

ADCARE HEALTH SYSTEMS, INC

Form 424B5

April 08, 2015

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)

Registration No. 333-201462

SUBJECT TO COMPLETION, DATED APRIL 8, 2015

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus Dated January 22, 2015)

ADCARE HEALTH SYSTEMS, INC.

400,000 Shares 10.875% Series A Cumulative Redeemable Preferred Stock

\$ Per Share

(Liquidation Preference \$25.00 Per Share)

AdCare Health Systems, Inc. is offering to the public up to 400,000 shares of our 10.875% Series A Cumulative Redeemable Preferred Stock, which we refer to in this prospectus supplement as the Series A Preferred Stock. The Series A Preferred Stock is listed on the NYSE MKT under the symbol "ADK.PRA." On April 7, 2015, the last reported sales price of the Series A Preferred Stock on the NYSE MKT was \$28.00 per share.

We will pay quarterly cumulative dividends on the Series A Preferred Stock from, but excluding, the date of original issuance in the amount of \$2.7187 per share each year, which is equivalent to 10.875% of the \$25.00 liquidation preference per share. The dividend rate will increase under certain circumstances as described in this prospectus supplement and the accompanying prospectus. Holders of the Series A Preferred Stock generally have no voting rights but have limited voting rights under certain circumstances as described in this prospectus supplement and the accompanying prospectus. We may not redeem the Series A Preferred Stock before December 1, 2017, except we are required to redeem the Series A Preferred Stock following a "Change of Control," as defined in this prospectus supplement and the accompanying prospectus. On and after December 1, 2017, we may, at our 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 Series A Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption, except following a Change of Control.

We have agreed to issue and sell the shares offered hereby to the public through the underwriters, and the underwriters have agreed to offer and sell such shares on a best efforts basis. The underwriters are not required to sell any specific number or dollar amount of the shares offered hereby, but will use their best efforts to sell such shares.

The Series A Preferred Stock has not been rated. Investing in the Series A Preferred Stock involves a high degree of risk. See "Risk Factors" beginning on page S-12 of this prospectus supplement and in the documents incorporated by reference into this prospectus supplement and the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriters expect to deliver the shares of Series A Preferred Stock to purchasers on or about , 2015, only in book-entry form through the facilities of The Depository Trust Company.

MLV & Co.

Northland Capital Markets

Co-Manager

GVC Capital

The date of this prospectus supplement is , 2015.

TABLE OF CONTENTS

Prospectus Supplement	Page
About this Prospectus Supplement.....	S-1
Forward-Looking Statements.....	S-2
Prospectus Supplement Summary.....	S-4
Risk Factors.....	S-12
Use of Proceeds.....	S-16
Capitalization.....	S-17
Market Price of and Dividends on the Series A Preferred Stock.....	S-18
Description of the Series A Preferred Stock.....	S-19
Material U.S. Federal Income Tax Considerations.....	S-28
Underwriting.....	S-36
Legal Matters.....	S-37
Experts.....	S-37
Where You Can Find More Information.....	S-37
Incorporation of Certain Information by Reference.....	S-37
Prospectus	Page
About this Prospectus.....	i
Special Note Regarding Forward-Looking Statements.....	ii
Summary.....	1
Risk Factors.....	2
Use of Proceeds.....	2
Description of Capital Stock.....	2
Description of Debt Securities.....	10
Description of Warrants.....	12
Description of Rights.....	13
Description of Units.....	14

Selling Shareholders.....	14
Plan of Distribution.....	16
Legal Matters.....	19
Experts.....	19
Incorporation of Certain Information by Reference.....	19
Where You Can Find More Information.....	20

S-i

ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is the prospectus supplement, which describes the terms of the offering of the Series A Preferred Stock and also adds to, and updates, information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference herein and therein, on the other hand, you should rely on the information in this prospectus supplement.

You should rely only on the information contained in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should not assume that the information in this prospectus supplement, the accompanying prospectus or any other offering materials are accurate as of any date other than the date on the front of each document, regardless of the time of delivery of this prospectus supplement, the accompanying prospectus or any sale of securities. Our business, financial condition, results of operations and prospectus may have changed since then.

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

FORWARD-LOOKING STATEMENTS

This prospectus supplement and accompanying prospectus, including the information we incorporate by reference herein and therein, contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the “safe harbor” created in Section 21E thereof. All statements other than statements of historical facts contained in this prospectus supplement or the accompanying prospectus are forward-looking statements. These forward-looking statements can generally be identified by the use of words such as “may,” “will,” “intends,” “plans,” “believes,” “anticipates,” “expects,” “estimates,” “predicts,” “potential,” the use of these words or similar expressions. Statements that describe our future plans, strategies, intentions, expectations, objectives, goals or prospects are also forward-looking statements. These forward-looking statements include, but are not limited to, statements about:

- Our ability to lease our healthcare properties on favorable terms and to otherwise transition successfully from an owner/operator of healthcare properties to a healthcare property holding and leasing company;
- The significant amount of our indebtedness, our ability to service our indebtedness and our ability to refinance our indebtedness on favorable terms;
- Covenants in our debt agreements that may restrict our ability to pay dividends, make investments, incur additional indebtedness and refinance indebtedness on favorable terms;
- Our ability to raise capital through equity and debt financings;
- The availability and cost of capital;
- Increases in market interest rates;
- Our dependence on the operating success of our tenants;
- The effect of increasing healthcare regulation and enforcement on us and our tenants and the dependence by us and our tenants on reimbursement from governmental and other third-party payors;
- The impact of litigation and rising insurance costs on our business and that of our tenants;
- The effect of our tenants declaring bankruptcy or becoming insolvent;
- Our ability to find replacement tenants as needed;
- The impact of required regulatory approvals of transfers of healthcare properties;
- Our ability to successfully engage in strategic acquisitions;
- Competition in the acquisition and ownership of healthcare properties;
- The relatively illiquid nature of real estate investments;
- The loss of key management personnel or other employees;
- Uninsured or underinsured losses affecting our properties and the possibility of environmental compliance costs and liabilities;
- The effect of the Change of Control redemption feature of the Series A Preferred Stock on a potential Change of Control;

- Our ability to pay dividends on the Series A Preferred Stock;
- Whether the Series A Preferred Stock is rated;
- Fluctuations in the market price of the Series A Preferred Stock;
- Whether we issue additional shares of the Series A Preferred Stock or additional shares of preferred stock that rank on parity with the Series A Preferred Stock;
- The limited voting rights of the Series A Preferred Stock; and
- The risks related to our continued listing of the Series A Preferred Stock on the NYSE MKT.

These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under “Risk Factors” and elsewhere in this prospectus supplement and accompanying prospectus. Any forward-looking statement in this prospectus supplement or the accompanying prospectus reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, industry and future growth. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

Discussions containing these forward-looking statements are also contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, as well as any amendments we make to those filings with the Securities and Exchange Commission (the “SEC”), which reports and amendments are incorporated by reference into this prospectus supplement and the accompanying prospectus.

S-3

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere or incorporated by reference into this prospectus supplement and the accompanying prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our securities. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the section “Risk Factors” and the documents that we incorporate by reference into this prospectus supplement and the accompanying prospectus, before making an investment decision.

The Company

Overview

We operate or manage for third parties 25 healthcare facilities and one discontinued entity held for sale, and lease or sublease to third parties 14 healthcare facilities. Our facilities provide a range of health care services to patients and residents, including, but not limited to, skilled nursing and assisted living services, social services, various therapy services and other rehabilitative and healthcare services for both long-term residents and short-stay patients.

In July 2014, our Board of Directors approved and begun to implement a strategic plan to transition the Company to a healthcare property holding and leasing company. Through a series of leasing and subleasing transactions, we are in the process of transitioning to third parties the operations of our currently owned and operated healthcare facilities, which are principally skilled nursing facilities. In furtherance of this strategic plan, we are now focused on the ownership, acquisition and leasing of healthcare related properties and are evolving into a self-managed healthcare real estate investment company.

As of April 1, 2015, we have entered into agreements to lease, sublease or manage 35 of our 40 facilities, of which agreements with respect to: (i) 14 facilities have become effective, with the transfer of operations to third-party operators complete; and (ii) three facilities are management agreements with indefinite terms. The effectiveness of the agreements with respect to remaining 18 facilities are subject to certain conditions, including that the applicable leasees obtain all required state regulatory approvals and licenses and, with respect to seven of the facilities, that we receive financing approval from the U.S. Department of Housing and Urban Development (“HUD”).

The Transition to a Facilities Holding Company

We are effecting the Company’s transition from an owner and operator of healthcare properties to lessor and sublessor of healthcare properties through a series of leasing and subleasing transactions. Specifically, we are in the process of:

Leasing to third-party operators the healthcare properties which we currently own and operate;

Subleasing to third-party operators the healthcare properties which we do not own but currently lease and operate; and

Continuing in effect management agreements to manage two skilled nursing facilities and one independent living facility.

Upon the completion of the transition, the Company will take on the characteristics and general structure of a real estate investment trust.

We are seeking to lease our currently-owned healthcare properties, and sublease our currently-leased healthcare properties, on a triple net basis, meaning that the lessee (i.e., the new third-party operator of the property) is obligated under the lease or sublease, as applicable, for all liabilities of the property in respect to insurance, taxes and facility

maintenance, as well as the lease or sublease payments, as applicable. These leases have, on average, ten-year terms with renewal options and annual escalation clauses.

S-4

Operated and Managed Facilities

The following table provides summary information regarding our facility composition for the facilities we operate or manage (including discontinued operations) as of April 1, 2015:

State	Number of Operational Beds/Units	Number of Facilities			Total
		Owned	Leased	Managed for Third Parties	
Arkansas	1,041	10	—	—	10
Georgia	541	2	2	—	4
North Carolina	106	1	—	—	1
Ohio	705	4	1	3	8
Oklahoma	197	2	—	—	2
Subtotal	2,590	19	3	3	25
Discontinued Entity Held for Sale					
Oklahoma	121	1	—	—	1
Total	2,711	20			