

ADCARE HEALTH SYSTEMS INC  
Form DEF 14A  
April 25, 2008

**SCHEDULE 14A**

**Information Required in Proxy Statement**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

**ADCARE HEALTH SYSTEMS, INC.**

**(Name of Registrant as Specified in its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)

Title of each class of securities to which transaction applies:

(2)

Aggregate number of securities to which transaction applies:

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange

Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state

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(4)

Proposed maximum aggregate value of transaction:

(5)

Total fee paid:

o

Fee paid previously with preliminary materials.

o

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)

Amount Previously Paid:

(2)

Form, Schedule or Registration Statement No.:

(3)

Filing Party:

(4)

Date Filed:

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**ADCARE HEALTH SYSTEMS, INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**to be held**

**June 6, 2008**

**and**

**PROXY STATEMENT**

**IMPORTANT**

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

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**ADCARE HEALTH SYSTEMS, INC.**

5057 Troy Road  
Springfield, Ohio 45502-9032

(937) 964-8974

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD JUNE 6, 2008**

April 25, 2008

To Our Shareholders:

The Annual Meeting of Shareholders of AdCare Health Systems, Inc. (the Company) will be held at our offices located at 5057 Troy Road, Springfield, Ohio 45502-9032, on Friday, June 6, 2008, at 10:00 a.m. local time, for the following purposes:

1.

To elect two directors of the Company to serve for a term of three years expiring at the Annual Meeting of Shareholders to be held in 2011;

2.

To approve the issuance of warrants to officers and directors of the Company to purchase an aggregate of 1,102,710 shares of the Company's common stock. Each of the warrants is exercisable for a period of ten (10) years and vest equally over a period of five (5) years; provided, however, that the vesting will be accelerated in the event that there is a change in control of the Company or in the event that the recipient is terminated without cause. The strike price for the warrants is \$1.21 per share; and

3.

To transact any other business which may properly come before the meeting or any adjournment thereof.

Accompanying this Notice of Annual Meeting is a form of a Proxy, Proxy Statement, and a copy of the Company's Form 10-KSB Annual Report for the year ended December 31, 2007, all to be mailed on or about April 25, 2008.

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Our Board of Directors has fixed April 15, 2008, as the record date for the determination of shareholders entitled to notice and to vote at the annual meeting and any adjournment thereof. A list of shareholders will be available for examination by any shareholder at the annual meeting and for a period of 10 days before the annual meeting at our executive offices.

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

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

By Order of the Board of Directors,

Carol Groeber

Secretary

PLEASE SIGN AND MAIL THE ENCLOSED PROXY

IN THE ACCOMPANYING ENVELOPE

NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

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**ADCARE HEALTH SYSTEMS, INC.**

5057 Troy Road  
Springfield, Ohio 45502-9032

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***PROXY STATEMENT***

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**ANNUAL MEETING OF SHAREHOLDERS**

**June 6, 2008**

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This proxy statement is furnished to the shareholders of AdCare Health Systems, Inc., an Ohio corporation (the Company), in connection with the solicitation of proxies to be used in voting at the Annual Meeting of Shareholders to be held at our executive offices located at 5057 Troy Road, Springfield, Ohio 45502 on June 6, 2008 at 10:00 a.m., and at any adjournment or postponement thereof (the Annual Meeting). The enclosed proxy is being solicited by our Board of Directors. This proxy statement and the enclosed proxy will be first sent or given to our shareholders on approximately April 25, 2008.

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

The shares represented by the accompanying proxy will be voted as directed if the proxy is properly signed and received by us prior to the Annual Meeting. If no directions are made to the contrary, the proxy will be voted **FOR** the election of Phillip S. Radcliffe and Merle Grace Kearns as directors of the Company for three (3) year terms expiring at the Annual Meeting in 2011, and, at the discretion of persons acting under the proxy, to approve the issuance of warrants to purchase up to 1,102,710 shares of the Company's common stock to certain officers and directors of the Company and to transact such other business as may properly come before the meeting or any adjournment thereof. Any shareholder voting the accompanying proxy has the power to revoke it at any time before its exercise by giving notice of revocation to us, by duly executing and delivering to us a proxy card bearing a later date, or by voting in person at the annual meeting. The officers, directors, and nominees for directors of the Company are



the beneficial owners of 19.4% of the Company's issued and outstanding shares. The officers, directors and nominees for directors of the Company have indicated that they will vote in favor of each nominee for director and in favor of the issuance of warrants to officers and directors of the Company.

Only holders of record of our common stock at the close of business on April 15, 2008 will be entitled to vote at the Annual Meeting. At that time, we had 3,786,128 shares of common stock outstanding and entitled to vote. Each share of our common stock outstanding on the record date entitles the holder to one vote on each matter submitted at the Annual Meeting.

The presence, in person or by proxy, of one-third of the outstanding shares of our common stock is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted for purposes of determining the presence or absence of a quorum. Broker non-votes occur when brokers, who hold their customers' shares in street name, sign and submit proxies for such shares and vote such shares on some matters, but not others. Typically, this would occur when brokers have not received any instructions from their customers, in which case the brokers, as the holders of record, are permitted to vote on routine matters, which typically include the election of directors.

The proposal to approve the issuance of the warrants is not considered a routine matter and broker/dealers who hold their customers' shares in street name may not vote such shares on this matter.

The election of the director nominees requires the favorable vote of a plurality of all votes cast by the holders of our common stock at a meeting at which a quorum is present. Proxies that are marked "Withhold Authority" and broker non-votes will not be counted toward such nominee's achievement of a plurality and thus will have no effect. Each other matter to be submitted to the shareholders for approval or ratification at the Annual Meeting requires the affirmative vote of the holders of a majority of our common stock present and entitled to vote on the matter. For purposes of determining the number of shares of our common stock voting on the matter, abstentions will be counted and will have the effect of a negative vote; broker non-votes will not be counted and thus will have no effect.

### ELECTION OF DIRECTORS

Our Amended Articles of Incorporation provides that the number of directors shall be fixed at nine (9) with three (3) directors to be elected each year to serve a three (3) year term. At the most recent Shareholder Meeting directors Jeffrey Levine, Laurence E. Sturtz and Peter J. Hackett were elected to three (3) year terms expiring in 2010. In addition, Clarence Peterson was elected to a one (1) year term. Mr. Peterson would be up for re-election to a three-year term this year but has chosen not to run for re-election at this time. At the June 6, 2008 meeting of shareholders, Phillip S. Radcliffe, an existing director, and Merle Grace Kearns have been nominated for three (3) year terms expiring at the annual meeting of the Company in 2011. This will bring the total Board of Directors to seven (7) persons and the Company will continue to seek additional qualified directors to fill the remaining two vacancies.

It is intended that, unless otherwise directed, the shares represented by the enclosed proxy will be voted **FOR** the election of each of Phillip S. Radcliffe and Merle Grace Kearns as directors. In the event that any nominee for director should become unavailable, the number of directors of the Company may be decreased pursuant to the Amended and Restated Code of Regulations or the Board of Directors may designate a substitute nominee, in which event the shares represented by the enclosed proxy will be voted for such substitute nominee.

**The Board of Directors recommends that the shareholders vote FOR the election of the nominees for director.**

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

Name	Age	Position	Term Expiring
Phillip S. Radcliffe	71	Director	2011
Merle Grace Kearns	69	Director	2011

*Phillip S. Radcliffe.* Mr. Radcliffe has been a director of the Company since it was organized in 1991. Mr. Radcliff has spent his entire 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 then became an entrepreneur in the computer industry and has participated in the startup of an industrial systems integration supplier. Over a ten year period his firm grew to more than 100 professional employees with revenues in excess of 10 million dollars per year. Mr. Radcliffe served as the Chief Financial Officer of this company and was involved in the company becoming public where he coordinated SEC reporting requirements. In 1980, Mr. Radcliffe started his own virtual company in the Washington D.C. area providing turnkey data acquisition and control systems to the industry and the government. Since 1992 Mr. Radcliffe has assisted several early stage hi-tech companies in

developing their business plans, locating funding and providing executive oversight and mentoring. Mr. Radcliffe had served as a mentor for the Dingman School of Entrepreneurship, affiliated with the University of Maryland, School of Business.

*Merle Grace Kearns.* Ms. Kearns was nominated by the independent members of the Board subject to election at the 2008 meeting of the shareholders. From August 2005 to February 2007, Ms. Kearns was the Director of the Ohio Department of Aging. From 2001 until 2005, Ms. Kearns was a State Representative from the 72nd House District where she served as the Majority Floor Leader, a member of the Finance and Appropriations, Health and Human Services Subcommittee; Health Committee; JCARR and Rules of Reference. From 1991 until 2001 Ms. Kearns was a State Senator

from the 10<sup>th</sup> District of the State of Ohio and served as the Majority Whip from 1997 to 2000. Ms. Kearns was a Clark County Commissioner from 1981 to 1999 and five terms the president of the Board of Commissioners. Prior to that time, Ms. Kearns was an elementary school teacher. Ms. Kearns received her Bachelor of Science Degree from the College of Agriculture and Home Economics from The Ohio State University in 1960.

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

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

Our Board of Directors had a total of three (3) meetings during the year ended December 31, 2007. During 2007, all but one director attended all of the meetings of the Board of Directors. Additionally, all but one director attended all meetings held by all committees of the Board of Directors, on which he served. Directors who are not employed by us received \$1,000 for each meeting attended in person and \$500 for each meeting attended via conference call; however, two directors elected to defer their compensation in 2007.

***Shareholder Communication***

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

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

We have an Audit Committee and a Compensation Committee.

The Audit Committee has the responsibility of reviewing our financial statements, evaluating internal accounting controls, reviewing reports of regulatory authorities and determining that all audits and examinations required by law are performed. The Audit Committee also approves the appointment of the independent auditors for the next fiscal year, approves the services to be provided by the independent auditors and the fees for such services, reviews and approves the auditor's audit plans, review and reports upon various matters affecting the independence of the independent auditors and review, with the independent auditors the results of the audit and management's responses.

The Audit Committee was authorized in December, 2005 and was comprised of Messrs. Hackett, Peterson and Levine. The Audit Committee will replace Mr. Peterson for 2008. All of the members of the Audit Committee will be considered independent, as independence for Audit Committee members is defined in applicable rules of the AMEX listing standards and the rules of the SEC. The Board of Directors has designated Peter J. Hackett as Chairman of the Audit Committee and as audit committee financial expert as defined by Item 401(e) of Regulation S-B of the Exchange Act.

The Compensation Committee was authorized in 1995, and a charter was adopted in December, 2005. During 2007, this committee is comprised of Messrs. Radcliffe, Sturtz and Peterson. The Compensation Committee will replace Mr. Peterson for 2008. Our Compensation Committee is responsible for establishing our compensation plans. Its duties include the development with management of benefit plans for our employees, the formulation of bonus plans, and incentive compensation packages. The Board of Directors has designated Philip S. Radcliffe as Chairman of the

Compensation Committee.

The Board of Directors has no standing nominating committee. We believe that, as a result of the role of the independent directors, as described below, it is not necessary to have a separate nominating committee at this time. Five of our eight current Directors are independent as determined utilizing the standards for director independence set forth in applicable rules of the AMEX listing standards. The independent members of the Board select nominees for election as Directors by majority vote. In selecting nominees for Director, the Board does not operate pursuant to a charter.

In selecting Director nominees, the Board considers, among other factors, the existing composition of the Board and their evaluation of the mix of Board members appropriate for the perceived needs of AdCare. The Board believes that continuity in leadership and Board tenure maximizes the Board's ability to exercise meaningful Board oversight. Because qualified incumbent Directors are generally uniquely positioned to provide shareholders the benefit of continuity of leadership and seasoned judgment gained through experience as a Director, the Board will generally consider as potential candidates those incumbent Directors interested in standing for re-election who they believe have satisfied Director performance expectations, including regular attendance at, preparation for and meaningful participation in Board and committee meetings.

We have granted the representatives of the underwriters in our 2006 public offering the right to have a designee present at all meetings of our board of directors for a period of two years from November 10, 2006. The designee will be entitled to the same notice and communications sent by us to our directors and to attend directors' meetings and will receive the same fees as our directors but will not have voting rights.

#### **Compensation Committee Interlocks and Insider Participation**

None of our executive officers has served:

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

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

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

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

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

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

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

### **INDEMNIFICATION OF DIRECTORS AND OFFICERS**

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

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

### **PURPOSE OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS**

The Compensation Committee of the Board of Directors advises the Board with respect to the compensation of each senior executive and Board of Director member. The Committee is also charged with the oversight of compensation plans and practices for all employees of the Company. The Committee relies upon data purchased for the purpose of providing information on organizations of similar or larger scale engaged in similar activities. The purpose of the 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.

Presently, the Committee has determined that low executive compensation, based upon the data we have examined on comparable operations, poses some risk to the Company. If, for any reason, the Company had to replace any of our current four senior executives or expand our executive staff, the Company could reasonably expect to experience a significant increase in executive expenses in order to attract competent persons with executive qualifications from organizations engaged in like activities.

### **REPORT OF AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

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

In fulfilling its responsibilities, the Audit Committee selected Rachlin LLP as our independent accountants for purposes of auditing our financial statements for 2007. The Audit Committee has reviewed and discussed with management and the independent auditors our audited financial statements; discussed with the independent auditors the matters required to be discussed by Codification of Statements on Auditing Standards No. 61, as amended; received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1; and discussed with the independent accountants their independence from our Company.

Based on the reviews and discussions with management and Rachlin LLP, the Audit Committee recommended to the Board of Directors that our audited consolidated financial statements be included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007, filed with the Securities and Exchange Commission.

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

Based upon its work and the information received in the inquiries outlined above, the Audit Committee is satisfied that its responsibilities for the period ended December 31, 2007, were met and that our financial reporting and audit processes are functioning effectively.

Submitted by the Audit Committee

of the Board of Directors:



Peter J. Hackett

Jeffrey Levine

Clarence A. Peterson

## MANAGEMENT

### Executive Officers and Directors

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

Name	Age	Position
David A. Tenwick <sup>(1)</sup>	70	Director, Chairman of the Board
Gary L. Wade <sup>(1)</sup>	71	Director, President, CEO
Scott Cunningham	40	Chief Financial Officer
J. Michael Williams <sup>(1) (2)</sup>	60	Executive Vice President, COO
Sharon L. Reynolds	62	Senior Vice President of Nursing Home Operations
Philip S. Radcliffe	71	Director
Laurence E. Sturtz	65	Director
Jeffrey Levine	57	Director
Peter J. Hackett	70	Director
Clarence A. Peterson <sup>(1) (2)</sup>	82	Director

<sup>(1)</sup> *Members of the Executive Committee.*

<sup>(2)</sup> *Mr. Williams and Mr. Peterson's terms will expire at the 2008 annual meeting and they will not to run for an additional term.*

Directors are elected at the annual meeting of shareholders and hold office for a term of three (3) years and until their successors are elected and have qualified. All officers serve at the discretion of the Board of Directors. The Board has a three-person Executive Committee comprised of David A. Tenwick, Gary L. Wade, and J. Michael Williams. The Executive Committee is elected by the whole Board of Directors and meets in between regularly-scheduled Board meetings in order to take needed actions. The Board also has a Compensation Committee chaired by Philip S. Radcliffe. In December, 2005 the Board established a charter for an Audit Committee chaired by Peter J. Hackett and created three classes of directors, with one class to be elected each year at the annual shareholder meeting to serve a three year term. Initially, directors Tenwick and Wade were elected for three year terms, directors Williams and Radcliffe were elected for two year terms and directors Sturtz and Levine were elected for a one year term.

*David A. Tenwick.* Mr. Tenwick, our founder, has served as our Chairman and Director since our organization in August 1991. Prior to founding our Company, Mr. Tenwick was an independent business consultant from 1982 to 1990. Through this capacity, he has served as a director and an officer of several businesses, including Douglass Financial Corporation, a surety company, and AmeriCare Health & Retirement, Inc., a long-term care management company. From 1967 until 1982, Mr. Tenwick was a director and an officer of Nucorp Energy, Inc., a company which he co-founded. Nucorp Energy was a public company which invested in oil and gas properties and commercial and residential real estate. Prior to founding Nucorp, he was an enforcement attorney for the United States Securities and Exchange Commission. Mr. Tenwick is a member of the Ohio State Bar Association and was a founding member of the Ohio Assisted Living Association, an association that promotes high quality assisted living throughout the State

of Ohio. Mr. Tenwick earned his Bachelor of Business Administration (BBA) and Juris Doctor (JD) degrees from the University of Cincinnati in 1960 and 1962, respectively.

*Gary L. Wade.* Mr. Wade has been a director and our President since 1995 and became CEO in 1998. In 1988 Mr. Wade was a co-founder of AdCare Health Systems, Inc., whose assets we acquired in 1995. Prior to that, he served as the Chief Executive Officer and President of St. John's Mercy from 1980 to 1989 and was responsible for the development and operation of Oakwood Village Retirement Community in 1987, a 230-unit continuing care retirement community, and the operation of St. John's Center, a sub-acute care long-term care facility. His extensive experience in health care also includes work with chemical abuse treatment programming and the care for Alzheimer's patients. Mr. Wade earned his undergraduate degree at Ohio University and his M.B.A. from Xavier University, where he specialized in hospital and health care administration. He is a past Chairman of the Ohio Assisted Living Association and served on the Government Relations and Health Care committees of the Association of Ohio Philanthropic Homes.

*Jeffrey L. Levine.* Mr. Levine was elected to the Board at December 2005 stockholder meeting. He also served as a director of the Company from its organization in 1991 until 2003. He has been an industrial and commercial real estate broker from 1975 to the present. He is the President of the Levine Real Estate Company and is the past President of Larry Stein Realty. Mr. Levine has extensive experience in negotiating and appraising commercial and investment real estate. He is a member of the National Association of Realtors, the Ohio State Bar Association and the Florida State Bar Association.

*Laurence E. Sturtz.* Mr. Sturtz was appointed to the Board in June 2005. The existing directors appointed Mr. Sturtz who was elected by the stockholders at the December 2005 annual meeting. Mr. Sturtz is a retired attorney at law. He received his Bachelor of Arts degree, majoring in economics, and his Juris Doctor degree from The Ohio State University, graduating in 1964 and 1967, respectively. Mr. Sturtz was admitted to practice before the United States Supreme Court and had five cases before that body over the years. Mr. Sturtz was a prominent trial lawyer in Columbus, Ohio and also specialized in representing companies of all sizes until his retirement in 2002. Mr. Sturtz left the private practice of law for six years (1982-1988) and served as Vice President and General Counsel, and then President and Chief Executive Officer of Strata Corporation, a public company based in Columbus, Ohio. In 1988, Mr. Sturtz returned to the private practice of law and became the senior litigator with the firm of Carlile Patchen & Murphy. Mr. Sturtz has been a Board Member of Advanced Biological Marketing, Inc. for more than two years, and was a Board Member of The Language Access Network ( T-LAN ) from March, 2006 until December 2007. Mr. Sturtz currently works as a mediator in Florida.

*Peter J. Hackett.* Mr. Hackett was appointed to the Board in May 2005. The existing directors appointed Mr. Hackett and he was elected by the shareholders at the June 2007 annual meeting. Mr. Hackett is a certified public accountant who received his Bachelor of Arts degree from the University of Notre Dame and his Master of Arts degree from The Ohio State University in 1959 and 1965, respectively. Mr. Hackett was a stockholder in the accounting firm of Clark, Schaefer, & Hackett & Co. from 1962 to 2003. Mr. Hackett served as CEO of Clark, Schaefer, & Hackett & Co. from 1991 to 1999 and was Chairman from 1999 to 2003. Mr. Hackett currently acts as a consultant for Clark, Schaefer, & Hackett & Co. Mr. Hackett is a member of the American Institute of Certified Public Accountants and the Ohio Society of Certified Public Accountants. Mr. Hackett was a board member of The Huntington National Bank in Springfield, Ohio from 1972 to 1975 and was a board member of Mercy Medical Center from 1972 to 1995. Mr. Hackett is also involved in numerous civic and charitable affiliations in the Springfield, Ohio area.

*Clarence A. Peterson.* Mr. Peterson was appointed to the Board in May 2005. The directors appointed Mr. Peterson who was elected for a one-year term by the shareholders at the June 2007 annual meeting. Mr. Peterson received his AB degree in Economics from Baldwin-Wallace College in 1950 and his MA degree in Economics from Miami University in 1951. Mr. Peterson retired as a Director and a Senior Executive Vice President of The Ohio Company (an investment banking firm located in Columbus, Ohio) on December 31, 1992. During his 33-year career at The Ohio Company, Mr. Peterson organized and supervised the firm's Research, Assets Management and Trust departments. Mr. Peterson also formed and managed the first three components of the Cardinal Family of Funds, served as a member of the Board of Directors for The Ohio Company for 25 years and was a trustee of the company's retirement plan. Mr. Peterson currently serves on the Board of Directors of Midwest Fabricating Company, Amanda, Ohio (a cold drawn metal processor) and The Father's Table, Stanford, Florida (a baker of dessert products).

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

*J. Michael Williams.* Mr. Williams has been a director, Executive Vice President, and COO since 1995. Mr. Williams was a co-founder of AdCare Health Systems, Inc., and is responsible for our day-to-day operations and

project development of our sub-acute units. Prior to that, he served at different times as the Chief Executive Officer of two acute care hospitals and one rehabilitation hospital. During his career, he also developed and organized a child day care center and two home health care organizations. Mr. Williams received a Bachelor of Science degree from Bowling Green State University, earned a Master of Arts in Health Care Administration from Central Michigan University and received a Doctorate of Business from U.S. Open University. Mr. Williams is a member of the American College of Health Care Executives, and the American College of Clinical Pathologists. He also holds Nursing Home Administrator licenses in Ohio, Kentucky and Indiana. Mr. Williams is also on the Board of Directors of National Council of Assisted Living (NCAL) and is the Vice Chairman of Ohio Council of Assisted Living (OCAL), and is listed in Who's Who Worldwide and received the Health Promotion Award in 1985.

*Scott Cunningham.* Mr. Cunningham has served as our CFO since 2004. Mr. Cunningham joined us in June 1992 as Director of Business Services at one of the nursing facilities that we manage. He became Corporate Controller in September 1997, was appointed Corporate Treasurer in August 1998, and Vice President of Finance in August 1999. Mr. Cunningham graduated from Wright State University in 1990 with a Bachelor of Science degree in Business, majoring in both Accounting and Finance.

*Sharon L. Reynolds.* Ms. Reynolds has served as our Senior Vice President of Nursing Home Operations since 1997. From 1985 to 1997, Ms. Reynolds was in charge of running Northland Terrace, a 260-bed nursing home facility located in Columbus, Ohio. From 1972 until 1985, she has been an administrator of several nursing homes, mostly located in the greater Columbus, Ohio area. Ms. Reynolds has directed the development and implementation of numerous specialized programs for patients with complex medical conditions during her career, and has been a speaker at a number of national health conventions. She is a graduate of Franklin University where she earned her BS and MBA in 1980 and 1999, respectively.

#### ***Ownership of Common Stock by Directors and Executive Officers***

The following table sets forth, as of April 15, 2008, the beneficial ownership of our common stock by each of our directors, each executive officer named in the Summary Compensation Table, and by all directors and executive officers as a group.

<b>Names and Address</b>	<b>Number</b>	<b>Percent of Total</b>
David A. Tenwick	249,416 <sup>(1)</sup>	6.6%
8503 Misty Woods Circle		
Powell, Ohio 43065		
Gary L. Wade	191,165 <sup>(2)</sup>	5.0%
5057 Troy Road		
Springfield, Ohio 45502		
J. Michael Williams	161,157 <sup>(3)</sup>	4.2%
5057 Troy Road		
Springfield, Ohio 45502		
Scott Cunningham	22,400 <sup>(4)</sup>	*
120 Deeter Drive		
Clayton, Ohio 45315		
Sharon Reynolds	9,600 <sup>(5)</sup>	*
5057 Troy Road		

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Springfield, Ohio 45502		
Philip S. Radcliffe	16,525 <sup>(6)</sup>	*
5057 Troy Road		
Springfield, Ohio 45502		
Laurence E. Sturtz	48,220 <sup>(7)</sup>	1.3%
3421 Pointe Creek Court, Apt # 106		
Bonita Springs, FL 34134		
Jeffrey Levine	10,400 <sup>(8)</sup>	*
2615 Dunhollow Drive		
Springfield, Ohio 45503		
Peter J. Hackett	5,400 <sup>(9)</sup>	*
505 West Home Road		
Worthington, Ohio 43085		
Clarence Peterson	24,700 <sup>(10)</sup>	*
150 East Wilson Bridge Road, Suite 230		
Worthington, Ohio 43085		
All Directors and Officers as a Group	776,602	19.4%
*Less than 1%		

(1)

Includes 8,000 options which are currently exercisable at \$2.50 per share, 2,000 options at \$1.50 per share and 3,000 warrants to purchase shares of common stock at \$5.40 per share.

(2)

Includes 48,000 warrants and 8,000 options which are currently exercisable at \$2.50 per share, 2,000 warrants currently exercisable at \$5.40 per share and 10,000 options at \$1.50 per share.

(3)

Includes 40,000 warrants and 8,000 options which are currently exercisable at \$2.50 per share.

(4)

Includes 16,000 options which are currently exercisable at \$2.50 per share and 2,000 options at \$1.50 per share.

(5)

Includes 4,400 options which are currently exercisable at \$2.50 per share.

(6)

Includes 2,000 options which are currently exercisable at \$2.50 per share, 1,000 warrants which are currently exercisable at \$5.40 per share and 1,400 options at \$1.50 per share.

(7)

Includes 8,000 warrants and 8,000 options which are currently exercisable at \$2.50 per share and 4,000 warrants which are currently exercisable at \$5.40 per share.

(8)

Includes 2,000 warrants which are currently exercisable at \$5.40 per share and 1,400 options at \$1.50 per share.

(9)

Includes 2,000 warrants which are currently exercisable at \$5.40 per share and 1,400 options at \$1.50 per share.

(10)

Includes 6,000 warrants which are currently exercisable at \$5.40 per share and 1,400 options at \$1.50 per share.

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

The following table sets forth information as of April 15, 2008, relating to the beneficial ownership of common stock by each person known by us to beneficially own more than 5% of our outstanding shares of common stock.

<b>Names and Address</b>	<b>Number</b>	<b>Percent of Total</b>
--------------------------	---------------	-------------------------



Ira A. Abrahamson, Jr. 323,472<sup>(1)</sup> 8.4%

105 West 4<sup>th</sup> Street, Suite 719  
Cincinnati, Ohio 45202

(1)

Includes 94,736 warrants which are currently exercisable at \$5.40 per share.

### *Executive Compensation*

The following summary compensation table sets forth information regarding compensation paid during 2007 to our Principal Executive Officer, and our two most highly compensated officers other than the principal executive officer.

#### SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary	Bonus	Stock awards	Option awards	Non-equity incentive plan compensation	All other compensation <sup>(1)</sup>	Total
David A. Tenwick, Chairman (PEO)	2007	\$132,330	\$25,000	\$-	\$-	\$-	\$22,058	\$179,388
Gary L. Wade, President, CEO	2007	\$132,330	5,000	-	-	-	16,316	153,646
J. Michael Williams, Executive VP, COO	2007	\$132,330	-	-	-	-	18,753	151,083
Scott Cunningham, CFO (PFO)	2007	\$101,319	10,000	-	-	-	1,130	112,449
Sharon Reynolds, Senior VP, Nursing Home Operations	2007	\$118,664	1,000	-	-	-	9,302	127,966

<sup>(1)</sup> No element of All Other Compensation exceeded \$10,000 for the year ended December 31, 2007.

### ***Employment Agreements***

We entered into employment agreements with Mr. Tenwick, Mr. Wade, and Mr. Williams. The employment agreements were identical and provided for an initial employment term of three years starting April 1, 2005 and ending April 1, 2008, with base salaries of \$10,000 per month, a minimum salary increase of five percent per year, fringe benefits such as health and life insurance and inclusion in any option program that we may institute in the future. We have not renewed these employment agreements at this time and are currently considering extensions.

The employment agreements with Mr. Wade, Mr. Williams, and Mr. Tenwick each provide that if they are terminated for any reason other than cause (which is defined as dishonesty in transactions with us, material disloyalty and/or the express refusal to perform services for us which may be properly requested), we are required to compensate them from the remaining term of their employment agreement plus one additional year. The employment agreements also provide that if Mr. Wade, Mr. Williams, or Mr. Tenwick leave voluntarily, or are terminated for cause, they may not compete with us within the State of Ohio for a period of one year following the termination.

### ***Stock Incentive Plan***

In August 2005, we adopted a Stock Option Plan to secure for us and our shareholders the benefits arising from capital stock ownership by our officers, directors, employees, and consultants who are expected to contribute to our future growth and success. The Option Plan authorizes the grant of options to purchase an aggregate of 200,000 shares of our common stock (adjusted for stock splits) both as incentive stock options as that term is defined under Section 422(A) of the Internal Revenue Code of 1986, as amended, and stock options which do not qualify as incentive stock options ( non-qualified stock options ). The Option Plan provides that the Board of Directors or the Compensation Committee appointed by the Board of Directors may grant options and otherwise administer the Option Plan. The exercise price of each incentive option must be at least 100% of the fair market value of the shares of our common stock at the date of grant, and no such option may be exercisable for more than ten years after the date of grant. However, the exercise price of each incentive stock option granted to any shareholder possessing more than 10% of the combined voting power of all classes of our capital stock on the date of grant must be not less than 110% of the fair market value on that date, and no such option may be exercisable more than five years after the date of grant. The exercise price of each non-qualified stock option may be established by the Compensation Committee. As of the date of this proxy, 157,000 incentive stock options and 42,000 non-qualified stock options have been granted at an exercise price of \$1.50 per share under the 2005 option plan. A total of 5,000 of these options have been forfeited due to routine stock attrition.

In August 2004, we adopted a Stock Option Plan to secure for us and our shareholders the benefits arising from capital stock ownership by our officers, directors, employees, and consultants who are expected to contribute to our future growth and success. The terms and conditions of this plan is exactly the same as the August 2005 Option Plan. As of the date of this proxy, 98,200 incentive stock options and 16,000 non-qualified stock options have been granted at an exercise price of \$2.50 per share under the 2004 Option Plan. A total of 19,400 of these options have been forfeited due to routine staff attrition.



## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

## OPTION AWARDS

## STOCK AWARDS

Name and Principal Position	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	STOCK AWARDS		Total number of shares, units or rights that have not vested	Market or payout value of unearned shares, units or rights that have not vested	
						Number of shares or units of stock that have not vested	Market value of stock that is not vested			
Chairman	3,200		0	\$2.50	8/24/2009	8,000	6,400	\$0	\$0	
David A. Tenwick	1,600			2.50	8/24/2010					
	1,600			2.50	8/24/2011					
	1,600			2.50	8/24/2012					
	2,000			1.50	5/09/2012					
			2,000		1.50	5/09/2013				
			2,000		1.50	5/09/2014				
President				1.50	5/09/2015					
				1.50	5/09/2016					
	3,200	2,000	0	\$2.50	8/24/2009	8,000	6,400	0	0	
				1.50	5/09/2012					
Gary L. Wade	1,600	2,000		2.50	8/24/2010					
	1,600	2,000		2.50	8/24/2011					
	1,600	2,000		2.50	8/24/2012					
	2,000			1.50	5/09/2012					
				1.50	5/09/2013					
				1.50	5/09/2014					

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				1.50	5/09/2015				
				1.50	5/09/2016				
Executive V.P. President	3,200		0	\$2.50	8/24/2009	8,000	6,400	0	0
	1,600			2.50	8/24/2010				
J. Michael Williams	1,600			2.50	8/24/2011				
	1,600			2.50	8/24/2012				
	2,000			1.50	5/09/2012				
		2,000		1.50	5/09/2013				
		2,000		1.50	5/09/2014				
		2,000		1.50	5/09/2015				
		2,000		1.50	5/09/2016				
CFO	6,400		0	\$2.50	8/24/2009	8,000	6,400	0	0
Scott Cunningham	3,200			2.50	8/24/2010				
	3,200			2.50	8/24/2011				
	3,200			2.50	8/24/2012				
	2,000			1.50	5/09/2012				
		2,000		1.50	5/09/2013				
		2,000		1.50	5/09/2014				
		2,000		1.50	5/09/2015				
		2,000		1.50	5/09/2016				
Senior V.P.	1,760	1,400	0	\$2.50	8/24/2009	5,600	4,480	0	0
Sharon Reynolds	880	1,400		2.50	8/24/2010				
	880	1,400		2.50	8/24/2011				
	880	1,400		2.50	8/24/2012				
	1,400			1.50	5/09/2012				
				1.50	5/09/2013				
				1.50	5/09/2014				

1.50 5/09/2015

1.50 5/09/2016

**Director Compensation**

The following Director Compensation table sets forth information regarding compensation paid to our non-employee directors. Directors who are employed by us do not receive any compensation for their board activities.

**DIRECTOR COMPENSATION - 2007**

<b>Name</b>	<b>Fees earned or paid in cash</b>	<b>Stock awards</b>	<b>Option awards</b>	<b>Non-equity incentive plan compensation</b>	<b>Change in pension value and non-qualified deferred compensation earnings</b>	<b>All other compensation</b>	<b>Total</b>
Philip S. Radcliffe	\$8,500	-	-	-	-	-	\$8,500
Laurence E. Sturtz	-	-	-	-	-	-	-
Jeffrey Levine	500	-	-	-	-	-	500
Peter S. Hackett	17,500	-	-	-	-	-	17,500
Clarence A. Peterson	3,500	-	-	-	-	-	3,500

1 Messrs. Tenwick, Wade and Williams are Executive Officers and do not appear on this table and receive no director compensation.

The following discloses the aggregate number of stock option awards outstanding for all directors:

Mr. Tenwick 8,000 options currently exercisable at \$2.50 per share, 2,000 options exercisable at \$1.50 per share and 3,000 warrants each to purchase one share of common stock at \$5.40 all exercisable within 60 days of April 15, 2008.

Mr. Wade - 8,000 options currently exercisable at \$2.50 per share, 2,000 options exercisable at \$1.50 per share, 4,800 warrants each to purchase one share of common stock at \$2.50 and 3,000 warrants each to purchase one share of common stock at \$5.40 all exercisable within 60 days of April 15, 2008.

Mr. Williams - 8,000 options currently exercisable at \$2.50 per share, 2,000 options exercisable at \$1.50 per share, 40,000 warrants each to purchase one share of common stock at \$2.50 all exercisable within 60 days of April 15, 2008.

Mr. Radcliffe 2,000 options exercisable at \$2.50 per share, 1,400 options exercisable at 1.50 per share and 1,000 warrants at \$5.40 per share all exercisable within sixty (60) days of April 15, 2008.

Mr. Sturtz 8,000 options currently exercisable at \$2.50 per share, 1,400 options exercisable at \$1.50 per share, 8,000 warrants each to purchase one share of common stock at \$2.50 and 4,000 warrants at 5.40 per share all exercisable within 60 days of April 15, 2008.

Mr. Levine 2,000 warrants which are currently exercisable at \$5.40 per share and 1,400 options exercisable at 1.50 per share all exercisable within 60 days of April 15, 2008.

Mr. Hackett - 2,000 warrants which are currently exercisable at \$5.40 per share and 1,400 options exercisable at 1.50 per share all exercisable within 60 days of April 15, 2008.



Mr. Peterson 6,000 warrants which are currently exercisable at \$5.40 per share and 1,400 options exercisable at 1.50 per share all exercisable within 60 days of April 15, 2008.

#### Non-Employee Director Reimbursement

Non-employee directors are reimbursed for travel and other out-of-pocket expenses connected to Board travel.

### EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth additional information as of December 31, 2007, concerning shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our shareholders and plans or arrangements not submitted to our shareholders for approval. The information includes the number of shares covered by and the weighted average exercise price of, outstanding options and other rights and the number of shares remaining available for future grants excluding the shares to be issued upon exercise of outstanding options, warrants, and other rights.

	<b>Number of Securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<i>(a)</i>	<i>(b)</i>	<i>(c)</i>
Equity compensation plans approved by security holders <sup>(1)</sup> <sup>(2)</sup>	133,600	\$2.21	6,800
Equity compensation plans not approved by security holders <sup>(3)</sup>	1,102,710	\$1.21	
	1,236,610		6,800
<b>Total</b>			

(1)

The total number of shares available under the option plan is 120,000. The options were granted in August 2004 and vest over a five year period contingent on continued employment. At December 31, 2007, 94,800 options had vested with no remaining options to vest. Due to separation of employment, 19,400 options have been forfeited during the five year vesting period.

(2)

During May, 2007, we granted 199,000 options under our September 2005 stock option plan. The total number of shares available under this option plan is 200,000. The options vest over a five year period contingent on continued employment. At December 31, 2007, 38,800 options had vested with an additional 155,200 remaining to vest. Due to separation of employment, 1,000 vested options and 4,000 unvested options have been forfeited.

(3)

On November 16, 2007, our Board of Directors authorized the issuance of warrants to officers and directors of the company. A total of 1,102,710 warrants were granted and vest over a five year period. The warrants will remain exercisable for ten years. Each warrant entitles the holder to purchase shares of AdCare's common stock equal to the closing price on November 20, 2007. The warrants are subject to shareholder approval at our annual shareholder meeting in June, 2008.

### **ISSUANCE OF WARRANTS TO MANAGEMENT**

At the Annual Meeting, the shareholders will be requested to consider and act upon a proposal to approve the issuance of warrants to purchase up to 1,102,710 shares of the Company's common stock to certain officers and directors of the Company (the Warrants). The issuance of the Warrants was authorized by the Board of Directors of the Company on November 16, 2007. The purpose of the issuance of the Warrants was to recognize that the Company is dependent on its management team and directors and that the loss of any of these individuals could harm the business of the Company. The Compensation Committee of the Board reported that, based on information that they had gathered, management of the Company has historically been under compensated and owns less stock than would be ideal. In addition, the directors of the Company have historically serviced on the Company's Board without compensation.

Therefore, to improve the likelihood of retention of the management team and to recognize the continuing services of the directors, the Board of Directors of the Company authorized the issuance of the following Warrants to the following officers and directors:

<u>Name</u>	<u>Number of Warrants</u>
David A. Tenwick	472,832
Gary L. Wade	254,330
J. Michael Williams	222,314
Scott Cunningham	8,800
Andy Wade	13,638
Jacqueline N. Potter	8,000
Sharon L. Reynolds	7,600
Kimberlee A. Henry	8,000
Carol Groeber	7,600
Peter Hackett	4,000
Jeffrey L. Levine	14,000
Laurence E. Sturtz	43,840
Clarence Peterson	15,506
Philip S. Radcliffe	22,250

The Warrants are exercisable for a period of 10 years and vest equally over a period of five years; provided, however, that the vesting would be accelerated in the event that there is a change in control of the Company or in the event that the recipient is terminated by the Company without cause. The strike price for the Warrants is \$1.21 (the close of the market on November 20, 2007 which was two business days after the date of the meeting of the Board).

The Company's common stock is traded on the American Stock Exchange under the symbol ADK. Pursuant to Section 7.11 the Company guide of the American Stock Exchange, approval of the shareholders is required pursuant to any arrangement by which options or stock may be acquired by officers, directors, employees or consultants of a listed company. Therefore, while corporate law does not require approval of the shareholders for the issuance of the Warrants, a vote of the shareholders is being requested to approve the issuance of the Warrants in accordance with the requirements of the American Stock Exchange.

#### **Required Vote**

Approval of the issuance of the Warrants requires the affirmative vote a majority of the stock present and entitled to vote on this matter.

#### **REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM**

Rachlin LLP served as the registered independent public accounting firm for us for 2007 and throughout the periods covered by our financial statements. Representatives of Rachlin LLP are not expected to attend the Annual Meeting of Shareholders in order to respond to appropriate questions from shareholders, and they will not have the opportunity to make a statement.

**FEES OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

*Audit Fees*

The aggregate fees billed and to be billed by Rachlin LLP for professional services rendered for the audit of our annual financial statements and review of financial statements included in our Forms 10-KSB and 10-QSB were \$203,879 for 2007, and \$492,577 for 2006. Fees for 2006 also included fees for our Form SB-2 registration statement.

***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 for us by our independent auditor or other registered public accounting firm, subject to the *de minimis* exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 that are approved by the Audit Committee prior to completion of the audit.

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors and greater than 10% shareholders to file reports of ownership and changes in ownership of our securities with the Securities and Exchange Commission ( SEC ). Copies of the reports are required by SEC regulation to be furnished to us. Based on our review of such reports, and written representations from reporting persons, with the exception of three late filings by Clarence A. Peterson, we believe that all reporting persons complied with all filing requirements during the year ended December 31, 2007.

**CERTAIN INFORMATION AND RELATED PARTY TRANSACTIONS**

On January 1, 2005, Mr. Tenwick, Mr. Wade, and Mr. Williams personally guaranteed a term loan in the amount of \$1,650,000, which loan was used to acquire Assured Health Care Inc. In consideration for these guarantees, Messrs. Tenwick, Wade, and Williams each received warrants to acquire 40,000 shares of our common stock at a price of \$2.50 per share. These warrants remain exercisable until January 1, 2010. In October 2005, the loan was reduced by \$800,000 as a result of proceeds from a private placement financing of \$1,512,000 which closed in October 2005. On April 27, 2006, Homer McKnight loaned the company \$835,000 that was used to repay the balance of the loan with WesBanco for Assured Health Care. The new loan matured on May 1, 2007 and was extended to May 1, 2009. The interest is based on the prime interest rate, which was 7.75% at the time of the loan.

**SHAREHOLDER PROPOSALS FOR 2008 ANNUAL MEETING**

Each year our Board of Directors submits its nominations for election of directors at the annual meeting of shareholders. Other proposals may be submitted by the Board of Directors or the shareholders for inclusion in the proxy statement for action at the annual meeting. Any proposal submitted by a shareholder for inclusion in the proxy statement for the annual meeting of shareholders to be held in 2009 must be received by us (addressed to the attention of the Secretary) on or before February 25, 2009. Any shareholder proposal submitted outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934 for presentation at our 2009 annual meeting will be considered untimely for purposes of Rule 14a-4 and 14a-5 if notice thereof is received by us after February 25, 2009. To be submitted at the meeting, any such proposal must be a proper subject for shareholder action under the laws of the State of Ohio.

**ANNUAL REPORT**

Our annual report on Form 10-KSB for the year ended December 31, 2007, containing financial statements for such year and the signed opinion of Rachlin LLP, registered independent public accounting firm, with respect to such financial statements, is being sent to shareholders concurrently with this proxy statement. The Annual Report is not to

be regarded as proxy soliciting material, and we do not intend to ask, suggest or solicit any action from the shareholders with respect to such report.

**OTHER MATTERS**

The Board of Directors knows of no other matters to be brought before the Annual Meeting. If other matters should come before the meeting, however, each of the persons named in the proxy intends to vote in accordance with his judgment on such matters.

**PROXY**  
**ADCARE HEALTH SYSTEMS, INC.**

Annual Meeting of Shareholders  
June 6, 2008

The undersigned hereby appoints David A. Tenwick and Carol J. Groeber and each of them, with full power of substitution, as proxies for the undersigned to attend the Annual Meeting of Shareholders of AdCare Health Systems, Inc. (the Company) to be held at the corporate offices located at 5057 Troy Road, Springfield, Ohio 45502 at 10:00 a.m., EST, on June 6, 2008, and at any adjournment thereof, to vote and act with respect to all shares of the Company, which the undersigned would be entitled to vote, with all the power the undersigned would possess if present in person, as follows:

1.

RESOLVED, that pursuant to the Articles of Incorporation, as amended, and the Code of Regulations of the Company, the following persons be, and they hereby are, elected Directors of the Company, to serve for following terms or until their successors are duly qualified and elected:

Phillip S. Radcliffe	3 Years
Merle Grace Kearns	3 Years
<b>FOR</b>	<b>WITHHELD</b>
£	£

Except, vote withheld from the following nominee(s):

2.

RESOLVED, that the shareholders hereby agree to approve the issuance of warrants to purchase up to 1,102,710 shares of the Company's common stock to certain officers and directors of the Company (the Warrants). The Warrants will be exercisable for a period of ten (10) years and vest equally over a period of five (5) years; provided, however, that the vesting will be accelerated in the event there is a change in control of the Company or in the event that the recipient is terminated by the Company without cause. The strike price for the Warrant is \$1.21.

<b>FOR</b>	<b>WITHHELD</b>
£	£

3.

To transact such other business as may properly come before the 2008 Annual Meeting of the Shareholders of the Company or any adjournment thereof.

**FOR**                      **WITHHELD**  
**£**                              **£**

**This proxy when properly executed will be voted as specified by the shareholder. If no specifications are made, the proxy will be voted FOR proposals 1 through 3.**

Please date and sign your name below as it appears on your stock certificate.

Dated: \_\_\_\_\_, 2008

Signature

Signature (if held jointly)