings, LLC in favor of the PrivateBank and Trust Company in the amount of \$6,600,000 | Incorporated by reference to Exhibit 10.33 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 |

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Exhibit No.	Description	Method of Filing
10.172	Deed to Secure Debt, Security Agreement and Assignment of Leases and Rents, dated as of July 2, 2012, from Glenvue H&R Property Holdings, LLC to the PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.34 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.173	Assignment of Leases and Rents, dated as of July 2, 2012, from Glenvue H&R Property Holdings, LLC to the PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.35 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.174	Assignment and Assumption Agreement, dated as of July 1, 2012, by and between Westlake Nursing Home Limited Partnership and QC Property Holdings, LLC	Incorporated by reference to Exhibit 10.37 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.175	Loan Agreement and Indenture of First Mortgage, dated as of September 1, 1986, by and among Oklahoma County Industrial Authority, Westlake Nursing Home Limited Partnership and The Liberty National Bank and Trust Company of Oklahoma City, as Trustee	Incorporated by reference to Exhibit 10.38 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.176	First Amendment to Loan Agreement and Indenture of First Mortgage, dated September 1, 2001, by and among Oklahoma County Industrial Authority, Westlake Nursing Home, L.P. and Bank One Trust Company, N.A., as Trustee	Incorporated by reference to Exhibit 10.39 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.177	Loan Agreement, made as of August 17, 2012, by and among CSCC Property Holdings, LLC, CSCC Nursing, LLC and Contemporary Healthcare Senior Lien Fund I, L.P.	Incorporated by reference to Exhibit 10.12 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.178	Loan Agreement, made as of August 17, 2012, by and among CSCC Property Holdings, LLC, CSCC Nursing, LLC and Contemporary Healthcare Fund I, L.P.	Incorporated by reference to Exhibit 10.13 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.179	Promissory Note, dated August 17, 2012, issued by CSCC Nursing, LLC and CSCC Property Holdings, LLC in favor of Contemporary Healthcare Senior Lien Fund I, L.P. in the amount of \$5,000,000	Incorporated by reference to Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.180	Revolving Loan Promissory Note, made as of August 17, 2012, by and among CSCC Nursing, LLC and CSCC Property Holdings, LLC in favor of Contemporary Healthcare Fund I, L.P. in the amount of \$600,000	Incorporated by reference to Exhibit 10.15 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.181	Assignment of Leases and Rents, dated as of August 17, 2012, by and among CSCC Property Holdings, LLC, CSCC Nursing, LLC and Contemporary Healthcare Senior Lien Fund I, L.P.	Incorporated by reference to Exhibit 10.16 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.182	Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing, dated August 17, 2012, made and entered into by CSCC Property Holdings, LLC in favor of Contemporary Healthcare	Incorporated by reference to Exhibit 10.17 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012

- Senior Lien Fund I, L.P.
- 10.183 Guaranty of Payment and Performance, made as of August 17, 2012, by AdCare Health Systems, Inc. in favor of Contemporary Healthcare Fund I, L.P. Incorporated by reference to Exhibit 10.18 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
- 10.184 Guaranty of Payment and Performance, made as of August 17, 2012, by AdCare Oklahoma Management, LLC in favor of Contemporary Healthcare Fund I, L.P. Incorporated by reference to Exhibit 10.19 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
- 10.185 Guaranty of Payment and Performance, made as of August 17, 2012, by AdCare Health Systems, Inc. in favor of Contemporary Healthcare Senior Lien Fund I, L.P. Incorporated by reference to Exhibit 10.20 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
- 10.186 Guaranty of Payment and Performance, made as of August 17, 2012, by AdCare Oklahoma Management, LLC in favor of Contemporary Healthcare Senior Lien Fund I, L.P. Incorporated by reference to Exhibit 10.21 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012

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Exhibit No.	Description	Method of Filing
10.187	Security Agreement, made as of August 17, 2012, by and among CSCC Property Holdings, LLC, CSCC Nursing, LLC and Contemporary Healthcare Fund I, L.P.	Incorporated by reference to Exhibit 10.22 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.188	Security Agreement, made as of August 17, 2012, by and among CSCC Property Holdings, LLC, CSCC Nursing, LLC and Contemporary Healthcare Senior Lien Fund I, L.P.	Incorporated by reference to Exhibit 10.23 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.189	Loan and Security Agreement, dated as of September 20, 2012, by and among The PrivateBank and Trust Company and the Borrowers named therein	Incorporated by reference to Exhibit 10.24 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.190	Modification Agreement, dated as of October 26, 2012, by and among The PrivateBank and Trust Company and the Borrowers named therein	Incorporated by reference to Exhibit 10.25 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.191	Promissory Note, dated September 20, 2012, issued by the subsidiaries of AdCare Health Systems, Inc. named therein in favor of The PrivateBank and Trust Company in the amount of \$10,600,000	Incorporated by reference to Exhibit 10.26 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.192	Guaranty of Payment and Performance, made as of September 20, 2012, by AdCare Health Systems, Inc. in favor of The PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.27 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.193	Release of Guarantees, dated September 20, 2012, from Gemino Healthcare Finance, LLC to certain subsidiaries of AdCare Health Systems, Inc. named therein	Incorporated by reference to Exhibit 10.29 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.194	Second Amendment to Credit Agreement, dated September 20, 2012, by and between ADK Bonterra/Parkview, LLC and Gemino Healthcare Finance, LLC	Incorporated by reference to Exhibit 10.30 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.195	Temporary Extension Agreement, dated August 29, 2012, by and between APH & R Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.31 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012
10.196	Loan Agreement, dated April 30, 2012, by and between APH&R Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed May 3, 2012
10.197	Promissory Note, dated April 30, 2012, issued by APH&R Property Holdings, LLC in favor of Metro City Bank in the amount of \$3,425,500	Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed May 3, 2012
10.198	Mortgage and Security Agreement, dated April 30, 2012, between APH&R Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed May 3, 2012
10.199	Security Agreement, dated April 30, 2012, between APH&R Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K filed May 3, 2012
10.200		

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	Guaranty, dated as of April 30, 2012, between APH&R Property Holdings, LLC in favor of Metro City Bank	Incorporated by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K filed May 3, 2012
10.201	Guaranty, dated as of April 30, 2012, between AdCare Health Systems, Inc. in favor of Metro City Bank	Incorporated by reference to Exhibit 99.6 to the Registrant's Current Report on Form 8-K filed May 3, 2012
10.202	Collateral Assignment of Certificate of Deposit, dated April 30, 2012, by and between APH&R Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 99.7 to the Registrant's Current Report on Form 8-K filed May 3, 2012
10.203	Promissory Note, dated April 27, 2012, issued by Cantone Asset Management LLC in favor of AdCare Health Systems, Inc. in the amount of \$1,500,000	Incorporated by reference to Exhibit 99.8 to the Registrant's Current Report on Form 8-K filed May 3, 2012
10.204	Promissory Note, dated June 8, 2012, issued by Mt. V Property Holdings, LLC in favor of Metro City Bank in the amount of \$1,800,000	Incorporated by reference to Exhibit 10.13 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.205	Loan Agreement, dated June 8, 2012, by and between Mt. V Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012

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Exhibit No.	Description	Method of Filing
10.206	Mortgage and Security Agreement, dated June 8, 2012, by and between Mt. V Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.15 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.207	Assignment of Leases and Rents, dated June 8, 2012, by and between Mt. V Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.16 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.208	Security Agreement, dated June 8, 2012, by and between Mt. V Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.17 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.209	Guaranty, dated June 8, 2012, made by AdCare Health Systems, Inc. in favor of Metro City Bank	Incorporated by reference to Exhibit 10.18 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.210	Promissory Note, dated June 8, 2012, issued by Mt. V Property Holdings, LLC in favor of Metro City Bank in the amount of \$1,267,000	Incorporated by reference to Exhibit 10.19 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.211	Loan Agreement, dated June 8, 2012, by and between Mt. V Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.20 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.212	Mortgage and Security Agreement, dated June 8, 2012, by and between Mt. V Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.21 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.213	Assignment of Leases and Rents, dated June 8, 2012, by and between Mt. V Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.22 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.214	Security Agreement, dated June 8, 2012, by and between Mt. V Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.23 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.215	Guaranty, dated June 8, 2012, made by AdCare Health Systems, Inc. in favor of Metro City Bank	Incorporated by reference to Exhibit 10.24 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.216	Promissory Note, dated June 8, 2012, issued by Mt. V Property Holdings, LLC in favor of Economic Development Corporation of Fulton County in the amount of \$1,304,000	Incorporated by reference to Exhibit 10.25 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.217	Loan Agreement, dated June 8, 2012, by and between Mt. V Property Holdings, LLC, Mountain View Nursing, LLC and Economic Development Corporation of Fulton County	Incorporated by reference to Exhibit 10.26 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.218	Security Agreement, dated June 8, 2012, by and between Mt. V Property Holdings, LLC and Economic Development Corporation of Fulton County	Incorporated by reference to Exhibit 10.27 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.219	Mortgage and Security Agreement, dated June 8, 2012, by and between Mt. V Property Holdings, LLC and Economic Development Corporation of Fulton County	Incorporated by reference to Exhibit 10.28 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.220		

- Assignment of Leases and Rents, dated June 8, 2012, Incorporated by reference to Exhibit 10.29 of the  
by and between Mt. V Property Holdings, LLC and Registrant's Quarterly Report on Form 10-Q for the  
Economic Development Corporation of Fulton quarter ended June 30, 2012  
County
- 10.221 Unconditional Guarantee, dated June 8, 2012, issued Incorporated by reference to Exhibit 10.30 of the  
by Mountain View Nursing, LLC in favor of Registrant's Quarterly Report on Form 10-Q for the  
Economic Development Corporation of Fulton quarter ended June 30, 2012  
County
- 10.222 Unconditional Guarantee, dated June 8, 2012, issued Incorporated by reference to Exhibit 10.31 of the  
by AdCare Health Systems, Inc. in favor of Registrant's Quarterly Report on Form 10-Q for the  
Economic Development Corporation of Fulton quarter ended June 30, 2012  
County
- 10.223 Bond Purchase Agreement, dated April 10, 2012, Incorporated by reference to Exhibit 10.40 of the  
among Lawson Financial Corporation, The City of Registrant's Quarterly Report on Form 10-Q for the  
Springfield, Ohio and Eaglewood Property Holdings, quarter ended June 30, 2012  
LLC
- 10.224 Note Purchase Agreement, dated April 12, 2012, by Incorporated by reference to Exhibit 10.41 of the  
and between Cantone Asset Management LLC and Registrant's Quarterly Report on Form 10-Q for the  
AdCare Health Systems, Inc. quarter ended June 30, 2012

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Exhibit No.	Description	Method of Filing
10.225	Employment Agreement, dated August 7, 2012, between AdCare Health Systems, Inc. and Martin D. Brew	Incorporated by reference to Exhibit 10.42 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.226	Modification Agreement, dated June 15, 2012, among Little Rock HC&R Property Holdings, LLC, Northridge HC&R Property Holdings, LLC, Woodland Hills HC Property Holdings, LLC and The PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.43 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.227	Amendment, entered into as of July 26, 2012, by and between Christopher F. Brogdon and Hearth & Home of Ohio, Inc.	Incorporated by reference to Exhibit 10.47 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.228	Employment Agreement, dated August 6, 2012, between AdCare Health Systems, Inc. and Melissa L. Green	Incorporated by reference to Exhibit 10.48 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012
10.229	First Modification of Note and First Modification of Mortgage and Security Agreement, dated November 30, 2012, between Metro City Bank and APH&R Property Holdings, LLC	Incorporated by reference to Exhibit 10.244 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.230	Sublease Agreement, dated December 1, 2012, between ADK Georgia, LLC and Jeff Co. Nursing, LLC	Incorporated by reference to Exhibit 10.245 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.231	Sublease Termination Agreement, dated November 30, 2012, by and between ADK Georgia, LLC and ADK Jeffersonville Operator, LLC	Incorporated by reference to Exhibit 10.246 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.232	Management Fee Subordination Agreement, dated December 20, 2013, between AdCare Oklahoma Management, LLC, Gemino Healthcare Finance, LLC, Living Center, LLC, Kenmetal, LLC, Senior NH, LLC, Ban NH, LLC and Oak Lake, LLC	Incorporated by reference to Exhibit 10.247 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.233	Third Amendment to Credit Agreement, dated December 21, 2012, by and between ADK Bonterra/Parkview, LLC and Gemino Healthcare Finance, LLC	Incorporated by reference to Exhibit 10.248 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.234	Management Agreement, dated December 28, 2012, between New Lincoln Ltd. And Chancellor Senior Management, Ltd.	Incorporated by reference to Exhibit 10.249 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.235	Management Agreement, dated December 28, 2012, between Community's Hearth at Vandalia and Chancellor Senior Management, Ltd.	Incorporated by reference to Exhibit 10.250 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.236	Mortgage of Real Estate, Security Agreement and Financing Statement, dated as of December 31, 2012, by Sumter Valley Property Holdings, LLC in favor of Metro City Bank	Incorporated by reference to Exhibit 10.251 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.237	Assignment of Leases and Rents, dated December 31, 2012, by and between Sumter Valley Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.252 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.238		

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	Promissory Note, dated December 31, 2012, issued by Sumter Valley Property Holdings, LLC in favor of 1761 Pinewood Holdings, LLC in the amount of \$250,000	Incorporated by reference to Exhibit 10.253 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.239	Guaranty Agreement, dated December 31, 2012 made by AdCare Health Systems, Inc. for the benefit of 1761 Pinewood Holdings, LLC	Incorporated by reference to Exhibit 10.254 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.240	Mortgage and Security Agreement, dated December 31, 2012, between Georgetown HC&R Property Holdings and Winyah Nursing Home, LLC	Incorporated by reference to Exhibit 10.255 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.241	Secured Subordinated Promissory Note, dated December 31, 2012, issued by Georgetown HC&R Property Holdings, LLC in favor of Winyah Nursing Home, LLC in the amount of \$1,850,000	Incorporated by reference to Exhibit 10.256 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.242	Guaranty Agreement, dated December 31, 2012, by AdCare Health Systems, Inc. to and for the benefit of Winyah Nursing Home, LLC	Incorporated by reference to Exhibit 10.257 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012



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Exhibit No.	Description	Method of Filing
10.243	Guaranty, dated December 31, 2012, by Sumter N&R, LLC for the benefit of Metro City Bank	Incorporated by reference to Exhibit 10.258 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.244	Guaranty, dated December 31, 2012, by Georgetown HC&R Nursing, LLC for the benefit of Metro City Bank	Incorporated by reference to Exhibit 10.259 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.245	Guaranty, dated December 31, 2012, by AdCare Health Systems, Inc. to and for the benefit of Metro City Bank	Incorporated by reference to Exhibit 10.260 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.246	Security Agreement, dated December 31, 2012, by and between Sumter Valley Property Holdings, LLC, Georgetown HC&R Property Holdings, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.261 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.247	Loan Agreement, dated December 31, 2012, by and between Sumter Valley Property Holdings, LLC, Georgetown HC&R Property Holdings, LLC, Sumter N&R, LLC, Georgetown HC&R Nursing, LLC and Metro City Bank	Incorporated by reference to Exhibit 10.262 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.248	Secured Loan Agreement, dated December 28, 2012, by and among Keybank National Association and the subsidiaries of AdCare Health Systems, Inc. named therein	Incorporated by reference to Exhibit 10.263 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.249	Promissory Note, dated December 28, 2012, issued by subsidiaries of AdCare Health Systems, Inc. in favor of Keybank National Association in the amount of \$16,500,000	Incorporated by reference to Exhibit 10.264 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.250	Absolute Assignment of Leases and Rents, dated December 28, 2012, by Northridge HC&R Property Holdings, LLC to Keybank National Association	Incorporated by reference to Exhibit 10.265 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.251	Absolute Assignment of Leases and Rents, dated December 28, 2012, by Woodland Hills HC Property Holdings, LLC to Keybank National Association	Incorporated by reference to Exhibit 10.266 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.252	Absolute Assignment of Leases and Rents, dated December 28, 2012, by APH&R Property Holdings, LLC to Keybank National Association	Incorporated by reference to Exhibit 10.267 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.253	Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated December 28, 2012, made by APH&R Property Holdings, LLC to and for the benefit of Keybank National Association	Incorporated by reference to Exhibit 10.268 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.254	Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated December 28, 2012, made by Northridge HC&R Property Holdings, LLC to and for the benefit of Keybank National Association	Incorporated by reference to Exhibit 10.269 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.255	Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated December 28, 2012, made by Woodland Hills HC Property Holdings, LLC to and for the benefit of Keybank National Association	Incorporated by reference to Exhibit 10.270 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012

- 10.256 Payment Guaranty, made as of December 28, 2012, by AdCare Operations, LLC to and for the benefit of Keybank National Association Incorporated by reference to Exhibit 10.271 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
- 10.257 Payment Guaranty, made as of December 28, 2012, by AdCare Property Holdings, LLC to and for the benefit of Keybank National Association Incorporated by reference to Exhibit 10.272 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
- 10.258 Payment Guaranty, made as of December 28, 2012, by AdCare Health Systems, Inc. to and for the benefit of Keybank National Association Incorporated by reference to Exhibit 10.273 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
- 10.259 Pledge and Security Agreement, dated December 28, 2012, between AdCare Property Holdings, LLC and Keybank National Association Incorporated by reference to Exhibit 10.274 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012

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Exhibit No.	Description	Method of Filing
10.260	Pledge and Security Agreement, dated December 28, 2012, between AdCare Operations, LLC and Keybank National Association	Incorporated by reference to Exhibit 10.275 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.261	Security Agreement, dated December 28, 2012, made by Woodland Hills HC Nursing, LLC, APH&R Nursing, LLC and Northridge HC&R Nursing, LLC in favor of Keybank National Association	Incorporated by reference to Exhibit 10.276 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.262	Security Agreement, dated December 28, 2012, by and among Woodland Hills HC Property Holdings, LLC, Northridge HC&R Property Holdings, LLC and APH&R Property Holdings, LLC in favor of Keybank National Association	Incorporated by reference to Exhibit 10.277 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.263	Second Modification Agreement, dated December 28, 2012, between The PrivateBank and Trust Company and the subsidiaries of AdCare Health Systems, Inc. named therein	Incorporated by reference to Exhibit 10.278 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.264	Consulting Agreement, dated December 31, 2012, between Christopher Brogdon and AdCare Health Systems, Inc.	Incorporated by reference to Exhibit 10.279 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.265	Guaranty Indemnification Agreement, dated December 31, 2012, between AdCare Health Systems, Inc. and Christopher Brogdon	Incorporated by reference to Exhibit 10.280 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.266	Guaranty Indemnification Agreement, dated December 31, 2012, between AdCare Health Systems, Inc. and Christopher Brogdon	Incorporated by reference to Exhibit 10.281 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.267	Assignment of Rents, dated December 31, 2012, made and executed between Northwest Property Holdings, LLC and First Commercial Bank	Incorporated by reference to Exhibit 10.282 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.268	Mortgage, dated December 31, 2012, made and executed between Northwest Property Holdings, LLC and First Commercial Bank	Incorporated by reference to Exhibit 10.283 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.269	Promissory Note, dated December 31, 2012, issued by Northwest Property Holdings, LLC in favor of First Commercial Bank in the amount of \$1,501,500	Incorporated by reference to Exhibit 10.284 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.270	Commercial Security Agreement, dated December 31, 2012, made and executed between Northwest Property Holdings, LLC and First Commercial Bank	Incorporated by reference to Exhibit 10.285 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.271	Commercial Security Agreement, dated December 31, 2012, made and executed between NW 61st Nursing, LLC and First Commercial Bank	Incorporated by reference to Exhibit 10.286 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.272	Commercial Guaranty, dated December 31, 2012, between AdCare Health Systems, Inc. and First Commercial Bank	Incorporated by reference to Exhibit 10.287 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.273	Commercial Guaranty, dated December 31, 2012, between Northwest Property Holdings, LLC and First Commercial Bank	Incorporated by reference to Exhibit 10.288 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012

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|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| 10.274 | Memorandum of Agreement, dated January 25, 2013, between The PrivateBank and Trust Company, AdCare Health Systems, Inc. and its subsidiaries named therein      | Incorporated by reference to Exhibit 10.289 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 |
| 10.275 | Secured Promissory Note, dated December 28, 2012, issued by CHP Acquisition Company, LLC, in favor of AdCare Health Systems, Inc., in the amount of \$3,600,000 | Incorporated by reference to Exhibit 10.290 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 |
| 10.276 | Pledge and Security Agreement, dated December 28, 2012, by and between CHP Acquisition Company, LLC and AdCare Health Systems, Inc.                             | Incorporated by reference to Exhibit 10.291 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 |
| 10.277 | Assignment of Leases and Rents, dated December 31, 2012, by and between Sumter Valley Property Holdings, LLC and Metro City Bank                                | Incorporated by reference to Exhibit 10.292 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 |

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Exhibit No.	Description	Method of Filing
10.278	Promissory Note, dated December 31, 2012, issued by Sumter Valley Property Holdings, LLC and Georgetown HC&R Property Holdings, LLC in favor of Metro City Bank, in the amount of \$6,950,000	Incorporated by reference to Exhibit 10.293 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.279	Management Agreement, dated June 22, 2010, by and between Riverchase Village ADK, LLC and AdCare Management Company, Inc.	Incorporated by reference to Exhibit 10.294 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.280	Management Agreement, dated September 19, 2011, by and among AdCare Oklahoma Management, LLC and the entities listed therein	Incorporated by reference to Exhibit 10.295 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.281	Employment Agreement, dated July 3, 2013, by and between AdCare Health Systems, Inc. and Ronald W. Fleming	Incorporated by reference to Exhibit 10.296 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.282	Confidential Separation Agreement and Release, dated July 1, 2011, by and between AdCare Health Systems, Inc. and Gary L. Wade	Incorporated by reference to Exhibit 10.297 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012
10.283	Amendment to Secured Promissory Note, dated February 28, 2013, by and between CHP Acquisition Company, LLC and AdCare Health Systems, Inc.	Incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.284	Assignment and Assumption of Leases, Rents and Security Deposits, dated February 28, 2013, by and among AdCare Health Systems, Inc., New Lincoln Ltd. and Lincoln Lodge Retirement Residence LLC	Incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.285	Release and Assumption Agreement, dated May 6, 2013, by and among H & H of Vandalia LLC, Hearth & Home of Vandalia, Inc., Red Mortgage Capital, LLC and the Secretary of Housing and Urban Development	Incorporated by reference to Exhibit 10.4 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.286	Assignment and Assumption Agreement, dated May 6, 2013, by and between Hearth & Home of Vandalia, Inc. and H & H of Vandalia LLC	Incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.287	Fourth Amendment to Credit Agreement, dated May 30, 2013, by and between ADK Bonterra/Parkview, LLC and Gemino Healthcare Finance, LLC	Incorporated by reference to Exhibit 10.6 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.288	Credit Agreement, dated May 30, 2012, by and among NW 61st Nursing, LLC and Gemino Healthcare Finance, LLC	Incorporated by reference to Exhibit 10.7 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.289	Revolving Note, dated May 30, 2013, issued by NW 61st Nursing, LLC in favor of Gemino Healthcare Finance, LLC in the amount of \$1,000,000	Incorporated by reference to Exhibit 10.8 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.290	Subordination Agreement, dated May 30, 2013, by and between First Commercial Bank and Gemino Healthcare Finance, LLC	Incorporated by reference to Exhibit 10.9 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.291	Guaranty Agreement, dated May 30, 2013, made by NW 61st Nursing, LLC in favor of Gemino	Incorporated by reference to Exhibit 10.10 of the Registrant's Quarterly Report on Form 10-Q for the

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|--------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.292 | Healthcare Finance, LLC<br>Guaranty Agreement, dated May 30, 2013, made by AdCare Health Systems, Inc. in favor of Gemino Healthcare Finance, LLC                                                                                                    | three months ended March 31, 2013<br>Incorporated by reference to Exhibit 10.11 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013 |
| 10.293 | First Amendment to Secured Loan Agreement and Payment Guaranty, dated May 31, 2013, by and among AdCare Health Systems, Inc., its subsidiaries named therein, AdCare Property Holdings, LLC, AdCare Operations, LLC and KeyBank National Association | Incorporated by reference to Exhibit 10.12 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013                                      |
| 10.294 | Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated May 31, 2013, made by Mountain Top Property Holdings, LLC, to and for the benefit of KeyBank National Association                                                        | Incorporated by reference to Exhibit 10.13 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013                                      |
| 10.295 | Absolute Assignment of Leases and Rents, dated May 31, 2013, by Mountain Top Property Holdings, LLC in favor of KeyBank National Association                                                                                                         | Incorporated by reference to Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013                                      |

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Exhibit No.	Description	Method of Filing
10.296	Pledge and Security Agreement, dated May 31, 2013, between AdCare Health Systems, Inc. and KeyBank National Association	Incorporated by reference to Exhibit 10.15 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.297	Separation and Release Agreement, dated May 31, 2013, by and between AdCare Health Systems, Inc. and Martin D. Brew	Incorporated by reference to Exhibit 10.16 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.298	Second Amendment to Secured Loan Agreement and Payment Guaranty, dated June 27, 2013, by and among AdCare Health Systems, Inc., its subsidiaries named therein, AdCare Property Holdings, LLC, AdCare Operations, LLC and KeyBank National Association	Incorporated by reference to Exhibit 10.17 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.399	Third Modification Agreement, dated as of June 26, 2013, by and among Little Rock HC&R Property Holdings, LLC, AdCare Health Systems, Inc., Little Rock HC&R Nursing, LLC and The PrivateBank and Trust Company	Incorporated by reference to Exhibit 10.18 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.300	Joinder Agreement, Second Amendment and Supplement to Credit Agreement, dated June 28, 2013, by and among NW 61st Nursing, LLC, Georgetown HC&R Nursing, LLC, Sumter N&R, LLC and Gemino Healthcare Finance, LLC	Incorporated by reference to Exhibit 10.19 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.301	Amended and Restated Revolving Note, dated June 28, 2013, issued by certain subsidiaries of AdCare Health Systems, Inc. in favor of Gemino Healthcare Finance, LLC in the amount of \$1,500,000	Incorporated by reference to Exhibit 10.20 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.302	Management Fee Subordination Agreement, dated June 28, 2013, by and among Gemino Healthcare Finance, LLC, Georgetown HC&R Nursing, LLC, Sumter N&R, LLC and AdCare Administrative Services, LLC	Incorporated by reference to Exhibit 10.21 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.303	Sublease Termination Agreement, effective June 30, 2013, by and between ADK Georgia, LLC and ADK Oceanside Operator, LLC	Incorporated by reference to Exhibit 10.22 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.304	Sublease Termination Agreement, effective June 30, 2013, by and between ADK Georgia, LLC and ADK Savannah Beach Operator, LLC	Incorporated by reference to Exhibit 10.23 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.305	Sublease Agreement, effective June 30, 2013, by and between ADK Georgia, LLC and Tybee NH, LLC	Incorporated by reference to Exhibit 10.24 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.306	Sublease Agreement, effective June 30, 2013, by and between ADK Georgia, LLC and Tybee NH, LLC	Incorporated by reference to Exhibit 10.25 of the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2013
10.307	Employment Agreement, dated July 3, 2013, by and between AdCare Health Systems, Inc. and Ronald W. Fleming	Incorporated by reference to Exhibit 10.296 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012

10.308	Management Agreement, dated July 26, 2013, by and between Harrah White Meadows Nursing, LLC and AdCare Oklahoma Management, LLC	Incorporated by reference to Exhibit 10.27 of the Registrant's Quarterly Report on Form 10-Q for the three months ended June 30, 2013
10.309	Management Agreement, dated July 26, 2013, by and between MCL Nursing, LLC and AdCare Oklahoma Management, LLC	Incorporated by reference to Exhibit 10.28 of the Registrant's Quarterly Report on Form 10-Q for the three months ended June 30, 2013
10.310	Management Agreement, dated July 26, 2013, by and between Meeker Nursing, LLC and AdCare Oklahoma Management, LLC	Incorporated by reference to Exhibit 10.29 of the Registrant's Quarterly Report on Form 10-Q for the three months ended June 30, 2013
10.311	Loan and Security Agreement, dated September 27, 2013, by and between QC Property Holdings, LLC and Housing & Healthcare Funding, LLC	Incorporated by reference to Exhibit 10.30 of the Registrant's Quarterly Report on Form 10-Q for the three months ended September 30, 2013
10.312	Promissory Note, dated September 27, 2013, issued by QC Property Holdings, LLC to Housing & Healthcare Funding, LLC in the amount of \$5,000,000	Incorporated by reference to Exhibit 10.31 of the Registrant's Quarterly Report on Form 10-Q for the three months ended September 30, 2013



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Exhibit No.	Description	Method of Filing
10.313	Mortgage, Security Agreement Assignment of Leases and Rents and Fixture Filing, dated September 27, 2013, by QC Property Holdings, LLC to and for the benefit of Housing & Healthcare Funding, LLC	Incorporated by reference to Exhibit 10.32 of the Registrant's Quarterly Report on Form 10-Q for the three months ended September 30, 2013
10.314	Guaranty, dated September 27, 2013, by AdCare Health Systems, Inc. to and for the benefit of Housing & Healthcare Funding, LLC	Incorporated by reference to Exhibit 10.33 of the Registrant's Quarterly Report on Form 10-Q for the three months ended September 30, 2013
10.315	Assignment of Rents and Leases, dated September 27, 2013, by QC Property Holdings, LLC to and for the benefit of Housing & Healthcare Funding, LLC	Incorporated by reference to Exhibit 10.34 of the Registrant's Quarterly Report on Form 10-Q for the three months ended September 30, 2013
10.316	Third Modification Agreement, dated as of September 30, 2013, by and among The PrivateBank and Trust Company, AdCare Health Systems, Inc. and its subsidiaries named therein	Incorporated by reference to Exhibit 10.35 of the Registrant's Quarterly Report on Form 10-Q for the three months ended September 30, 2013
10.317	Letter Agreement, dated October 1, 2013, among AdCare Health Systems, Inc., Park City Capital, LLC and Michael J. Fox	Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed on October 17, 2013
10.318	Waiver, Amendment and Forbearance, dated as of October 26, 2013, by and among AdCare Health Systems, Inc., Anthony J. Cantone and Attosa Financial LLC	Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on October 31, 2013
10.319	Note, Mortgage and Loan Agreement Modification Agreement, dated December 31, 2013, by and among Sumter Valley Property Holdings, LLC, Georgetown HC&R Property Holdings, LLC and Metro City Bank.	Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed on December 31, 2013
10.320	Amendment to Employment Agreement between AdCare Health Systems, Inc. and Boyd P. Gentry, dated as of December 11, 2013 but executed and delivered on December 30, 2013.	Incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K filed on December 31, 2013
10.321	Amendment to Employment Agreement between AdCare Health Systems, Inc. and Ronald W. Fleming, dated as of December 11, 2013 but executed and delivered on December 30, 2013.	Incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 8-K filed on December 31, 2013
10.322	Amendment to Employment Agreement between AdCare Health Systems, Inc. and David Rubenstein, dated as of December 11, 2013 but executed and delivered on December 30, 2013.	Incorporated by reference to Exhibit 99.4 of the Registrant's Current Report on Form 8-K filed on December 31, 2013
10.323	Amendment to Employment Agreement between AdCare Health Systems, Inc. and Melissa L. Green, dated as of December 11, 2013 but executed and delivered on December 30, 2013.	Incorporated by reference to Exhibit 99.5 of the Registrant's Current Report on Form 8-K filed on December 31, 2013
10.324	Waiver and Amendment, dated February 10, 2014, by and among the Company and Gemino Healthcare Finance, LLC.	Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed on February 14, 2014
10.325		

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	Termination Notice, dated December 31, 2013 to Living Center, LLC, Kenmetal, LLC, Senior NH, LLC, BAN NH, LLC, and Oak Lake, LLC.	Incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 8-K filed on February 14, 2014
10.326	Termination Notice, dated December 31, 2013 to Harrah Whites Meadows Nursing, LLC.	Incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 8-K filed on February 14, 2014
10.327	Termination Notice, dated December 31, 2013 to Meeker Nursing, LLC.	Incorporated by reference to Exhibit 99.4 of the Registrant's Current Report on Form 8-K filed on February 14, 2014
10.328	Termination Notice, dated December 31, 2013 to MCL Nursing, LLC.	Incorporated by reference to Exhibit 99.5 of the Registrant's Current Report on Form 8-K filed on February 14, 2014
10.329	Underwriting Agreement, dated October 23, 2013, by and among AdCare Health Systems, Inc. and MLV & Co. LLC	Incorporated by reference to Exhibit 1.1 of the Registrant's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-1 (Registration No. 333-190203) filed October 23, 2013

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Exhibit No.	Description	Method of Filing
10.330	Fourth Modification Agreement, dated November 8, 2013, by and among Little Rock HC&R Property Holdings, LLC, AdCare Health Systems, Inc., Little Rock HC&R Nursing, LLC, and The PrivateBank and Trust Company	Filed herewith
10.331	Fourth Modification Agreement, dated November 26, 2013, by and among ADK Thomasville Operator, LLC, ADK Lumber City Operator, LLC, ADK LaGrange Operator, LLC, ADK Powder Springs Operator, LLC, ADK Thunderbolt Operator, LLC, Attalla Nursing ADK, LLC, Mountain Trace Nursing ADK, LLC, Mt. Kenn Nursing, LLC, Erin Nursing, LLC, CP Nursing, LLC Benton Nursing, LLC, Valley River Nursing, LLC, Park Heritage Nursing, LLC, Homestead Nursing, LLC, Woodland Manor Nursing, LLC, Mountain View Nursing, LLC, Little Rock HC&R Nursing, LLC, Glenvue H&R Nursing, LLC, Coosa Nursing ADK, LLC, QC Nursing, LLC, AdCare Health Systems, Inc., and The PrivateBank and Trust Company	Filed herewith
10.332	Note, Mortgage and Loan Agreement Modification Agreement, effective as of December 30, 2013, by and among Metro City Bank and AdCare Health Systems, Inc.	Filed herewith
10.333	Letter agreement, dated February 28, 2014, by and among AdCare Health Systems, Inc., AdCare Administrative Services, LLC, AdCare Oklahoma Management, LLC, Hearth & Home of Ohio, Inc., BAN NH, LLC, Senior NH, LLC, Oak Lake, LLC, Kenmetel, LLC, Living Center, LLC, Meeker Nursing, LLC, Meeker Property Holdings, LLC, MCL Nursing, LLC, McLoud Property Holdings, LLC, Harrah Whites Meadows Nursing, LLC, Harrah property Holdings, LLC, Christopher F. Brogdon, GL Nursing, LLC, and Marsh Pointe Management, LLC.	Filed herewith
10.334	Note, dated February 28, 2014, by and among AdCare Health Systems, Inc. and Christopher F. Brogdon	Filed herewith
10.335	Fourth Amendment to Secured Loan Agreement and Payment Guaranty, dated March 28, 2014, by and among Woodland Hills HC Property Holdings, LLC, Northridge HC&R Property Holdings, LLC, APH&R Property Holdings, LLC, Woodland Hills HC Nursing, LLC, Northridge HC&R Nursing, LLC, and APH&R Nursing, LLC, AdCare Health Systems, Inc., AdCare Property Holdings, LLC, AdCare	Filed herewith

10.336	Operations, LLC and KeyBank National Association Agreement Regarding Exit Fees, dated March 28, 2014, by and among Woodland Hills HC Property Holdings, LLC, Northridge HC&R Property Holdings, LLC, APH&R Property Holdings, LLC, Woodland Hills HC Nursing, LLC, Northridge HC&R Nursing, LLC, APH&R Nursing, LLC, AdCare Health Systems, Inc., AdCare Property Holdings, LLC, AdCare Operations, LLC and KeyBank National Association	Filed herewith
21.1	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of KPMG LLP	Filed herewith
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith
32.1	Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act	Filed herewith
32.2	Certification of CFO pursuant to Section 906 of the Sarbanes-Oxley Act	Filed herewith

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Exhibit No.	Description	Method of Filing
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith

\* Identifies a management contract or compensatory plan or arrangement.