ADCARE HEALTH SYSTEMS, INC
Form DEFM14A
August 02, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934
Filed by the Registrant [X]
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))
[X] Definitive Proxy Statement
[_] Definitive Additional Materials
[_] Soliciting Material Pursuant to Section 240.14a-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)
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(3) Filing Party:

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(4) Date Filed:

ADCARE HEALTH SYSTEMS, INC.
454 Satellite Blvd. NW
Suite 100
Suwanee, Georgia 30024

August 1, 2017

Dear Shareholders:

I am pleased to invite you to attend a special meeting of shareholders of AdCare Health Systems, Inc., a Georgia corporation, which will be held on September 20, 2017 at 10:00 a.m., local time, at the Sonesta Gwinnett Place Atlanta located at 1775 Pleasant Hill Road, Duluth, Georgia.

At the special meeting, you will be asked to vote on a proposal to approve an agreement and plan of merger which, if completed, will reorganize our corporate structure whereby Regional Health Properties, Inc., a Georgia corporation and a wholly owned subsidiary of AdCare recently formed for the purpose of the merger (“RHE”), would replace AdCare as the publicly held corporation through which our operations are conducted. We intend to complete this reorganization in order to ensure the effective adoption of certain charter provisions restricting the ownership and transfer of our common stock. This reorganization also provides us the opportunity to continue our business under a name that better reflects our new business model as a healthcare property holding and leasing company.

Our effective adoption of these ownership and transfer restrictions will serve two purposes. First, it will position us to regain compliance with certain NYSE MKT continued listing standards regarding stockholders’ equity. Second, if the board of directors determines for any future taxable year, after further consideration and evaluation, that qualifying for and electing status as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”), would be in the best interests of us and our shareholders, then the ownership and transfer restrictions will better position us to comply with certain of the U.S. federal income tax rules applicable to REITs under the Code to the extent such rules relate to the common stock. Similar ownership and transfer restrictions are commonly included in the charters of publicly-traded REITs because they are generally believed to be the most effective mechanism to monitor a REIT’s compliance with certain of the U.S. federal income tax rules that a REIT must satisfy in order to qualify as a REIT under the Code.

To this end, on July 7, 2017, AdCare entered into an agreement and plan of merger, as may be amended from time to time (the “merger agreement”), pursuant to which AdCare will merge with and into RHE, with RHE being the surviving entity in the merger. At the effective of the merger, RHE will succeed to the assets, continue the business and assume the obligations of AdCare.

At the effective time of the merger: (i) each outstanding share of AdCare common stock will be converted into one share of RHE common stock; and (ii) each outstanding share of AdCare’s 10.875% Series A Cumulative Redeemable Preferred Shares (the “AdCare Series A Preferred Stock”) will be converted into one share of RHE Series A Preferred Stock. As a result, after the merger you will own the same number and percentage of common stock and Series A Preferred Stock of RHE (the new holding company) as you own of AdCare before the merger. We anticipate that, immediately following the completion of the merger, shares of RHE common stock will trade on the NYSE MKT under the symbol “RHE” and that shares of RHE Series A Preferred Stock will trade on the NYSE MKT under the symbol “RHE.PRA.” It is a condition to the completion of the merger that the RHE common stock and RHE Series A Preferred Stock shall have been approved for listing on the NYSE MKT.

The approval of the merger agreement requires the affirmative vote of the holders of a majority of all outstanding shares of AdCare common stock entitled to vote thereon. The holders of AdCare Series A Preferred Stock do not have the right to vote on the proposal to approve the merger agreement.

The board of directors has unanimously adopted the merger agreement and determined the merger agreement and the transactions contemplated thereby advisable and in the best interests of AdCare and its shareholders. The board of directors recommends that all holders of AdCare common stock entitled to vote on the approval of the merger agreement vote “FOR” such approval.

This proxy statement/prospectus is a prospectus of RHE as well as a proxy statement for AdCare and provides you with detailed information about the merger and the special meeting. We encourage you to carefully read this entire proxy statement/prospectus, including all its annexes, and we especially encourage you to read the section entitled “Risk Factors” beginning on page 14.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued by RHE under this proxy statement/prospectus or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated August 1, 2017, and is being first mailed to shareholders on or about August 3, 2017.

Sincerely,

Allan J. Rimland
President, Chief
Executive Officer
and Chief
Financial Officer

ADCARE HEALTH SYSTEMS, INC.
454 Satellite Blvd. NW
Suite 100
Suwanee, Georgia 30024

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of AdCare Health Systems, Inc., a Georgia corporation ("AdCare"), will be held on September 20, 2017 at10:00 a.m., local time, at the Sonesta Gwinnett Place Atlanta located at 1775 Pleasant Hill Road, Duluth, Georgia, for the following purposes:

1. to consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated July 7, 2017, as it may be amended from time to time (the "merger agreement"), between AdCare and Regional Health Properties, Inc., a Georgia corporation and a wholly owned subsidiary of AdCare newly formed for purposes of the merger ("RHE"), a copy of which is attached as Annex A to this proxy statement/prospectus (the "merger proposal"); and
2. to consider and vote upon a proposal to approve the adjournment of the special meeting, if necessary, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to approve the merger proposal (the "adjournment proposal").

On July 7, 2017, the board of directors unanimously adopted the merger agreement and determined the merger agreement and the transactions contemplated thereby advisable and in the best interests of AdCare and its shareholders. The board of directors recommends that you vote "FOR" the proposals that are described in more detail in this proxy statement/prospectus.

AdCare reserves the right to cancel or defer the merger, even if the holders of AdCare common stock vote to approve the merger agreement and the other conditions to the completion of the merger are satisfied or waived, if the board of directors determines that the merger is no longer in the best interests of AdCare and its shareholders.

If you are a holder of record of shares of AdCare common stock as of the close of business on July 13, 2017, the record date, you are entitled to notice of, and to vote those shares by proxy or at the special meeting and at any adjournment or postponement of the special meeting. The holders of record of AdCare's 10.875% Series A Cumulative Redeemable Preferred Shares as of the record date are not entitled to vote on the proposals at the special meeting.

Your vote is important. Whether or not you, as a holder of AdCare common stock, plan to attend the special meeting in person, please complete, sign, date and promptly return the enclosed proxy card in the enclosed envelope. You may also authorize a proxy to vote your shares by telephone or over the Internet as described in your proxy card. Holders of AdCare common stock who return proxy cards by mail or submit a proxy by telephone or over the Internet prior to the special meeting may nevertheless attend the special meeting, revoke their proxies and vote their shares at the special meeting.

We encourage you to read the accompanying proxy statement/prospectus carefully. If you have any questions or need assistance voting your shares, please call our proxy solicitor, Georgeson Inc., toll-free at (888) 293-6812.

By Order of the Board of Directors,

Nicole Parker
Corporate Secretary
Suwanee, Georgia
August 1, 2017

ABOUT THIS PROXY STATEMENT/PROSPECTUS

This proxy statement/prospectus constitutes a proxy statement of AdCare and has been mailed to you because you were a holder of AdCare common stock on the record date set by the board of directors and were entitled to notice of a special meeting of AdCare shareholders. Only holders of AdCare common stock as of the record date are being asked to consider and vote at the special meeting upon the merger proposal and the adjournment proposal. This proxy statement/prospectus also constitutes a prospectus of RHE, which is part of the registration statement on Form S-4 filed by RHE to register with the Securities and Exchange Commission (the “SEC”) the RHE common stock and the RHE Series A Preferred Stock that holders of AdCare common stock and holders of AdCare Series A Preferred Stock, respectively, will receive in connection with the merger if the merger agreement is approved and the merger is completed.

You should rely only on the information contained in or incorporated by reference into this proxy statement/prospectus, including the annexes to this proxy statement/prospectus. We have not authorized anyone to provide you with additional or different information. We are not making an offer to sell (or soliciting any offer to buy) any securities, or soliciting any proxy, in any jurisdiction where it is unlawful to do so. You should assume that the information contained in this proxy statement/prospectus is accurate only as of the date on the front of this proxy statement/prospectus. Our business, financial condition, results of operations and prospects may have changed since these dates.

This proxy statement/prospectus does not contain all of the information set forth in the registration statement and the exhibits thereto. For further information with respect to AdCare, RHE and the securities to be issued by RHE in connection with the merger, reference is made to the registration statement, including the exhibits thereto. See the section entitled “Where You Can Find More Information.”

When used in this proxy statement/prospectus, unless otherwise specifically stated or the context otherwise requires, the terms:

- “board of directors” or “board” refers to the AdCare board of directors with respect to the period prior to the merger and to the RHE board of directors with respect to the period after the merger;
- “Company”, “AdCare”, “we”, “our” and “us” refer to AdCare and its subsidiaries with respect to the period prior to the merger and to RHE and its subsidiaries with respect to the period after the merger;
- “shareholders” refers to the holders of AdCare capital stock with respect to the period prior to the merger and to the holders of RHE capital stock with respect to the period after the merger;
- “common stock” refers to the common stock, no par value per share, of AdCare with respect to the period prior to the merger and to the common stock, no par value per share, of RHE with respect to the period after the merger;
- “Series A Preferred Stock” refers to the 10.875% Series A Cumulative Redeemable Preferred Shares, no par value per share, of AdCare with respect to the period prior to the merger and to the 10.875% Series A Cumulative Redeemable Preferred Shares, no par value per share, of RHE with respect to the period after the merger; and
- “special meeting” refers the special meeting of shareholders of AdCare Health Systems, Inc., a Georgia corporation, to be held on September 20, 2017 at 10:00 a.m., local time, at the Sonesta Gwinnett Place Atlanta located at 1775 Pleasant Hill Road, Duluth, Georgia, including any postponement and adjournment thereof.

As used herein, the term “including” and any variation thereof, means “including without limitation.” The use of the word “or” herein is not exclusive.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus may contain statements that constitute forward-looking statements and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by these forward-looking statements.

In some cases you can identify forward-looking statements by terms such as “anticipate,” “project,” “may,” “intend,” “might,” “will,” “could,” “would,” “expect,” “believe,” “estimate,” “potential,” by the negative of these terms and by similar expression These forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties, many of which are beyond their ability to control or predict. You should not put undue reliance on any forward-looking statements. These forward-looking statements present our estimates and assumptions only as of the date of this proxy statement/prospectus.

Important factors that could cause actual results to differ materially and adversely from those expressed or implied by the forward-looking statements include:

- Our ability to achieve the benefits that we expected to achieve from our transition to a healthcare property holding and leasing company, including increased cash flow, reduced general and administrative expenses, and a lower cost of capital;
- The impact of liabilities associated with our legacy business of owning and operating healthcare properties, including pending and potential professional and general liability claims;
- Our dependence on the operating success of our tenants and their ability to meet their obligations to us;
- The effect of increasing healthcare regulation and enforcement on our tenants, and the dependence of our tenants on reimbursement from governmental and other third-party payors;
- The impact of litigation and rising insurance costs on the business of our tenants;
- The effect of our tenants potentially declaring bankruptcy or becoming insolvent;
- The ability and willingness of our tenants to renew their leases with us upon expiration, and our ability to reposition our properties on the same or better terms in the event of nonrenewal or if we otherwise need to replace an existing tenant;
- The significant amount of our indebtedness, our ability to service our indebtedness, covenants in our debt agreements that may restrict our ability to pay dividends or incur additional indebtedness, and our ability to refinance our indebtedness on favorable terms;
- Our ability to raise capital through equity and debt financings, and the cost of such capital;
- The availability of, and our ability to identify, suitable acquisition opportunities, and our ability to complete such acquisitions and lease the respective properties on favorable terms; and
- Other risks inherent in the real estate business, including uninsured or underinsured losses affecting our properties and the possibility of environmental compliance costs and liabilities.

The above list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative but by no means exhaustive. Therefore, all forward-looking statements should be evaluated with the understanding of their inherent risk and uncertainty. Except for our ongoing obligations to disclose material information as required by U.S. federal securities laws, we do not intend to update you concerning any future revisions to any forward-looking statements to reflect events or circumstances occurring after the date of this proxy statement/prospectus.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

What follows are questions that you, as a shareholder of AdCare, may have regarding the merger and the special meeting and the answers to those questions. You are urged to carefully read this proxy statement/prospectus in its entirety because the information in this section may not provide all of the information that might be important to you with respect to the merger and the special meeting. Additional important information is contained in the annexes to this proxy statement/prospectus.

Q. What is the merger proposal? What will happen in the merger?

A. At the special meeting, you will be asked to vote on a proposal to approve an agreement and plan of merger to create a new corporate structure for AdCare under which RHE, a Georgia corporation and a wholly owned subsidiary of AdCare, would replace AdCare as the publicly held corporation through which our operations are conducted. Pursuant to the merger agreement, at the effective time of the merger: (i) AdCare will merge with and into RHE; (ii) RHE will be the surviving entity in the merger; and (iii) RHE will succeed to the assets, continue the business and assume the obligations of AdCare. We refer to this transaction in this proxy statement/prospectus as the "merger."

As a consequence of the merger:

- the outstanding shares of AdCare common stock will convert into the same number of shares of RHE common stock;
- the outstanding shares of AdCare Series A Preferred Stock will convert into the same number of shares of RHE Series A Preferred Stock;
- you will own shares of RHE common stock and RHE Series A Preferred Stock in the same amount and percentage as your holdings in AdCare immediately prior to the merger;
- the existing board of directors and executive officers of AdCare immediately prior to the merger will be the board of directors and executive officers, respectively, of RHE immediately following the merger, and each director and executive officer will continue his directorship or employment, as the case may be, with RHE under the same terms as his directorship or employment with AdCare;
- RHE will have assumed all of AdCare's equity incentive compensation plans, and all rights to acquire shares of AdCare common stock under any AdCare equity incentive compensation plan will have been converted into rights to acquire RHE common stock pursuant to the terms of the equity incentive compensation plans and other related documents, if any;
- effective at the time of the merger, RHE will become the publicly traded NYSE MKT listed company that will succeed to the assets, continue the business and assume the obligations of AdCare;
- the rights of the holders of RHE common stock and RHE Series A Preferred Stock will be governed by the amended and restated articles of incorporation of RHE (the "RHE Charter") and the amended and restated bylaws of RHE (the "RHE Bylaws"). The RHE Charter is substantially equivalent to AdCare's articles of incorporation, as amended (the "AdCare Charter"), except that the RHE Charter at the effective time of the merger will include ownership and transfer restrictions related to the RHE common stock. The RHE Bylaws are substantially equivalent to the Bylaws of AdCare, as amended (the "AdCare Bylaws");
- there will be no change in the assets we hold or in the business we conduct; and
- there will be no fundamental change to our current operational strategy.

We have attached to this proxy statement/prospectus a copy of the merger agreement as Annex A, a copy of the form of the RHE Charter as Annex B, and a copy of the form of the RHE Bylaws as Annex C.

Q. Why are you reorganizing the corporate structure?

A. We are reorganizing our corporate structure in order to ensure the effective adoption of charter provisions restricting the ownership and transfer of our common stock. By merging AdCare with and into RHE, whose charter at the time of the merger will include the ownership and transfer restrictions related to the RHE common stock, we will ensure such adoption.

Our effective adoption of these ownership and transfer restrictions will serve two purposes. First, the restrictions will position us to regain compliance with certain NYSE MKT continued listing standards regarding stockholders' equity. Second, if the board of directors determines for any future taxable year, after further consideration and evaluation, that qualifying for and electing status as a REIT under the Code would be in the best interests of us and our shareholders, then the ownership and

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transfer restrictions will better position us to comply with certain of the U.S. federal income tax rules applicable to REITs under the Code to the extent such rules relate to the common stock.

NYSE MKT Compliance. The adoption of the transfer and ownership restrictions will permit us under applicable accounting guidance to classify the Series A Preferred Stock as permanent equity on our consolidated balance sheet (instead of temporary equity outside of permanent equity as it is currently classified). Classifying the Series A Preferred Stock as permanent equity will position us to regain compliance with the NYSE MKT continued listing standards regarding stockholders' equity with which we are not currently in compliance.

Specifically, we are not in compliance with Section 1003(a)(i) (requiring stockholders' equity of $2.0 million or more if an issuer has reported losses from continuing operations and/or net losses in two of its three most recent fiscal years), Section 1003(a)(ii) (requiring stockholders' equity of $4.0 million or more if an issuer has reported losses from continuing operations and/or net losses in three of its four most recent fiscal years) and Section 1003(a)(iii) (requiring stockholders' equity of $6.0 million or more if an issuer has reported losses from continuing operations and/or net losses in its five most recent fiscal years) of the NYSE MKT Company Guide (collectively, the "Stockholders' Equity Continued Listing Standards"). If we do not regain compliance with the Stockholders' Equity Continued Listing Standards by October 18, 2017, then the NYSE MKT will delist the common stock and the Series A Preferred Stock. The NYSE MKT may delist the common stock and the Series A Preferred Stock prior to such date if we do not make progress toward compliance consistent with the compliance plan we proposed to the NYSE MKT. See the sections entitled "Risk Factors - Risks Related to the Delisting of Our Securities" and "Reasons for the Merger."

At March 31, 2017, we had a stockholders' deficit of $40.7 million. At March 31, 2017, we had $61.4 million of Series A Preferred Stock classified as temporary equity on our balance sheet. If the Series A Preferred Stock had been classified as permanent equity at March 31, 2017, then our stockholders' equity as of such date would have been $20.7 million.

Consideration of REIT Election. The board of directors is in the process of evaluating the feasibility of the Company in the future qualifying and electing as a REIT under the Code and any potential benefits thereof. The ownership and transfer restrictions will better position us to comply with certain of the U.S. federal income tax rules applicable to REITs under the Code to the extent such rules relate to the common stock. The ownership and transfer restrictions will not apply to the Series A Preferred Stock and, therefore, will not assist us in complying with such rules to the extent they relate to the Series A Preferred Stock. Accordingly, among other things, the Series A Preferred Stock would need to be redeemed or its terms appropriately modified before the Company would elect REIT status under the Code. See " - What are the requirements to qualify as a REIT under the Code?" below.

There is no assurance that the Company will qualify as a REIT in a future taxable year or, if it were to so qualify, that the board of directors would determine that electing REIT status would be in the best interests of the Company and its shareholders.

See the sections entitled "Risk Factors - Risks Related to the Ownership and Transfer Restrictions" and "Reasons for the Merger."

Q. What is a REIT?

A. A REIT is a company that qualifies for special treatment for U.S. federal income tax purposes because, among other things, it derives most of its income from real estate-based sources and makes a special election under the Code. A corporation that qualifies as a REIT will generally be entitled to a deduction for dividends that it pays and therefore will not be subject to U.S. federal income tax to the extent of such deductions. See the section entitled "Material United States Federal Income Tax Considerations."

Q. What are the requirements to qualify as a REIT under the Code?

A. For the Company to qualify as a REIT under the Code, among other things: (i) the Company's stock (including common and preferred stock) must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year (other than the first year for which an election to be a REIT has been made); and (ii) not more than 50% of the value of the outstanding shares of the Company's stock (including common and preferred stock) may be owned, directly or indirectly, by five or fewer "individuals" (as defined in the Code to include certain entities such as private foundations) during the last half of a taxable year (other than the first taxable year for which an election to be a REIT has been made), which is referred to as the "closely held" rule under the Code. In addition, a person actually or constructively owning 10% or more of the vote or value of the outstanding shares of the Company’s stock (including common

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and preferred stock) could lead to a level of affiliation between the Company and one or more of its tenants that could disqualify the Company's revenues from the affiliated tenants from constituting REIT-compliant income and thereby potentially jeopardize or otherwise adversely impact the Company's ability to qualify as a REIT.

The Company's ability to qualify as a REIT would depend upon its compliance at the time of and following the REIT election with various other requirements, including requirements related to: (i) the nature of the Company's assets being principally real estate or related to real estate leasing, with the potential for investing in the securities of other issuers being very limited; (ii) the sources of the Company's gross income being principally "rents from real property," with the balance of any gross income being principally comprised of passive investment income such as interest, dividends and capital gains; (iii) the internal organization of any subsidiaries of the Company and activities being suitably divided between qualified REIT subsidiary and taxable REIT subsidiary roles and responsibilities; and (iv) the sufficiency of distributions to the Company's shareholders relating to both the Company's REIT taxable income and any pre-REIT accumulated earnings and profits.

See the section entitled "Material United States Federal Income Tax Considerations."

Q. What are the transfer and ownership restrictions?

A. The primary consequence of the adoption of the ownership and transfer restrictions related to the common stock is that, after the merger and subject to the exceptions, waivers and the constructive ownership rules described in the RHE Charter, no person (including any "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) may beneficially own, or be deemed to constructively own by virtue of the ownership attribution provisions of the Code, in excess of 9.9% (by value or number of shares, whichever is more restrictive) of the outstanding RHE common stock. In this proxy statement/prospectus, we refer to "transfer and ownership restrictions" as the provisions set forth in Article IX of the RHE Charter and which are described in the section entitled "Description of Capital Stock - Ownership and Transfer Restrictions."

Q. When and where is the special meeting?

A. The special meeting will be held on September 20, 2017 at 10:00 a.m., local time, at the Sonesta Gwinnett Place Atlanta located at 1775 Pleasant Hill Road, Duluth, Georgia.

Q. Who can vote at the special meeting?

A. If you are a holder of record of AdCare common stock at the close of business on July 13, 2017, you may vote the shares of AdCare common stock that you hold on the record date at the special meeting. On or about August 3, 2017, we will begin mailing this proxy statement/prospectus to all persons entitled to notice of the special meeting.

Q. What will I be voting on at the special meeting?

A. As a holder of AdCare common stock, you are entitled to, and requested to, vote on the proposal to approve the merger agreement pursuant to which AdCare will be merged with and into RHE, a wholly owned subsidiary of AdCare, with RHE as the surviving entity. In addition, you are requested to vote on the proposal to approve the adjournment of the special meeting, if necessary, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement.

Q. Why is my vote important?

A. If you, as a holder of AdCare common stock, do not submit a proxy or vote in person at the meeting, it will be more difficult for us to obtain the necessary quorum to hold the special meeting. In addition, your failure to submit a proxy or to vote in person will have the same effect as a vote against the approval of the merger agreement. If you hold your shares through a broker, bank or other nominee, your broker, bank or other nominee will not be able to cast a vote on the approval of the merger agreement without instructions from you. Failure to provide voting instructions to your broker, bank or other nominee will have the same effect as a vote against approval of the merger agreement.

Q. What constitutes a quorum for the special meeting?

A. A majority of the voting power of the outstanding shares of AdCare common stock entitled to vote at the special meeting, represented in person or by proxy, constitutes a quorum for the special meeting.

Q. What vote is required?

A. Approval of the merger proposal requires the affirmative vote of the holders of a majority of all outstanding shares of AdCare common stock entitled to vote on the merger proposal. Approval of the adjournment proposal requires that the votes cast in favor of the adjournment proposal exceed the votes cast against it. As of the close of business on the record date, there were 19,878,908 shares of AdCare common stock outstanding and entitled to vote at the special meeting. Each share of outstanding common stock on the record date is entitled to one vote on each proposal submitted to you for consideration.

Q. How do I vote without attending the special meeting?

A. If you are a holder of AdCare common stock on the record date, you may cause your shares to be voted by completing, signing and promptly returning the proxy card in the self-addressed stamped envelope provided. You may also authorize a proxy to vote your shares by telephone or over the Internet as described in your proxy card. Authorizing a proxy by telephone or over the Internet or by mailing a proxy card will not limit your right to attend the special meeting and vote your shares in person

If your shares are held by a broker, bank or other nominee, please follow the voting instructions provided by your bank, broker or other nominee to ensure that your shares are represented at the special meeting.

Q. Can I attend the special meeting and vote my shares in person?

A. Yes. All shareholders of AdCare common stock are invited to attend the special meeting. Holders of record of AdCare common stock at the close of business on the record date are invited to attend and vote at the special meeting. If your shares are held by a broker, bank or other nominee, then you are not the holder of record. Therefore, to vote at the special meeting, you must bring the appropriate documentation from your broker, bank or other nominee confirming your beneficial ownership of the shares.

Q. If my shares are held in "street name" by my broker, bank or other nominee, will my broker, bank or other nominee vote my shares for me without my instruction?

A. No. If your shares are held in "street name" by your broker, bank or other nominee, you should follow the directions provided by your broker, bank or other nominee. Your broker, bank or other nominee will vote your shares only if you provide instructions on how you would like your shares to be voted. Failure to provide voting instructions to your broker, bank or other nominee will have the same effect as a vote against approval of the merger agreement.

Q. Can I change my vote after I have mailed my signed proxy card?

A. Yes. You can change your vote at any time before your proxy is voted at the special meeting. To revoke your proxy, you must either (i) timely notify the AdCare Corporate Secretary in writing, (ii) timely mail a new proxy card dated after the date of the proxy you wish to revoke, (iii) timely submit a later dated proxy, by telephone or over the Internet by following the instructions on your proxy card or (iv) attend the special meeting and vote your shares in person. Merely attending the special meeting will not constitute revocation of your proxy. If your shares are held through a broker, bank or other nominee, then you should contact your broker, bank or other nominee to change your vote.

Q. Who will be the board of directors and executive officers after the merger?

A. The existing board of directors and executive officers of AdCare immediately prior to the merger will be the board of directors and executive officers, respectively, of RHE immediately following the merger, and each director and executive officer will continue his directorship or employment, as the case may be, with RHE under the same terms as his directorship or employment with AdCare.

Q. Do any of our directors and executive officers have any interests in the merger that are different from mine?

A. No. Our directors and executive officers own shares of AdCare common stock, restricted stock awards and options and warrants to purchase AdCare common stock and, to that extent, their interest in the merger is the same as that of the other holders of shares of AdCare common stock, restricted stock awards and options and warrants to purchase AdCare common stock.

Q. Will I have to pay U.S. federal income taxes as a result of the merger?

A. No. You will not recognize gain or loss for U.S. federal income tax purposes as a result of the conversion of shares of AdCare common stock into shares of RHE common stock, or shares of AdCare Series A Preferred Stock into shares of RHE Series A Preferred Stock, in the merger.

The U.S. federal income tax treatment of holders of AdCare common stock, RHE common stock, AdCare Series A Preferred Stock and RHE Series A Preferred Stock depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. In addition, the tax consequences to any particular holder of AdCare common stock, RHE common stock, AdCare Series A Preferred Stock or RHE Series A Preferred Stock may depend on that holder's particular tax circumstances. We urge you to consult your tax advisor regarding the specific tax consequences, including the federal, state, local and foreign tax consequences, to you in light of your particular investment in, or the tax circumstances of acquiring, holding, exchanging or otherwise disposing of, AdCare common stock, RHE common stock, AdCare Series A Preferred Stock or RHE Series A Preferred Stock.

Q. Am I entitled to dissenters' rights?

A. No. Under Georgia law, you are not entitled to any statutory dissenters' rights in connection with the merger.

Q. How does the AdCare board of directors recommend I vote on the merger proposal?

A. The AdCare board of directors believes that the merger agreement and the transactions contemplated thereby are advisable and in the best interests of AdCare and its shareholders. The board of directors unanimously recommends that you vote "FOR" the approval of the merger agreement.

Q. When is the merger expected to be completed?

A. We expect to complete the merger no later than October 15, 2017. However, we reserve the right to cancel or defer the merger, even if the holders of AdCare common stock vote to approve the merger agreement and the other conditions to the completion of the merger are satisfied or waived, if the board of directors determines that the merger is no longer in the best interests of AdCare and its shareholders.

Q. What will I receive in connection with the merger?

A. At the effective time of the merger: (i) each outstanding share of AdCare common stock will be converted into one share of RHE common stock; and (ii) each outstanding share of AdCare Series A Preferred Stock will be converted into one share of RHE Series A Preferred Stock.

Q. Will the merger change AdCare's business or operating strategy?

A. The merger, if completed, will not change our business or operating strategy. See the section entitled "Our Business - Business Strategy."

Q. What do I need to do now?

A. You should carefully read and consider the information contained in this proxy statement/prospectus, including its annexes. They contain important information about what the AdCare board of directors considered in evaluating and adopting the merger agreement and the transactions contemplated thereby, including the merger.

You should then complete and sign your proxy card and return it in the enclosed envelope as soon as possible so that your shares will be represented at the special meeting, or submit your proxy by telephone or over the Internet in accordance with the instructions on your proxy card. If your shares are held through a broker, bank or other nominee, then you should receive a separate voting instruction form with this proxy statement/prospectus.

Q. Should I send in my stock certificates now?

A. No. After the merger is completed, holders of AdCare common stock will receive written instructions from the exchange agent on how to exchange their certificates formerly representing shares of AdCare common stock for certificates representing shares of RHE common stock. Please do not send in your AdCare stock certificates with your proxy.

Q. Will my RHE common stock and RHE Series A Preferred Stock be publicly traded?

A. RHE will apply to list the RHE common stock and RHE Series A Preferred Stock on the NYSE MKT. We expect that, immediately following the completion of the merger, RHE common stock will trade under the symbol "RHE" and RHE Series A Preferred Stock will trade under the symbol "RHE.PRA." It is a condition to the completion of the merger that the RHE common stock and RHE Series A Preferred Stock shall have been approved for listing on the NYSE MKT.

Q. Will a proxy solicitor be used?

A. Yes. We have engaged Georgeson Inc. to assist in the solicitation of proxies for the special meeting and estimate we will pay Georgeson Inc. a fee of approximately $10,000. We have also agreed to reimburse Georgeson Inc. for certain costs and expenses incurred in connection with the proxy solicitation and to indemnify Georgeson Inc. against certain losses, claims, damages, costs, fees, expenses and liabilities. In addition, our officers and employees may request the return of proxies by telephone or in person, but no additional compensation will be paid to them.

Q. Whom should I call with questions?

A. You should call Georgeson Inc., our proxy solicitor, toll-free at (888) 293-6812 with any questions about the merger, or to obtain additional copies of this proxy statement/prospectus or additional proxy cards.

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. You are urged to carefully read this entire proxy statement/prospectus and the other documents to which this proxy statement/prospectus refers to fully understand the merger. In particular, you should read the annexes attached to this proxy statement/prospectus, including the merger agreement, which is attached as Annex A. You also should read the form of RHE Charter, attached as Annex B, and the form of RHE Bylaws, attached as Annex C, because these documents will govern your rights as a holder of RHE common stock or a holder of RHE Series A Preferred Stock following the merger, as applicable. See the section entitled "Where You Can Find More Information" in this proxy statement/prospectus. For a discussion of the risk factors that you should carefully consider, see the section entitled "Risk Factors" beginning on page 13.

The Companies

AdCare Health Systems, Inc.
454 Satellite Blvd. NW
Suite 100
Suwanee, Georgia 30024
(678) 869-5116

AdCare is a self-managed real estate investment company that invests primarily in real estate purposed for long-term care and senior living. The Company's business primarily consists of leasing and subleasing healthcare facilities to third-party tenants, which operate such facilities. The facility operators provide a range of healthcare services, including skilled nursing and assisted living services, social services, various therapy services, and other rehabilitative and healthcare services for both long-term and short-stay patients and residents.

As of the date of this proxy statement/prospectus, the Company owned, leased, or managed for third parties 30 facilities primarily in the Southeast. Of the 30 facilities, the Company: (i) leased to third-party operators 14 skilled nursing facilities which it owned and subleased to third-party operators 11 skilled nursing facilities which it leased; (ii) leased to third-party operators two assisted living facilities which it owned; and (iii) managed on behalf of third-party owners two skilled nursing facilities and one independent living facility. On October 6, 2016, the Company completed the sale of nine of its facilities in Arkansas.

See the section entitled "Our Business."

Regional Health Properties, Inc.
454 Satellite Blvd. NW
Suite 100
Suwanee, Georgia 30024
(678) 869-5116

Regional Health Properties, Inc. is a wholly owned subsidiary of AdCare and was organized in Georgia on January 26, 2017. Prior to the merger, RHE will conduct no business other than that incident to the merger. Following the merger, RHE will succeed to the assets, continue the business and assume the obligations of AdCare.

General

We are reorganizing our corporate structure in order to ensure the effective adoption of charter provisions will position us to regain compliance with the Stockholders' Equity Continued Listing Standards. Second, if the board of directors determines for any future taxable year, after further consideration and evaluation, that qualifying for and electing status as a REIT under the Code would be in the best interests of us and our shareholders, then the ownership and transfer restrictions will better position us to comply with certain of the U.S. federal income tax rules applicable to REITs under the Code to the extent such rules relate to the common stock. The ownership and transfer restrictions will not apply to the Series A Preferred Stock and, therefore, will not assist us in complying with such U.S. federal income tax rules to the extent they relate to the Series A Preferred Stock. Accordingly, among other things, the Series A Preferred Stock would need to be redeemed or its terms appropriately modified before the Company would elect REIT status under the Code.

We are distributing this proxy statement/prospectus to the holders of AdCare common stock in connection with the solicitation of proxies by the board of directors for the approval of the merger proposal and the adjournment proposal. A copy of the merger agreement is attached to this proxy statement/prospectus as Annex A.

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The board of directors reserve the right to cancel or defer the merger, even if holders of AdCare common stock vote to approve the merger agreement and the other conditions to the completion of the merger are satisfied or waived, if it determines that the merger is no longer in the best interests of AdCare and its shareholders.

Board of Directors and Executive Officers of RHE (See page 108)

The existing board of directors and executive officers of AdCare immediately prior to the merger will be the board of directors and executive officers, respectively, of RHE immediately following the merger.

Interests of Directors and Executive Officers in the Merger (See page 106)

Our directors and executive officers own shares of AdCare common stock, restricted stock awards and options and warrants to purchase AdCare common stock and, to that extent, their interest in the merger is the same as that of the other holders of shares of AdCare common stock, restricted stock awards and options and warrants to purchase AdCare common stock.

Regulatory Approvals (See page 43)

We are not aware of any federal, state or local regulatory requirements that must be complied with or approvals that must be obtained prior to completion of the merger pursuant to the merger agreement and the transactions contemplated thereby, other than compliance with applicable federal and state securities laws and the filing of a certificate of merger as required under the Georgia Business Corporation Code (the “GBCC”).

Comparison of Rights of Shareholders of AdCare and RHE (See page 91)

The rights of holders of AdCare common stock are currently governed by the GBCC, the AdCare Charter and the AdCare Bylaws. If the merger agreement is approved by the holders of AdCare common stock and the merger is completed then holders of AdCare common stock will become holders of RHE common stock and the rights of holders of RHE common stock will be governed by the GBCC, the RHE Charter and the RHE Bylaws. As described below, some important differences exist between the rights of holders of AdCare common stock and the rights of holders of RHE common stock.

The rights of holders of AdCare Series A Preferred Stock are currently governed by the GBCC, the AdCare Charter and the AdCare Bylaws. If the merger agreement is approved by the holders of AdCare common stock and the merger is completed, then holders of AdCare Series A Preferred Stock will become holders of RHE Series A Preferred Stock and the rights of the holders of RHE Series A Preferred Stock will be governed by the GBCC, the RHE Charter and the RHE Bylaws. The rights of the holders of RHE Series A Preferred Stock would be equivalent to the rights of holders of AdCare Series A Preferred Stock.

The major difference between your rights as a holder of AdCare common stock and your rights as a holder of RHE common stock is that the RHE common stock will be subject to the ownership and transfer restrictions, including that, after the merger and subject to the exceptions, waivers and the constructive ownership rules described in the RHE Charter, no person (including any “group” as defined in Section 13(d)(3) of the Exchange Act) may beneficially own, or be deemed to constructively own by virtue of the ownership attribution provisions of the Code, in excess of 9.9% (by value or number of shares, whichever is more restrictive) of the outstanding RHE common stock. See the sections entitled “Description of Capital Stock - Ownership and Transfer Restrictions.” and “Comparison of Rights of Shareholders of AdCare and RHE.”

The forms of the RHE Charter and RHE Bylaws are attached as Annex B and Annex C, respectively.

Material U.S. Federal Income Tax Consequences of the Merger (See page 92)

It is a condition to the closing of the merger that we receive an opinion from our tax counsel to the effect that the merger will be treated for U.S. federal income tax purposes as a reorganization under Section 368(a)(1)(F) of the Code. Accordingly, we expect for U.S. federal income tax purposes that:

- No gain or loss will be recognized by AdCare or RHE as a result of the merger;

- With respect to the conversion of shares of AdCare common stock into RHE common stock:
  - you will not recognize any gain or loss upon the conversion of your shares of AdCare common stock into RHE common stock;

- the tax basis of the shares of RHE common stock that you receive pursuant to the merger in the aggregate will be the same as your adjusted tax basis in the shares of AdCare common stock being converted in the merger; and
- the holding period of shares of RHE common stock that you receive pursuant to the merger will include your holding period with respect to the shares of AdCare common stock being converted in the merger, assuming that your AdCare common stock was held as a capital asset at the effective time of the merger.

- With respect to the conversion of shares of AdCare Series A Preferred Stock into RHE Series A Preferred Stock:
- you will not recognize any gain or loss upon the conversion of your shares of AdCare Series A Preferred Stock into RHE Series A Preferred Stock;
- the tax basis of the shares of RHE Series A Preferred Stock that you receive pursuant to the merger in the aggregate will be the same as your adjusted tax basis in the shares of AdCare Series A Preferred Stock being converted in the merger; and
- the holding period of shares of RHE Series A Preferred Stock that you receive pursuant to the merger will include your holding period with respect to the shares of AdCare Series A Preferred Stock being converted in the merger, assuming that your AdCare Series A Preferred Stock was held as a capital asset at the effective time of the merger.

The U.S. federal income tax treatment of holders of AdCare common stock, RHE common stock, AdCare Series A Preferred Stock and RHE Series A Preferred Stock depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. In addition, the tax consequences to any particular holder of AdCare common stock, RHE common stock, AdCare Series A Preferred Stock or RHE Series A Preferred Stock may depend on that holder’s particular tax circumstances. We urge you to consult your tax advisor regarding the specific tax consequences, including the federal, state, local and foreign tax consequences, to you in light of your particular investment in, or tax circumstances of acquiring, holding, exchanging or otherwise disposing of, AdCare common stock, RHE common stock, AdCare Series A Preferred Stock or RHE Series A Preferred Stock.

Recommendation of the Board of Directors (See page 34)

The board of directors has unanimously adopted the merger agreement and determined the merger agreement and the transactions contemplated thereby advisable and in the best interests of AdCare and its shareholders and recommends that all holders of AdCare common stock entitled to vote thereon vote “FOR” the merger proposal.

The board of directors also unanimously recommends that all holders of AdCare common stock entitled to vote on the adjournment proposal vote “FOR” the adjournment proposal.

Date, Time, Place and Purpose of Special Meeting (See page 34)

The special meeting will be held on September 20, 2017 at 10:00 a.m., local time, at the Sonesta Gwinnett Place Atlanta located at 1775 Pleasant Hill Road, Duluth, Georgia, to consider and vote upon the proposals described in the notice of special meeting.

Shareholders Entitled to Vote (See page 3)

The board of directors has fixed the close of business on July 13, 2017 as the record date for the determination of holders of record of AdCare common stock entitled to receive notice of, and to vote those shares by proxy or at, the special meeting. As of July 13, 2017, there were 19,878,908 shares of common stock outstanding and entitled to vote and approximately 241 holders of record.

The holders of record of AdCare Series A Preferred Stock as of the record date are not entitled to vote on the proposals at the special meeting.

Vote Required (See page 34)

The affirmative vote of the holders of a majority of the outstanding shares of AdCare common stock entitled to vote is required for the approval of the merger agreement. Accordingly, abstentions and “broker non-votes”, if any, will have the effect of a vote against the proposal to adopt the merger agreement.

The board of directors reserves the right to cancel or defer the merger, even if the holders of AdCare common stock vote to adopt the merger agreement and the other conditions to the completion of the merger are satisfied or waived, if the board of directors determines that the merger is no longer in the best interests of AdCare and its shareholders.
The affirmative vote of the holders of a majority of the voting power of the shares of AdCare common stock present in person or represented by proxy at the meeting and entitled to vote is required to approve the adjournment of the special meeting, if necessary, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement.

No Dissenters' Rights (See page 43)

Under the GBCC, you will not be entitled to any statutory dissenters' rights in connection with the merger.

Shares Owned by AdCare's Directors and Executive Officers (See page 106)

As of July 13, 2017, the directors and executive officers of AdCare and their affiliates owned and were entitled to vote 1,638,733 shares of AdCare common stock, or 8.2% of the shares outstanding on that date entitled to vote with respect to each of the proposals. We currently expect that each director and executive officer of AdCare will vote the shares of AdCare common stock beneficially owned by such director or executive officer "FOR" approval of the merger agreement and "FOR" the proposal to approve the adjournment of the special meeting, if necessary, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to approve the merger agreement.

Historical Market Price of Common Stock and Series A Preferred Stock

The AdCare common stock and AdCare Series A Preferred Stock are listed and traded on the NYSE MKT under the symbols "ADK" and "ADK.PRA", respectively.

The following table sets forth for the calendar periods indicated the high and low sale prices per share of the AdCare common stock, the high and low sale prices per share of the AdCare Series A Preferred Stock, the declared dividend per share of AdCare common stock and the declared dividend per share of AdCare Series A Preferred Stock as reported by the NYSE MKT. On February 10, 2017, the last full trading day prior to the public announcement of the proposed merger, the closing sale price of AdCare common stock was $1.55 as reported by the NYSE MKT and the closing sale price per share of AdCare Series A Preferred Stock was $22.95 per share as reported on the NYSE MKT. On August 1, 2017, the latest practicable date before the printing of this proxy statement/prospectus, the closing sale price per share of AdCare common stock on the NYSE MKT was $1.05 per share and the closing sale price per share of AdCare Series A Preferred Stock was $21.95 per share. You should obtain a current stock price quotation for the AdCare common stock and the AdCare Series A Preferred Stock.

	AdCare Common Stock			AdCare Series A Preferred Stock		
	High	Low	Dividend Declared	High	Low	Dividend Declared
Year Ending December 31, 2017						
Third Quarter (through August 1, 2017)	$1.14	$0.92	---	$22.00	$20.23	---
Second Quarter	$1.29	$0.90	---	$23.32	$21.00	$0.68
First Quarter	$1.74	$1.11	---	$23.73	$21.86	$0.68
Year Ended December 31, 2016						
Fourth Quarter	$2.20	$1.38	---	$25.00	$19.44	$0.68
Third Quarter	$2.60	$1.65	---	$23.50	$20.00	$0.68
Second Quarter	$2.50	$1.71	---	$22.64	$20.21	$0.68
First Quarter	$2.70	$1.85	---	$22.49	$17.27	$0.68
Year Ended December 31, 2015						
Fourth Quarter	$3.42	$1.90	---	$24.01	$17.51	$0.68
Third Quarter	$4.00	$3.10	$0.060	$25.91	$19.35	$0.68
Second Quarter	$4.45	$3.32	$0.055	$29.64	$24.53	$0.68
First Quarter	$4.50	$3.79	$0.050	$29.50	$27.00	$0.68

It is expected that, immediately following the completion of the merger, RHE common stock and RHE Series A Preferred Stock will be listed and traded on the NYSE in the same manner as shares of AdCare common stock and AdCare Series A Preferred Stock. The current price of AdCare common stock and AdCare Series A Preferred Stock may not be indicative of the market price of RHE common stock or RHE Series A Preferred Stock following the merger.

We are a holding company, and we have no significant operations. We rely primarily on dividends and other distributions from our subsidiaries to us so we may, among other things, pay dividends on our common stock and Series A Preferred stock, if and to the extent declared by the board of directors. The ability of our subsidiaries to pay dividends and make other distributions to us depends on their earnings and may be restricted by the terms of certain agreements governing their indebtedness. If our subsidiaries are in default under such agreements, then they may not pay dividends or make other distributions to us.

In addition, we may only pay dividends on the common stock and the Series A Preferred Stock if we have funds legally available to pay dividends and such payment is not restricted or prohibited by law, the terms of any shares with higher priority with respect to dividends or any documents governing our indebtedness. We are restricted by Georgia law from paying dividends on the common stock and the Series A Preferred Stock if we are not able to pay our debts as they become due in the normal course of business or if our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the dividend. In

addition, no cash dividends may be declared or paid on the common stock unless full cumulative dividends on the Series A Preferred Stock have been, or contemporaneously are, declared and paid, or declared and a sum sufficient for the payment thereof is set apart for payments, for all past dividend periods. In addition, future debt, contractual covenants or arrangements we or our subsidiaries enter into may restrict or prevent future dividend payments.

RISK FACTORS

In addition to the other information in this proxy statement/prospectus, you should carefully consider the specific factors discussed below, together with all the other information contained in this proxy statement/prospectus and the documents incorporated by reference herein. The risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also impair our business operations. Any of these risks may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risks Related to the Delisting of Our Securities

If we fail to meet all applicable continued listing requirements of the NYSE MKT and the NYSE MKT determines to delist the common stock and Series A Preferred Stock, the delisting could adversely affect the market liquidity of such securities, impair the value of your investment, adversely affect our ability to raise needed funds and subject us to additional trading restrictions and regulations.

On April 18, 2016, the Company received notice from NYSE Regulation, Inc. (“NYSE Regulation”) that it is not in compliance with the Stockholders’ Equity Continued Listing Standards because the Company reported a stockholders’ deficit of $23.8 million as of December 31, 2015, and net losses for the last five fiscal years. See the section entitled “Questions and Answers About the Merger - Why are you reorganizing the corporate structure?”

As a result, the Company became subject to the procedures and requirements of Section 1009 of the NYSE MKT Company Guide and was required to submit a plan (a “Compliance Plan”) by May 18, 2016 describing the actions the Company has taken or will take to regain compliance with the Stockholders’ Equity Continued Listing Standards during the period ending October 18, 2017 (the “Plan Period”).The Company submitted a Compliance Plan by the May 18, 2016 deadline and was notified on June 2, 2016 that the NYSE Regulation had accepted the Compliance Plan. During the Plan Period, the Company is subject to periodic review by NYSE MKT, and the common stock and Series A Preferred Stock will continue to be listed on the NYSE MKT pursuant to an extension granted by NYSE Regulation. If the Company is not in compliance with Stockholders’ Equity Continued Listing Standards by October 18, 2017, or if the Company does not make progress consistent with its Compliance Plan during the Plan Period, then NYSE Regulation will initiate delisting proceedings.

We are reorganizing our corporate structure in order to effectively adopt the transfer and ownership restrictions which, among other things, will position us to regain compliance with the Stockholders’ Equity Continued Listing Standards. If the common stock and Series A Preferred Stock are delisted from the NYSE MKT, such securities may trade in the over-the-counter market. If our securities were to trade on the over-the-counter market, selling the common stock and Series A Preferred Stock could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and any security analysts’ coverage of us may be reduced. In addition, in the event the common stock and Series A Preferred Stock are delisted, broker-dealers have certain regulatory burdens imposed upon them, which may discourage broker-dealers from effecting transactions in such securities, further limiting the liquidity of the common stock and Series A Preferred Stock. These factors could result in lower prices and larger spreads in the bid and ask prices for our securities. Such delisting from the NYSE MKT and continued or further declines in our share price could also greatly impair our ability to raise additional necessary capital through equity or debt financing and could significantly increase the ownership dilution to shareholders caused by our issuing equity in financing or other transactions. Any such limitations on our ability to raise debt and equity capital could prevent us from making future investments and satisfying maturing debt commitments.

In addition, if the Company fails for 180 or more consecutive days to maintain a listing of the Series A Preferred Stock on a national exchange, then: (i) the annual dividend rate on the Series A Preferred Stock will be increased from 10.875% per annum to 12.875% per annum on the 181st day; and (ii) the holders of the Series A Preferred Stock will be entitled to vote for the election of two additional directors to serve on the board of directors. Such increased dividend rate and voting rights will continue for so long the Series A Preferred Stock is not listed on a national exchange.

Risks Related to the Ownership and Transfer Restrictions

The ownership and transfer restrictions may prevent or restrict you from acquiring or transferring shares of RHE common stock.

AdCare intends to merge with and into RHE to ensure the effective adoption of the charter provisions restricting the ownership and transfer of the RHE common stock. These ownership and transfer restrictions include that, subject to the exceptions,

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waivers and the constructive ownership rules described in the RHE Charter, no person (including any "group" as defined in Section 13(d)(3) of the Exchange Act) may beneficially own, or be deemed to constructively own by virtue of the ownership attribution provisions of the Code, in excess of 9.9% (by value or number of shares, whichever is more restrictive) of the outstanding RHE common stock. The RHE Charter also prohibits, among other things, any person from beneficially or constructively owning shares of RHE common stock to the extent that such ownership would cause the Company to fail to qualify as a REIT by reason of being "closely held" under the Code (without regard to whether the ownership interest is held during the last half of a taxable year) or that would cause the Company to otherwise fail to qualify as a REIT. Furthermore, any transfer, acquisition or other event or transaction that would result in RHE common stock being beneficially owned by less than 100 persons (determined without reference to any rules of attribution) will be void ab initio, and the intended transferee shall acquire no rights in such common stock. See "Description of Capital Stock - Ownership and Transfer Restrictions."

These ownership and transfer restrictions could have the effect of delaying, deferring or preventing a transaction or a change in control of us that might involve a premium price for our capital stock or otherwise be in the best interests of our shareholders.

There is no assurance that the Company will qualify as a REIT in a future taxable year or that, if it were to so qualify, that the board of directors would determine that electing REIT status would be in the best interest of the Company and its shareholders.

The Company does not currently qualify for REIT status under the Code, and the Company has certain structural and operational complexities which would need to be addressed before it could qualify as a REIT under the Code, including the disposition of certain assets or the termination of certain operations which may not be REIT compliant and otherwise effecting some internal reorganization. In addition, because the ownership and transfer restrictions will not apply to the Series A Preferred Stock, the restrictions will not assist us in complying with certain of the U.S. federal income tax rules applicable to REITs under the Code. See "Questions and Answers About the Merger - What are the requirements to qualify as a REIT under the Code?" Accordingly, among other things, the Series A Preferred Stock would need to be redeemed or its terms appropriately modified before the Company would elect REIT status under the Code.

Even if the Company were to qualify for REIT status under the Code for any future taxable year, the board of directors may determine that electing REIT status would not be in the best interests of the Company and its shareholders in light of various factors, including: (i) the Company's significant consolidated federal net operating loss carryforwards of approximately $65.1 million as of December 31, 2016, which should be available to cover any taxable income for some period of time in the future; (ii) the other negative factors identified in "Reasons for the Merger"; and (iii) the other potential risks discussed in the sections entitled "- Risks Relating to REIT Election" and "- Risks Relating to the Transfer and Ownership Restrictions."

If the merger is approved by the shareholders and completed, and the board of directors subsequently determines that electing REIT status would not be in the best interests of the Company and its shareholders, then the RHE common stock may remain subject to the ownership and transfer restrictions.

If the merger is approved by the shareholders and completed, the ownership and transfer restrictions (including that no person or "group" as defined in Section 13(d)(3) of the Exchange Act may beneficially own, or be deemed to constructively own by virtue of the ownership attribution provisions of the Code, in excess of 9.9% of the outstanding RHE common stock) will continue to apply unless and until the board of directors determines both that: (i) it is not in the best interests of the Company to attempt to qualify as, or to continue to qualify as, a REIT; and (ii) compliance with all or any of the ownership and transfer restrictions related to the RHE common stock is no longer otherwise advisable for the Company.

Even if the board of directors determines it is not in the best interests of the Company to attempt to qualify as, or to continue to qualify as, a REIT, the board of directors may believe that the ownership and transfer restrictions continue to be advisable because they permit us to classify the Series A Preferred Stock as permanent equity on our consolidated balance sheet and, thereby, to comply with the Stockholders' Equity Continued Listing Standards. In such case, the board of directors may (but is not required to) create a different common stock ownership limit for one or more persons, or otherwise waive a violation of the ownership and transfer restrictions, in each case upon such conditions as the board of directors may determine. See "Description of Capital Stock - Ownership and Transfer

Restrictions - Waivers by the board of directors; Increase in Common Stock Ownership Limit."

Risks Related to REIT Election

As previously discussed, the board of directors is in the process of evaluating the feasibility of the Company in the future qualifying for and electing status as a REIT under the Code. If the board of directors determines for any future taxable year, after further consideration and evaluation, that the Company qualifies as a REIT under the Code and that electing status as a REIT under the Code would be in the best interests of the Company and its shareholders, then there would be certain risks we would face if we subsequently elected REIT status, including the risks set forth below under " - Risks Related to REIT Election." The applicability of these risks assumes that: (i) we would qualify in a future taxable year as a REIT under the Code; (ii) the board of directors determines that electing status as a REIT under the Code is in the best interests of the Company and its shareholders in light of various factors, including those described under the section entitled "Reasons for the Merger"; and (ii) we subsequently elect status as a REIT under the Code.

Complying with the REIT requirements may cause us to liquidate assets or hinder our ability to pursue otherwise attractive asset acquisition opportunities.

To qualify as a REIT for federal income tax purposes, we would need to continually satisfy tests concerning, among other things, the nature and diversification of our assets, the sources of our income and the amounts we distribute to our shareholders. For example, to qualify as a REIT, we would need to ensure that, at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and "real estate assets" (as defined in the Code), including certain mortgage loans and securities. The remainder of our investments (other than government securities, qualified real estate assets and securities issued by any taxable REIT subsidiary ("TRS")) generally could not include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, qualified real estate assets and securities issued by a TRS) could consist of the securities of any one issuer, and no more than (for taxable years beginning after December 31, 2017) 20% of the value of our total assets could be represented by securities of one or more TRSs. If we were to elect as a REIT under the Code and subsequently we fail to comply with these requirements at the end of any calendar quarter, then we would need to correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we could be required to liquidate assets.

In addition to the asset tests set forth above, to qualify and be subject to tax as a REIT, we would generally be required, after the utilization of any available federal net operating loss carryforwards, to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and excluding any net capital gain) each year to our shareholders. If we were to elect as a REIT under the Code, any determination as to the timing or amount of future dividends would be based on a number of factors, including investment opportunities and the availability of our existing federal net operating loss carryforwards. If we were to elect as a REIT under the Code, and to the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our REIT taxable income (after the application of available federal net operating loss carryforwards, if any), we would be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we would be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders for a calendar year is less than a minimum amount specified under the Code. These distribution requirements could hinder our ability to pursue otherwise attractive asset acquisition opportunities. Furthermore, if we were to elect as a REIT under the Code, our ability to compete for acquisition opportunities in domestic markets may be adversely affected if we were to need, or require, the target company to comply with certain REIT requirements. These actions could have the effect of reducing our income, amounts available for distribution to our shareholders and amounts available for making payments on our indebtedness.

Qualifying as a REIT involves highly technical and complex provisions of the Code. If we fail to qualify as a REIT or fail to remain qualified as a REIT, to the extent we have REIT taxable income and have utilized our federal net operating loss carryforwards, we would be subject to U.S. federal income tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our shareholders.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our potential REIT qualification. Our qualification as a REIT would depend on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we have not and will not obtain independent appraisals.

If we were to qualify and elect as a REIT under the Code for a future taxable year, and have utilized our federal net operating loss carryforwards, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our shareholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our shareholders, which in turn could have an adverse impact on the value of our stock. Unless we were entitled to relief under certain provisions of the Code, we also would be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year in which we failed to qualify as a REIT (after having elected as a REIT under the Code). If we were to fail to qualify for taxation as a REIT after having elected as a REIT under the Code, we may be required to borrow additional funds or liquidate assets to pay any additional tax liability and, therefore, funds available for investment and making payments on our indebtedness would be reduced.

We may be required to borrow funds, sell assets, or raise equity to satisfy REIT distribution requirements.

If we were to elect as a REIT under the Code, from time to time thereafter we might generate REIT taxable income greater than our cash flow as a result of differences in timing between the recognition of taxable income and the actual receipt of cash or the effect of nondeductible capital expenditures, the creation of reserves or required debt or amortization payments. If we were to not have other funds available in those situations, we would need to borrow funds, sell assets or raise equity, even if the then-prevailing market conditions are not favorable for these borrowings, sales or offerings, to enable us to satisfy the REIT distribution requirement and to avoid U.S. federal corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs and our leverage or require us to distribute amounts that would otherwise be invested in future acquisitions or stock repurchases. Thus, if we were to elect as a REIT under the Code: (i) continued compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our stock; and (ii) continued compliance with the REIT distribution requirements may increase the financing we would need to fund capital expenditures, future growth, or expansion initiatives, which would increase our total leverage.

Covenants specified in the instruments governing our indebtedness may limit our ability to make required REIT distributions.

If we were to elect as a REIT under the Code, restrictive loan covenants in the instruments governing our future indebtedness may prevent us from satisfying REIT distribution requirements and, after such election, we could fail to qualify for taxation as a REIT. If these covenant limitations were not to jeopardize our qualification for taxation as a REIT but nevertheless were to prevent us from distributing 100% of our REIT taxable income, then we would be subject to U.S. federal corporate income tax, and potentially the nondeductible 4% excise tax, on the undistributed amounts.

Our payment of cash distributions in the future is not guaranteed and the amount of any future cash distributions may fluctuate, which could adversely affect the value of our stock.

REITs are required to distribute annually at least 90% of their REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gain). We had approximately $65.1 million in federal net operating loss carryforwards as of December 31, 2016. If we were to elect as a REIT under the Code, we would be able to use, at our discretion, these federal net operating loss carryforwards to offset our REIT taxable income, and thus the required distributions to shareholders may be reduced or eliminated until such time as our federal net operating loss carryforwards have been fully utilized.

If we were to elect as a REIT under the Code, the amount of future distributions would be determined, from time to time, by the board of directors to balance our goal of increasing shareholder value and retaining sufficient cash to implement our current capital allocation policy, which includes portfolio improvement and stock repurchases (when we believe our stock price is below its intrinsic value). If we were to elect as a REIT under the Code, the actual timing and amount of distributions would be as determined and declared by the board of directors and would depend on, among other factors, our federal net operating loss carryforwards, our financial condition, earnings, debt covenants and other possible uses of such funds.

Furthermore, we may only pay dividends on our capital stock if we have funds legally available to pay dividends and such payment is not restricted or prohibited by Georgia law. See " - Risk Factors - Other Risks Related to Our Stock."

Certain of our business activities may be subject to corporate level income tax, which would reduce our cash flows, and would have potential deferred and contingent tax liabilities.

If we were to elect as a REIT under the Code: (i) we may be subject to certain federal, state, and local taxes on our income and assets, including alternative minimum taxes, taxes on any undistributed income and state, local income, franchise, property and transfer taxes; (ii) we could, in certain circumstances, be required to pay an excise or penalty tax, which could be significant in amount, in order to utilize one or more relief provisions under the Code to maintain qualification for taxation as a REIT; and (iii) we may incur a 100% excise tax on transactions with a TRS if they are not conducted on an arm's length basis. Any of these taxes would decrease our earnings and our available cash.

If we were to elect as a REIT under the Code, any TRS assets and operations we may have would continue to be subject, as applicable, to federal and state corporate income taxes in the jurisdictions in which those assets and operations are located, which taxes would decrease our earnings and our available cash. If we were to elect as a REIT under the Code, we would also be subject to a federal corporate level tax at the highest regular corporate rate (currently 35%) on the gain recognized from a sale of assets occurring during an initial period of time for which we are a REIT (which period has previously been ten years, but pursuant to recent regulatory amendment has been reduced to five years, unless the effectiveness of the amendment is affected as a result of recent executive action freezing certain new or pending federal regulations), up to the amount of the built-in gain that existed on January 1 of the year for which we elect as a REIT under the Code, which would be based on the fair market value of those assets in excess of our tax basis in those assets as of such date. Gain from a sale of an asset occurring after the specified period ends would not be subject to this corporate level tax.

Use of any TRSs we may have may cause us to fail to qualify as a REIT.

If we were to elect as a REIT under the Code, the net income of any TRSs we may have would not be required to be distributed to us, and such undistributed TRS income would generally not subject to our REIT distribution requirements. However, if we were to elect as a REIT under the Code and if the accumulation of cash or reinvestment of significant earnings in any TRSs we may have would cause the fair market value of our securities in those entities, taken together with other non-qualifying assets, to represent more than 25% of the fair market value of our assets, or causes the fair market value of such TRS securities alone to represent more than (for taxable years beginning after December 31, 2017) 20% of the value of our total assets, in each case, as determined for REIT asset testing purposes, we would, absent timely responsive action, fail to qualify as a REIT.

Legislative or other actions affecting REITs could have a negative effect on us.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the Treasury. Changes to the tax laws or interpretations thereof, with or without retroactive application, could materially and adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, U.S. Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the U.S. federal income tax consequences to our investors and us of such qualification.

We do not have any experience operating as a REIT, which may adversely affect our financial condition, results of operations, cash flow, per share trading price of our stock and ability to satisfy debt service obligations.

We have not actually operated as a REIT previously, and we do not currently qualify as a REIT under the Code. If we were to qualify and elect as a REIT under the Code in a future taxable year: (i) our pre-REIT operating experience may not be sufficient to enable us to operate successfully as a REIT; and (ii) we will be required to implement substantial control systems and procedures in order to maintain REIT status. As a result, we may incur additional legal, accounting and other expenses that we have not previously incurred, which could be significant, and our management and other personnel may need to devote additional time to comply with these rules and regulations and controls required for continued compliance with the Code. Therefore, if we were to qualify and elect as a REIT under the Code in a future taxable year, our historical combined consolidated financial statements may not be indicative of our future costs and performance as a REIT. If our performance is adversely affected, then it could affect our financial condition, results of operations, cash flow and ability to satisfy our debt service obligations.

The current market price of the AdCare common stock may not be indicative of the market price of RHE common stock following the merger if we were to elect as a REIT under the Code.

The current market price of the AdCare common stock may not be indicative of how the market will value the RHE common stock after the merger, if we elect as a REIT under the Code in a future taxable year, because of the change in our organization from a taxable C corporation to a REIT. The stock price of REIT securities have historically been affected by changes in market interest rates as investors evaluate the annual yield from distributions on the entity's common stock as compared to yields on other financial instruments. In addition, if we elect as a REIT under the Code in a future taxable, the market price of RHE common stock in the future may be potentially affected by the economic and market perception of REIT securities.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum U.S. federal income tax rate applicable to income from "qualified dividends" payable to U.S. shareholders that are individuals, trusts and estates is currently 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates applicable to qualified dividends. Although these rules do not adversely affect the taxation of REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our stock if we were to elect as a REIT under the Code.

Your investment has various tax risks.

Although the provisions of the Code that will be generally relevant to an investment in our stock if we were to elect as a REIT under the Code are described in the section entitled “Material United States Federal Income Tax Considerations,” we urge you to consult your tax advisor concerning the federal, state, local and foreign tax consequences to you with regard to an investment in shares of our stock.

Risks Related to Our Business

If we are unable to resolve our professional and general liability actions on terms acceptable to us, then it could have a material adverse effect on our business, financial condition and results of operation.

The Company is a defendant in various legal actions and administrative proceedings arising in the ordinary course of business, including claims that the services the Company provided during the time it operated skilled nursing facilities resulted in injury or death to former patients. Although the Company settles cases from time to time if settlement can be achieved on a reasonable basis, the Company vigorously defends any matter in which it believes the claims lack merit and the Company has a reasonable chance to prevail at trial or in arbitration. Litigation is inherently unpredictable and there is risk in the Company's strategy of aggressively defending these cases. There is no assurance that the outcomes of these matters will not have a material adverse effect on the Company’s financial condition.

The Company is a defendant in 44 professional and general liability actions commenced on behalf of former patients, of which 28 cases were filed in the State of Arkansas by the same plaintiff attorney who represented the plaintiffs in a purported class action lawsuit against the Company previously disclosed as the Amy Cleveland Class Action which settled in December 2015. These actions generally seek unspecified compensatory and punitive damages for former patients of the Company who were allegedly injured or died while patients of facilities operated by the Company due to professional negligence or understaffing. Three of the pending actions are covered by insurance, except that any award of punitive damages would be excluded from such coverage.

The Company has self-insured against professional and general liability claims since it discontinued its healthcare operations in connection with its transition to a healthcare holding and property leasing company. The Company has established a self-insurance reserve for estimated costs associated with its professional liability claims, included within “Accrued expenses and other” in the Company’s consolidated balance sheets, of $6.9 million and $6.0 million at December 31, 2016, and March 31, 2017, respectively. See Note 1 - Summary of Significant Accounting Policies and Note 15 - Commitments and Contingencies in the notes accompanying our audited consolidated financial statements for the year ended December 31, 2016 (the “Annual Consolidated Financial Statements”), and Note 1 - Organization and Significant Accounting Policies - Self-Insurance and Note 15 - Commitments and Contingencies in the notes accompanying our unaudited consolidated financial statements for three months ended March 31, 2017 (the "Quarterly Consolidated Financial Statements"), each of which is included elsewhere in this proxy statement/prospectus. Also see “Liquidity and Capital Resources - Cash Requirements” in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The Company currently believes that most of these actions, and particularly many of the most recently filed actions, are defensible and intends to defend them through final judgment. Accordingly, the self-insurance reserve primarily reflects the Company's estimated legal costs of litigating the pending actions accordingly.

The amount of the self-insurance reserve may not be sufficient to cover the legal costs actually incurred in litigating the pending actions, and the amount of the self-insurance reserve may increase, perhaps by a material amount, in any given period, particularly if the Company determines that it has probable exposure in one or more actions. If we are unable to resolve the pending actions on terms acceptable to us, then it could have a material adverse effect on our business, financial condition and results of operations.

We have a history of operating losses and may incur losses in the future.

The Company had a net loss of $7.5 million and $2.8 million for the year ended December 31, 2016, and the three months ended March 31, 2017, respectively, compared to a net loss of $23.5 million and $3.7 million for the year ended December 31, 2015, and the three months ended March 31, 2016, respectively. We make no assurances that we will be able to operate profitably. At March 31, 2017, we had a working capital deficit of approximately $7.5 million.

Our leases with tenants comprise our rental revenue and any failure, inability or unwillingness by these tenants to satisfy their obligations under our agreements could have a material adverse effect on us.

Our business depends upon our tenants meeting their obligations to us, including their obligations to pay rent, maintain certain insurance coverage, pay real estate and other taxes and maintain and repair the leased properties. We cannot assure you that these tenants will have sufficient assets, income and access to financing to enable them to satisfy their respective obligations to us, and any failure, inability or unwillingness by these tenants to do so could have a material adverse effect on us. In addition, any failure by these tenants to effectively conduct their operations or to maintain and improve our properties could adversely affect their business reputation and their ability to attract and retain patients and residents in our properties, which could have a material adverse effect on us. Our tenants have agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses, and we cannot assure you that our tenants will have sufficient assets, income, access to financing and insurance coverage to enable them to satisfy their respective indemnification obligations.

We depend on affiliates of C.R Management and Beacon Health Management for a significant portion of our revenues and any inability or unwillingness by such entities to satisfy their obligations to us could have a material adverse effect on us.

Our 27 properties (excluding the three facilities that are managed by us) are operated by a total of 27 separate tenants, with each of our tenants being affiliated with one of six local or regionally-focused operators. We refer to our tenants who are affiliated with the same operator as a group of affiliated tenants. Each of our operators operate (through a group of affiliated tenants) between two and eight of our facilities, with our most significant operators, C.R Management and Beacon Health Management, each operating (through a group of affiliated tenants) eight and seven facilities, respectively. We, accordingly depend, on our tenants who are affiliated with C.R Management and Beacon Health Management for a significant portion of our revenues. We cannot assure you that the tenants affiliated with C.R Management and Beacon Health Management will have sufficient assets, income and access to financing to enable them to make rental payments to us or to otherwise satisfy their obligations under the applicable leases and subleases, and any inability or unwillingness by such tenants to do so could have a material adverse effect on us.

A prolonged economic slowdown could adversely impact the results of operations of our tenants, which could impair their ability to meet their obligations to us.

We believe the risks associated with our investments will be more acute during periods of economic slowdown or recession (such as the most recent recession) due to the adverse impact caused by various factors, including inflation, deflation, increased unemployment, volatile energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, a distressed real estate market, market volatility and weakened business and consumer confidence. This difficult operating environment caused by an economic slowdown or recession could have an adverse impact on the ability of our tenants to maintain occupancy rates, which could harm their financial condition. Any sustained period of increased payment delinquencies, foreclosures or losses by our tenants could adversely affect our income from investments in our portfolio.

Increased competition, as well as increased operating costs, could result in lower revenues for some of our tenants and may affect their ability to meet their obligations to us.

The long-term care industry is highly competitive, and we expect that it will become more competitive in the future. Our tenants are competing with numerous other companies providing similar healthcare services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. Our tenants compete on a number of different levels, including the quality of care provided, reputation, the physical appearance of a facility, price, the range of services offered, family preference, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location and the size and demographics of the population in the surrounding areas. We cannot be certain that the tenants of all of our facilities will be able to achieve occupancy and rate levels that will enable them to meet all of their obligations to us. Our tenants may encounter increased competition in the future that could limit their ability to attract patients or residents or expand their businesses and, therefore, affect their ability to make their lease payments.

In addition, the market for qualified nurses, healthcare professionals and other key personnel is highly competitive, and our tenants may experience difficulties in attracting and retaining qualified personnel. Increases in labor costs due to higher wages and greater benefits required to attract and retain qualified healthcare personnel incurred by our tenants could affect their ability to meet their obligations to us. This situation could be particularly acute in certain states that have enacted legislation establishing minimum staffing requirements.

Disasters and other adverse events may seriously harm our business.

Our facilities and our business may suffer harm as a result of natural or man-made disasters such as storms, earthquakes, hurricanes, tornadoes, floods, fires, terrorist attacks and other conditions. The impact, or impending threat, of such events may require that our tenants evacuate one or more facilities, which could be costly and would involve risks, including potentially fatal risks, for their patients. The impact of disasters and similar events is inherently uncertain. Such events could harm our tenants' patients and employees, severely damage or destroy one or more of our facilities, harm our tenants' business, reputation and financial performance, or otherwise cause our tenants' businesses to suffer in ways that we currently cannot predict.

A severe cold and flu season, epidemics, or any other widespread illnesses could adversely affect the occupancy of our tenants' facilities.

Our and our tenants' revenues are dependent upon occupancy. It is impossible to predict the severity of the cold and flu season or the occurrence of epidemics or any other widespread illnesses. The occupancy of our skilled nursing and assisted living facilities could significantly decrease in the event of a severe cold and flu season, an epidemic, or any other widespread illness. Such a decrease could affect the operating income of our tenants and the ability of our tenants to make payments to us.

The bankruptcy, insolvency or financial deterioration of our tenants could limit or delay our ability to collect unpaid rents or require us to find new tenants.

We are exposed to the risk that a distressed tenant may not be able to meet its obligations to us or other third parties. This risk is heightened during a period of economic or political instability. We are also exposed to increased risk in situations where we lease multiple properties to a single tenant (or affiliated tenants) under a master lease, as a tenant failure or default could reduce or eliminate rental revenue from multiple properties. If tenants are unable to comply with the terms of their leases, then we may be forced to modify the leases in ways that are unfavorable to us. Alternatively, the failure of a tenant to perform under a lease could require us to declare a default, repossess the property, find a suitable replacement tenant, hire third-party managers to operate the property or sell the property. There is no assurance that we would be able to lease a property on substantially equivalent or better terms than the prior lease, or at all, find another qualified tenant, successfully reposition the property for other uses or sell the property on terms that are favorable to us. It may be more difficult to find a replacement tenant for a healthcare property than it would be to find a replacement tenant for a general commercial property due to the specialized nature of the business. Even if we are able to find a suitable replacement tenant for a property, transfers of operations of skilled nursing facilities and assisted living facilities are subject to regulatory approvals not required for transfers of other types of commercial operations, which may affect our ability to successfully transition a property.

If any lease expires or is terminated, then we could be responsible for all of the operating expenses for that property until it is leased again or sold. If a significant number of our properties are unleased, then our operating expenses could increase significantly. Any significant increase in our operating costs may have a material adverse effect on our business, financial condition and results of operations, and our ability to pay dividends to our shareholders. Furthermore, to the extent we operate such property for an indeterminate amount of time, we would be subject to the various risks our tenants assume as operators and potentially fail to qualify as a REIT in any given year.

Although each of our lease agreements typically provides us with, or will provide us with, the right to terminate, evict a tenant, foreclose on our collateral, demand immediate payment and exercise other remedies upon the bankruptcy or insolvency of an tenant, the United States Bankruptcy Code (the "Bankruptcy Code") would limit or, at a minimum, delay our ability to collect unpaid pre-bankruptcy rents and to pursue other remedies against a bankrupt tenant. A bankruptcy filing by one of our tenants would typically prevent us from collecting unpaid pre-bankruptcy rents or evicting the tenant absent approval of the bankruptcy court. The Bankruptcy Code provides a tenant with the option to assume or reject an unexpired lease within certain specified periods of time. Generally, a lessee is required to pay all rent that becomes payable between the date of its bankruptcy filing and the date of the assumption or rejection of the lease (although such payments will likely be delayed as a result of the bankruptcy filing). Any tenant that chooses to assume its lease with us must cure all monetary defaults existing under the lease (including payment of unpaid pre-bankruptcy rents) and provide adequate assurance of its ability to perform its future obligations under the lease. Any tenant that opts to reject its lease with us would face a claim by us for unpaid and future rents payable under the lease,

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but such claim would be subject to a statutory “cap” and would generally result in a recovery substantially less than the face value of such claim. Although the tenant’s rejection of the lease would permit us to recover possession of the leased facility, we would likely face losses, costs and delays associated with re-leasing the facility to a new tenant. Several other factors could impact our rights under leases with bankrupt tenants. First, the tenant could seek to assign its lease with us to a third party. The Bankruptcy Code generally disregards anti-assignment provisions in leases to permit the assignment of unexpired leases to third parties (provided all monetary defaults under the lease are cured and the third party can demonstrate its ability to perform its obligations under the lease). Second, in instances in which we have entered into a master lease agreement with a tenant that operates more than one facility, the bankruptcy court could determine that the master lease was comprised of separate, divisible leases (each of which could be separately assumed or rejected), rather than a single, integrated lease (which would have to be assumed or rejected in its entirety). Finally, the bankruptcy court could recharacterize our lease agreement as a disguised financing arrangement, which could require us to receive bankruptcy court approval to foreclose or pursue other remedies with respect to the facility.

In 2016, New Beginnings Care, LLC (“New Beginnings”) and its affiliates (including a former tenant of the Company), who operated the Company’s 85-bed skilled nursing facility in Tybee Island, Georgia (the “Oceanside Facility”), the Company’s 50-bed skilled nursing facility in Tybee Island, Georgia (the “Savannah Beach Facility”) and the Company’s 131-bed skilled nursing facility in Jeffersonville, Georgia (the “Jeffersonville Facility”), filed petitions to reorganize their finances under the Bankruptcy Code. We give no assurance that our current tenants will not undergo bankruptcy, insolvency or financial deterioration that could have a material adverse effect our business, financial condition and results of operations.

If we must replace any of our tenants, we might be unable to rent the properties on as favorable terms, or at all, and we could be subject to delays, limitations and expenses, which could have a material adverse effect on us.

We cannot predict whether our tenants will renew existing leases beyond their current term. If any of our triple-net leases are not renewed, we would attempt to rent those properties to another tenant. In addition, following expiration of a lease term or if we exercise our right to replace a tenant in default, rental payments on the related properties could decline or cease altogether while we reposition the properties with a suitable replacement tenant. We also might not be successful in identifying suitable replacements or entering into leases or other arrangements with new tenants on a timely basis or on terms as favorable to us as our current leases, if at all, and we may be required to fund certain expenses and obligations (e.g., real estate and bed taxes, and maintenance expenses) to preserve the value of, and avoid the imposition of liens on, our properties while they are being repositioned. In addition, we may incur certain obligations and liabilities, including obligations to indemnify the replacement tenant, which could have a material adverse effect on us.

In the event of non-renewal or a tenant default, our ability to reposition our properties with a suitable replacement tenant could be significantly delayed or limited by state licensing, receivership, certificate of need (“CON”) or other laws, as well as by the Medicare and Medicaid change-of-ownership rules, and we could incur substantial additional expenses in connection with any licensing, receivership or change-of-ownership proceedings. Our ability to locate and attract suitable replacement tenants also could be impaired by the specialized healthcare uses or contractual restrictions on use of the properties, and we may be forced to spend substantial amounts to adapt the properties to other uses. Any such delays, limitations and expenses could adversely impact our ability to collect rent, obtain possession of leased properties or otherwise exercise remedies for tenant default and could have a material adverse effect on us.

Moreover, in connection with certain of our properties, we have entered into intercreditor agreements with the tenants’ lenders or tri-party agreements with our lenders. Our ability to exercise remedies under the applicable leases or to reposition the applicable properties may be significantly delayed or limited by the terms of the intercreditor agreement or tri-party agreement. Any such delay or limit on our rights and remedies could adversely affect our ability to mitigate our losses and could have a material adverse effect on us.

Our tenants may be subject to significant legal actions that could result in their increased operating costs and substantial uninsured liabilities, which may affect their ability to meet their obligations to us.

As is typical in the long term care industry, our tenants may be subject to claims for damages relating to the services that they provide. We give no assurance that the insurance coverage maintained by our tenants will cover all claims made against them or continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages may not, in certain cases, be available to operators due to state law prohibitions or limitations of availability. As a result, our tenants doing business in these states may be liable for punitive damage awards that are either not covered by their insurance or are in excess of their insurance policy limits.

We also believe that there has been, and will continue to be, an increase in governmental investigations of long-term care providers, particularly in the area of Medicare/Medicaid false claims, as well as an increase in enforcement actions resulting from these investigations. The Office of the Inspector General ("OIG") of the Department of Health and Human Services ("HHS"), the enforcement arm of the Medicare and Medicaid programs, formulates a formal work plan each year for nursing centers. The OIG’s most recent work plan indicates that, among other things, the OIG’s investigative and review focus in 2017 for nursing facilities will include complaint investigations by state agencies, unreported incidents of potential abuse and neglect, reimbursement, background checks, compliance with prospective payment requirements, and potentially avoidable hospitalizations. We cannot predict the likelihood, scope or outcome of any such investigations and reviews with respect to our facilities or our tenants. Insurance is not available to our tenants to cover such losses. Any adverse determination in a legal proceeding or governmental investigation, whether currently asserted or arising in the future, could have a material adverse effect on a tenant’s financial condition. If a tenant is unable to obtain or maintain insurance coverage, if judgments are obtained in excess of the insurance coverage, if a tenant is required to pay uninsured punitive damages, or if a tenant is subject to an uninsurable government enforcement action, then such tenant could be exposed to substantial additional liabilities. Such liabilities could adversely affect a tenant’s ability to meet its obligations to us.

In addition, we may, in some circumstances, be named as a defendant in litigation involving the services provided by our tenants. Although we generally have no involvement in the services provided by our tenants, and our standard lease agreements generally require (or will require) our tenants to indemnify us and carry insurance to cover us in certain cases, a significant judgment against us in such litigation could exceed our and our tenants’ insurance coverage, which would require us to make payments to cover any such judgment.

Our tenants may be sued under a federal whistleblower statute.

Our tenants who engage in business with the federal government may be sued under a federal whistleblower statute designed to combat fraud and abuse in the healthcare industry. See “Our Business - Governmental Regulation-Healthcare Regulation.” These lawsuits can involve significant monetary damages and award bounties to private plaintiffs who successfully bring these suits. If any of these lawsuits were brought against our tenants, such suits combined with increased operating costs and substantial uninsured liabilities could have a material adverse effect on our tenants’ liquidity, financial condition and results of operations and on their ability to satisfy their obligations under our leases, which, in turn, could have a material adverse effect on us.

The amount and scope of insurance coverage provided by policies maintained by our tenants may not adequately insure against losses.

We maintain or require in our leases that our tenants maintain all applicable lines of insurance on our properties and their operations. Although we regularly review the amount and scope of insurance maintained by our tenants and believe the coverage provided to be customary for similarly situated companies in our industry, we cannot assure you that our tenants will continue to be able to maintain adequate levels of insurance. We also cannot assure you that our tenants will maintain the required coverages, that we will continue to require the same levels of insurance under our leases, that such insurance will be available at a reasonable cost in the future or that the policies maintained will fully cover all losses on our properties upon the occurrence of a catastrophic event, nor can we make any guaranty as to the future financial viability of the insurers that underwrite the policies maintained by our tenants.

For various reasons, including to reduce and manage costs, many healthcare companies utilize different organizational and corporate structures coupled with captive programs that may provide less insurance coverage than a traditional insurance policy. Companies that insure any part of their general and professional liability risks through their own captive limited purpose entities generally estimate the future cost of general and professional liability through actuarial studies that rely primarily on historical data. However, due to the rise in the number and severity of professional claims against healthcare providers, these actuarial studies may underestimate the future cost of claims, and reserves for future claims may not be adequate to cover the actual cost of those claims. As a result, the tenants of our properties who self-insure could incur large funded and unfunded general and professional liability expenses, which could materially adversely affect their liquidity, financial condition and results of operations and, in turn, their ability to satisfy their obligations to us. If tenants of our properties decide to implement a captive or self-insurance program, any large funded and unfunded general and professional liability expenses incurred could have a material adverse effect on us.

Should an uninsured loss or a loss in excess of insured limits occur, we could incur substantial liability or lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenues from the property. Following the occurrence of such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We cannot assure you that material uninsured losses, or losses in excess of insurance proceeds, will not occur in the future.

Failure by our tenants to comply with various local, state and federal government regulations may adversely impact their ability to make lease payments to us.

Healthcare operators are subject to numerous federal, state and local laws and regulations, including those described below, that are subject to frequent and substantial changes (sometimes applied retroactively) resulting from new legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. Although we cannot accurately predict the ultimate timing or effect of these changes, such changes could have a material effect on our tenants' costs of doing business and on the amount of reimbursement by both government and other third-party payors. The failure of any of our tenants to comply with these laws, requirements and regulations could adversely affect its ability to meet its obligations to us.

- Healthcare Reform. The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Healthcare Reform Law"), which was signed into law in March 2010, represents the most comprehensive change to healthcare benefits since the inception of the Medicare program in 1965 and affects reimbursement for governmental programs, private insurance and employee welfare benefit plans in various ways. Among other things, the Healthcare Reform Law expands Medicaid eligibility, requires most individuals to have health insurance, establishes new regulations for health plans, creates health insurance exchanges, and modifies certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste, including through new tools to address fraud and abuse. We cannot accurately predict the impact of the Healthcare Reform Law on our tenants or their ability to meet their obligations to us.
- Reimbursement; Medicare and Medicaid. A significant portion of the revenue of the healthcare operators to which we lease, or will lease, properties is, or will be, derived from governmentally-funded reimbursement programs, primarily Medicare and Medicaid. Failure to maintain certification in these programs would result in a loss of funding from such programs and could negatively impact an operator's ability to meet its obligations to us.
- Quality of Care Initiatives. The Center for Medicare and Medicaid Services ("CMS") has implemented a number of initiatives focused on the quality of care provided by nursing homes that could affect our tenants. Any unsatisfactory rating of our tenants under any rating system promulgated by the CMS could result in the loss of patients or residents or lower reimbursement rates, which could adversely impact their revenues and our business.
- Licensing and Certification. Healthcare operators are subject to various federal, state and local licensing and certification laws and regulations, including laws and regulations under Medicare and Medicaid requiring operators to comply with extensive standards governing operations. Many of our properties may require a license, registration, and/or CON to operate. State and local laws also may regulate the expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction or renovation of health care facilities, by requiring a CON or other similar approval from a state agency. Governmental agencies administering these laws and regulations regularly inspect facilities and investigate complaints. Failure to obtain any required licensure, certification, or CON, the loss or suspension of any required licensure, certification, or CON, or any violations or deficiencies with respect to relevant operating standards may require a facility to cease operations or result in ineligibility for reimbursement until the necessary licenses, certifications, or CON are obtained or reinstated or until any such violations or deficiencies are cured. In such event, our revenues from these facilities could be reduced or eliminated for an extended period of time or permanently.
- Fraud and Abuse Laws and Regulations. There are various federal and state civil and criminal laws and regulations governing a wide array of healthcare provider referrals, relationships and arrangements, including laws and regulations prohibiting fraud by healthcare providers. In addition, the Stark Law broadly defines the scope of prohibited physician referrals under federal health care programs to providers with which they have ownership or other financial arrangements. Many states have adopted, or are considering, legislative proposals similar to these laws, some of which extend beyond federal health care programs, to prohibit the payment or receipt of remuneration for the referral of patients and physician referrals regardless of the source of the payment for the care. Many of these complex laws raise issues that have not been clearly interpreted by the relevant governmental authorities and courts. We cannot assure you that governmental officials charged with responsibility for enforcing the provisions of these laws and regulations will not assert that one or more of our arrangements are in violation of the provisions of such laws and

regulations. In addition, federal and state governments are devoting increasing attention and resources to anti-fraud initiatives against healthcare providers. The violation of any of these laws or regulations by any of our tenants may result in the imposition of fines or other penalties, including exclusion from Medicare, Medicaid and all other federal and state healthcare programs. Such fines or penalties could jeopardize a tenant's ability to make lease payments to us or to continue operating its facility.

- Privacy Laws. Healthcare operators are subject to federal, state and local laws and regulations designed to protect the privacy and security of patient health information. These laws and regulations require operators to expend the requisite resources to protect and secure patient health information, including the funding of costs associated with technology upgrades. Operators found in violation of these laws may face large penalties. In addition, compliance with an operator's notification requirements in the event of a breach of unsecured protected health information could cause reputational harm to an operator's business. Such penalties and damaged reputation could adversely affect a tenant's ability to meet its obligations to us.
- Other Laws. Other federal, state and local laws and regulations affect how our tenants conduct their business. We cannot accurately predict the effect that the costs of complying with these laws may have on the revenues of our tenants and, thus, their ability to meet their obligations to us.
- Legislative and Regulatory Developments. Each year, legislative and regulatory proposals are introduced at the federal, state and local levels that, if adopted, would result in major changes to the healthcare system in addition to those described herein. We cannot accurately predict whether any proposals will be adopted and, if adopted, what effect (if any) these proposals would have on our tenants or our business.

Our tenants may be adversely affected by healthcare regulation and enforcement.

Regulation of the long-term healthcare industry generally has intensified over time both in the number and type of regulations and in the efforts to enforce those regulations. This is particularly true for large for-profit, multi-facility providers. Federal, state and local laws and regulations affecting the healthcare industry include those relating to, among other things, licensure, conduct of operations, ownership of facilities, addition of facilities and equipment, allowable costs, services, prices for services, qualified beneficiaries, quality of care, patient rights, fraudulent or abusive behavior, data privacy and security, and financial and other arrangements that may be entered into by healthcare providers. In addition, changes in enforcement policies by federal and state governments have resulted in an increase in the number of inspections, citations of regulatory deficiencies and other regulatory sanctions, including terminations from the Medicare and Medicaid programs, bars on Medicare and Medicaid payments for new admissions, civil monetary penalties and even criminal penalties. We are unable to predict the scope of future federal, state and local regulations and legislation, including the Medicare and Medicaid statutes and regulations, or the intensity of enforcement efforts with respect to such regulations and legislation, and any changes in the regulatory framework could have a material adverse effect on our tenants, operators and managers, which, in turn, could have a material adverse effect on us.

If our tenants fail to comply with the extensive laws, regulations and other requirements applicable to their businesses and the operation of our properties, they could become ineligible to receive reimbursement from governmental and private third-party payor programs, face bans on admissions of new patients or residents, suffer civil or criminal penalties or be required to make significant changes to their operations. Our tenants also could face increased costs related to healthcare regulation, such as the Healthcare Reform Law, or be forced to expend considerable resources in responding to an investigation or other enforcement action under applicable laws or regulations. In such event, the results of operations and financial condition of our tenants and the results of operations of our properties operated or managed by those entities could be adversely affected, which, in turn, could have a material adverse effect on us.

The impact of healthcare reform legislation on our tenants cannot be accurately predicted.

The health care industry in the United States is subject to fundamental changes due to ongoing health care reform efforts and related political, economic and regulatory influences. Notably, the Healthcare Reform Law resulted in expanded health care coverage to millions of previously uninsured people beginning in 2014 and has resulted in significant changes to the U.S. health care system. To help fund this expansion, the Healthcare Reform Law outlines certain reductions in Medicare reimbursements for various health care providers, including skilled nursing facilities, as well as certain other changes to Medicare payment methodologies.

Several provisions of the Healthcare Reform Law affect Medicare payments to skilled nursing facilities, including provisions changing Medicare payment methodology and implementing value-based purchasing and payment bundling. Although we cannot accurately predict how all of these provisions may be implemented, or the effect any such implementation would have on our tenants or our business, the Healthcare Reform Law could result in decreases in payments to our tenants, increase our tenants' costs or otherwise adversely affect the financial condition of our tenants, thereby negatively impacting their ability to meet their obligations to us.

The Healthcare Reform Law also requires skilled nursing facilities to have a compliance and ethics program that is effective in preventing and detecting criminal, civil and administrative violations and in promoting quality of care. If our tenants fall short in their compliance and ethics programs and quality assurance and performance improvement programs, then their reputations and ability to attract residents could be adversely affected.

This comprehensive health care legislation has resulted and will continue to result in extensive rulemaking by regulatory authorities, and also may be altered or amended. It is difficult to predict the full impact of the Healthcare Reform Law due to the complexity of the law and implementing regulations, as well our inability to foresee how CMS and other participants in the health care industry will respond to the choices available to them under the law. We also cannot accurately predict whether any new or pending legislative proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our tenants' business. Similarly, while we can anticipate that some of the rulemaking that will be promulgated by regulatory authorities will affect our tenants and the manner in which they are reimbursed by the federal health care programs, we cannot accurately predict today the impact of those regulations on their business and therefore on our business. The provisions of the legislation and other regulations implementing the provisions of the Healthcare Reform Law may increase our tenants' costs or otherwise adversely affect the financial condition of our tenants, thereby negatively impacting their ability to meet their obligations to us.

Other legislative changes have been proposed and adopted since the Healthcare Reform Law was enacted that also may impact our business. For instance, on April 1, 2014, President Obama signed the Protecting Access to Medicare Act of 2014, which, among other things, requires CMS to measure, track, and publish readmission rates of skilled nursing facilities by 2017 and implement a value-based purchasing program for skilled nursing facilities (the "SNF VBP Program") by October 1, 2018. The SNF VBP Program will increase Medicare reimbursement rates for skilled nursing facilities that achieve certain levels of quality performance measures to be developed by CMS, relative to other facilities. The value-based payments authorized by the SNF VBP Program will be funded by reducing Medicare payment for all skilled nursing facilities by 2% and redistributing up to 70% of those funds to high-performing skilled nursing facilities. If Medicare reimbursement provided to our tenants is reduced under the SNF VBP Program, that reduction may have an adverse impact on the ability of our tenants to meet their obligations to us.

Our tenants depend on reimbursement from governmental and other third-party payors, and reimbursement rates from such payors may be reduced.

Changes in the reimbursement rate or methods of payment from third-party payors, including the Medicare and Medicaid programs, or the implementation of other measures to reduce reimbursements for services provided by our tenants could result in a substantial reduction in the revenues and operating margins of our tenants. Significant limits on the scopes of services reimbursed and on reimbursement rates could have a material adverse effect on the results of operations and financial condition of our tenants, which could cause their revenues to decline and could negatively impact their ability to meet their obligations to us.

Additionally, net revenue realizable under third-party payor agreements can change after examination and retroactive adjustment by payors during the claims settlement processes or as a result of post-payment audits. Payors may disallow requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable, additional documentation is necessary or certain services were not covered or were not medically necessary. New legislative and regulatory proposals could impose further limitations on government and private payments to healthcare providers. In some cases, states have enacted or are considering enacting measures designed to reduce Medicaid expenditures and to make changes to private healthcare insurance. No assurance is given that adequate third-party payor reimbursement levels will continue to be available for the services provided by our tenants.

The Healthcare Reform Law provides those states that expand their Medicaid coverage to otherwise eligible state residents with incomes at or below 138% of the federal poverty level with an increased federal medical assistance percentage, effective January 1, 2014, when certain conditions are met. On June 28, 2012, the United States Supreme Court upheld the individual mandate of the Healthcare Reform Laws but partially invalidated the expansion of Medicaid. The ruling on Medicaid expansion allows states to elect not to participate in the expansion-and to forego funding for the Medicaid expansion-without losing their existing Medicaid funding. Given that the federal government substantially funds the Medicaid expansion, it is unclear how many states will ultimately pursue this option, although, as of early February 2016, roughly half of the states have expanded Medicaid coverage. The participation by states in the Medicaid expansion could have the dual effect of increasing our tenants' revenues, through new patients, but further straining state budgets and their ability to pay our tenants. While the federal government will pay for approximately 100% of those additional costs from 2014 through 2016, states will be expected to pay for part of those additional costs beginning in 2017. In light of this, at least one state that has passed legislation to allow the state to expand its

Medicaid coverage has included sunset provisions in the legislation that require that the expanded benefits be reduced or eliminated if the federal government's funding for the program is decreased or eliminated, permitting the state to re-visit the issue once it begins to share financial responsibility for the expansion. With increasingly strained budgets, it is unclear how states that do not include such sunset provisions will pay their share of these additional Medicaid costs and what other health care expenditures could be reduced as a result. A significant reduction in other health care related spending by states to pay for increased Medicaid costs could affect our tenants' revenue streams.
Furthermore, the Supreme Court's decision upholding the constitutionality of the individual healthcare mandate while striking down the provisions linking federal funding of state Medicaid programs with a federally mandated expansion of those programs has contributed to the uncertainty regarding the impact that the law will have on healthcare delivery systems over the next decade. We can expect that federal authorities will continue to implement the law, but because of the Supreme Court's mixed ruling, the implementation will take longer than originally expected, with a commensurate increase in the period of uncertainty regarding the long-term financial impact on the delivery of and payment for healthcare.

A repeal of the Healthcare Reform Law, in whole or in part, may have unforeseen consequences.

It is possible that following the inauguration of President Trump, which occurred on January 20, 2017, legislation will be introduced and passed by the Republican-controlled Congress repealing the Healthcare Reform Law in whole or in part and signed into law by President Trump, consistent with statements made by him during his presidential campaign indicating his intention to do so within a short time following his inauguration. It is also possible that this may be accomplished in part through the issuance of presidential executive orders. Because of the continued uncertainty about the implementation of the Healthcare Reform Law, including the potential for further legal challenges or repeal of that legislation, we cannot quantify or predict with any certainty the likely impact of the Healthcare Reform Law or its repeal on our tenants and, thus, their ability to meet their obligations to us. We also anticipate that Congress, state legislatures, and third-party payors may continue to review and assess alternative healthcare delivery and payment systems and may in the future propose and adopt legislative or policy changes or implementations affecting additional fundamental changes in the healthcare delivery system. We cannot provide assurances as to the ultimate content, timing, or effect of changes, nor is it possible at this time to estimate the impact of any such potential legislative or policy changes on our tenants and, thus, their ability to meet their obligations to us.

Government budget deficits could lead to a reduction in Medicare and Medicaid reimbursement.

Many states are focusing on the reduction of expenditures under their Medicaid programs, which may result in a reduction in reimbursement rates for our tenants. These potential reductions could be compounded by the potential for federal cost-cutting efforts that could lead to reductions in reimbursement to our tenants under both the Medicare and Medicaid programs. Reductions in Medicare and Medicaid reimbursement to our tenants could reduce the cash flow of our tenants and their ability to make rent payments to us. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. Because the Healthcare Reform Law allows states to increase the number of people who are eligible for Medicaid and simplifies enrollment in this program, Medicaid enrollment may significantly increase in the future. Since our tenants' profit margins with respect to Medicaid patients are generally relatively low, more than modest reductions in Medicaid reimbursement and an increase in the number of Medicaid patients could place some tenants in financial distress, which, in turn, could adversely affect us. If funding for Medicare or Medicaid is reduced, then it could have a material adverse effect on our tenants' results of operations and financial condition, which could adversely affect their ability to meet their obligations to us.

Changes in the reimbursement rates or methods of payment from third-party payors, including insurance companies and the Medicare and Medicaid programs, could have a material adverse effect on our tenants.

Our tenants rely on reimbursement from third-party payors, including the Medicare (both traditional Medicare and "managed" Medicare/Medicare Advantage) and Medicaid programs, for substantially all of their revenues. Federal and state legislators and regulators have adopted or proposed various cost-containment measures that would limit payments to healthcare providers, and budget crises and financial shortfalls have caused states to implement or consider Medicaid rate freezes or cuts. Private third-party payors also have continued their efforts to control healthcare costs. We cannot assure you that our tenants who currently depend on governmental or private payor reimbursement will be adequately reimbursed for the services they provide. Significant limits by governmental and private third-party payors on the scope of services reimbursed or on reimbursement rates and fees, whether from statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, court decisions, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries or carriers, government funding restrictions (at a program level or with respect to specific facilities) and interruption or delays in payments due to any ongoing government investigations and audits at such property, or private payor efforts, could have a material adverse effect on the liquidity, financial condition and results of operations of certain of our tenants, which could affect adversely their ability to comply with the terms of our leases and have a material adverse effect on us.

Unforeseen costs associated with the acquisition of new healthcare properties could reduce our profitability.

Our business strategy contemplates future acquisitions that may not prove to be successful. For example, we might encounter unanticipated difficulties and expenditures relating to our acquired healthcare properties, including contingent liabilities, or our newly acquired healthcare properties might require significant management attention that would otherwise be devoted to our ongoing business. Such costs may negatively affect our results of operations.

Our real estate investments are relatively illiquid.

Real estate investments are relatively illiquid and generally cannot be sold quickly. In addition, all of our owned healthcare properties serve as collateral for our secured debt obligations and may not be readily sold. Additional factors that are specific to our industry also tend to limit our ability to vary our portfolio promptly in response to changes in economic or other conditions. For example, all of our healthcare properties are "special purpose" properties that cannot be readily converted into general residential, retail or office use. In addition, transfers of operations of skilled nursing facilities, assisted living facilities and other healthcare facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of our healthcare properties becomes unprofitable due to competition, age of improvements or other factors such that a tenant becomes unable to meet its obligations to us, then the liquidation value of the property may be substantially less, particularly relative to the amount owing on any related mortgage loan, than would be the case if the property were readily adaptable to other uses. Furthermore, the receipt of liquidation proceeds or the replacement of a tenant that has defaulted on its lease could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the tenant with a new tenant licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment, such as real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment. Should such events occur, our revenues would be adversely affected.

As an owner with respect to real property, we may be exposed to possible environmental liabilities.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real property, such as us, may be liable in certain circumstances for the costs of investigation, removal or remediation of, or related releases of, certain hazardous or toxic substances at, under or disposed of in connection with such property, as well as certain other potential costs relating to hazardous or toxic substances, including government fines and damages for injuries to persons and adjacent property. Such laws often impose liability based on the owner's knowledge of, or responsibility for, the presence or disposal of such substances. As a result, liability may be imposed on the owner in connection with the activities of an operator of the property.

The cost of any required investigation, remediation, removal, fines or personal or property damages and the owner's liability therefor could exceed the value of the property and the assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect an operator's ability to attract additional patients or residents and our ability to sell or rent such property or to borrow using such property as collateral which, in turn, could negatively impact our revenues.

The industry in which we operate is highly competitive.

Our business is highly competitive, and we expect that it may become more competitive in the future. We compete for healthcare facility investments with other healthcare investors, many of which have greater resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our investment criteria. If we cannot identify and purchase a sufficient number of healthcare facilities at favorable prices, or if we are unable to finance such acquisitions on commercially favorable terms, our business, results of operations and financial condition may be materially adversely affected. In addition, if our cost of capital should increase relative to the cost of capital of our competitors, the spread that we realize on our investments may decline if competitive pressures limit or prevent us from charging higher lease rates.

The geographic concentration of our facilities could leave us vulnerable to an economic downturn or adverse regulatory changes in those areas.

Our properties are located in six states, with concentrations in Georgia and Ohio. As a result of this concentration, the conditions of local economies and real estate markets, changes in governmental rules, regulations and reimbursement rates or criteria, changes in demographics, state funding, acts of nature and other factors that may result in a decrease in demand and reimbursement for skilled nursing services in these states could have a disproportionately adverse effect on our tenants' revenue, costs and results of operations, which may affect their ability to meet their obligations to us.

If we lose our key management personnel, we may not be able to successfully manage our business or achieve our objectives, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are dependent on our management team, and our future success depends largely upon the management experience, skill, and contacts of our management and the loss of any of our key management team could harm our business. If we lose the services of any or all of our management team, we may not be able to replace them with similarly qualified personnel, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our directors and officers substantially control all major decisions.

Our directors and officers beneficially own a significant number of shares of our outstanding common stock. Therefore, our directors and officers will be able to influence major corporate actions required to be voted on by shareholders, such as the election of directors, the amendment of our charter documents and the approval of significant corporate transactions such as mergers, reorganizations, sales of substantially all of our assets and liquidation. Furthermore, our directors will be able to make decisions affecting our capital structure, including decisions to issue additional capital stock, implement stock repurchase programs and incur indebtedness. This control may have the effect of deterring hostile takeovers, delaying or preventing changes in control or changes in management, or limiting the ability of our other shareholders to approve transactions that they may deem to be in their best interests.

Risks Related to Our Capital Structure

We have substantial indebtedness, which may have a material adverse effect on our business and financial condition.

As of March 31, 2017, we had approximately $71.8 million in indebtedness, including current maturities of debt. We may also obtain additional short-term and long-term debt, subject to certain restrictions under our existing indebtedness, to meet future capital needs, which would increase our total debt. Our substantial amount of debt could have negative consequences to our business. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- require us to dedicate a substantial portion of cash flows from operations to interest and principal payments on outstanding debt, thereby limiting the availability of cash flow for dividends and other general corporate purposes;
- require us to maintain certain debt coverage and other financial ratios at specified levels, thereby reducing our financial flexibility;
- make it more difficult for us to satisfy our financial obligations;
- expose us to increases in interest rates for our variable rate debt;
- limit our ability to borrow additional funds on favorable terms, or at all, for working capital, debt service requirements, expansion of our business or other general corporate purposes;
- limit our ability to refinance all or a portion of our indebtedness on or before maturity on the same or more favorable terms, or at all;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- limit our ability to make acquisitions or take advantage of business opportunities as they arise;

- place us at a competitive disadvantage compared with our competitors that have less debt; and
- limit our ability to borrow additional funds, even when necessary to maintain adequate liquidity.

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our debt agreements. If we are unable to satisfy the financial covenants contained in those agreements, or are unable to generate cash sufficient to make required debt payments, the lenders and other parties to those arrangements could accelerate the maturity of some or all of our outstanding indebtedness.

We may not have sufficient liquidity to meet our capital needs.

The Company had a net loss of $7.5 million and $2.8 million for the year ended December 31, 2016, and the three months ended March 31, 2017, respectively, and negative working capital of approximately $7.5 million at March 31, 2017. At March 31, 2017, we had $4.2 million in cash and cash equivalents, as well as restricted cash of $3.8 million, and $71.8 million in indebtedness, including current maturities of $6.9 million.

We continue to undertake measures to further streamline our operations and cost infrastructure in connection with our new business model, including: (i) refinancing indebtedness to reduce interest costs and mandatory principal repayments; and (ii) reducing general and administrative expenses.

Management anticipates both access to and receipt of several sources of liquidity, including cash from operations and cash on hand. We have routine ongoing discussions with existing and new potential lenders to refinance current debt on a longer-term basis and, in recent periods, have refinanced short-term acquisition-related debt with traditional long-term mortgage notes, some of which have been executed under government guaranteed lending programs. We have been successful in recent years in raising new equity capital and believe, based on recent discussions that these markets will continue to be available to us for raising capital in 2017 and beyond.

In order to satisfy the Company's capital needs, the Company seeks to: (i) refinance debt where possible to obtain more favorable terms; (ii) raise capital through the issuance of debt or equity securities; and (iii) increase operating cash flows through acquisitions. The Company anticipates that these actions, if successful, will provide the opportunity to maintain its liquidity, thereby permitting the Company to better meet its operating and financing obligations. However, there is no guarantee that such actions will be successful. Management's ability to raise additional capital through the issuance of equity securities and the terms upon which we are able to raise such capital may be adversely affected if we are unable to maintain the listing of the common stock and Series A Preferred Stock on the NYSE MKT.

We rely on external sources of capital to fund our capital needs, and if we encounter difficulty in obtaining such capital, we may not be able to make future investments necessary to grow our business or meet maturing debt commitments.

We rely on external sources of capital, including private or public offerings of debt or equity, the assumption of secured indebtedness, or mortgage financing on a portion of our owned portfolio. If we are unable to obtain needed capital at all or only on unfavorable terms from these sources, we might not be able to make the investments needed to grow our business or to meet our obligations and commitments as they mature. Our access to capital depends upon a number of factors over which we have little or no control, including the performance of the national and global economies generally; competition in the healthcare industry; issues facing the healthcare industry, including regulations and government reimbursement policies; our tenants' operating costs; the market's perception of our growth potential; the market value of our properties; our current and potential future earnings and cash dividends; on its common stock and preferred stock, if any; and the market price of the shares of our capital stock. We may not be in a position to take advantage of future investment opportunities if we are unable to access capital markets on a timely basis or are only able to obtain financing on unfavorable terms.

In particular, we are subject to risks associated with debt financing, which could negatively impact our business and limit our ability to pay dividends to our shareholders and to repay maturing indebtedness. If we are unable to refinance or extend principal payments due at maturity or pay them with proceeds from other capital transactions, our cash flow may not be sufficient to repay our maturing indebtedness. Furthermore, if we have to pay higher interest rates in connection with a refinancing, the interest expense relating to that refinanced indebtedness would increase, which could reduce our profitability. Moreover, additional debt financing increases the amount of our leverage. The degree of leverage could have important consequences to our shareholders, including affecting our ability to obtain additional financing in the future, and making us more vulnerable to a downturn in our results of operations or the economy in general.

Our ability to raise capital through equity sales is dependent, in part, on the market price of our stock, and our failure to meet market expectations with respect to our business could negatively impact the market price of our stock and availability of equity capital.

As with other publicly-traded companies, the availability of equity capital will depend, in part, on the market price of our stock, which, in turn, will depend upon various market conditions and other factors that may change from time to time, including:

- the extent of investor interest;
- our financial performance and that of our tenants;
- general stock and bond market conditions; and
- other factors such as governmental regulatory action.

Covenants in the agreements evidencing our indebtedness limit our operational flexibility, and a covenant breach could materially adversely affect our operations.

The terms of our credit agreements and other agreements evidencing our indebtedness require us to comply with a number of financial and other covenants which may limit management's discretion by restricting our ability to, among other things, incur additional debt, and create liens. Any additional financing we may obtain could contain similar or more restrictive covenants. Our continued ability to incur indebtedness and conduct our operations is subject to compliance with these financial and other covenants. Breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness in addition to any other indebtedness cross-defaulted against such instruments. Any such breach could materially adversely affect our business, results of operations and financial condition.

Our assets may be subject to impairment charges.

We periodically, but not less than annually, evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If we determine that a significant impairment has occurred, then we are required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our results of operations in the period in which the write-off occurs.

We may change our investment strategies and policies and capital structure.

The Board, without the approval of our shareholders, may alter our investment strategies and policies if it determines that a change is in our shareholders' best interests. The methods of implementing our investment strategies and policies may vary as new investments and financing techniques are developed.

Economic conditions and turbulence in the credit markets may create challenges in securing indebtedness or refinancing our existing indebtedness.

Depressed economic conditions, the availability and cost of credit, turmoil in the mortgage market and depressed real estate markets have in the past contributed, and will in the future contribute, to increased volatility and diminished expectations for real estate markets and the economy as a whole. Significant market disruption and volatility could impact our ability to secure indebtedness or refinance our existing indebtedness.

We are subject to possible conflicts of interest; we have engaged in, and may in the future engage in, transactions with parties that may be considered related parties.

From time to time, we have engaged in various transactions with related parties including Christopher Brogdon, a former director and owner of greater than 5% of our outstanding common stock. See the section entitled "Certain Information Regarding Directors and Executive Officers - Certain Relationships and Related Party Transactions." Although we do not believe the potential conflicts have adversely affected, or will adversely affect, our business, others may disagree with this position and litigation could ensue in the future. Our relationships with Mr. Brogdon and other related parties may give rise to litigation, or other issues which could result in substantial costs to us, and a diversion of our resources and management's attention, whether or not any allegations made are substantiated.

Other Risks Related to Our Stock

We give no assurance that we will repurchase any shares of our common stock or Series A Preferred Stock or that any share repurchase program, if implemented, will enhance long-term shareholder value. Any share repurchases could also increase the volatility of the price of our common stock and Series A Preferred Stock and could diminish our cash reserves.

In November 2016, the AdCare board of directors approved new share repurchase programs (the “the Repurchase Programs”), pursuant to which AdCare was authorized to repurchase up to 1.0 million shares of common stock and 100,000 shares of Series A Preferred Stock during a twelve-month period. In connection with the merger, AdCare has suspended all repurchases pursuant to the Repurchase Programs.

Following the completion of the merger, the RHE board of directors may approve or reinstate a share repurchase program with respect to the RHE common stock or the RHE Series A Preferred Stock or both (any such program, a “New Repurchase Program”). The Company has no obligation to implement any New Repurchase Program and, if implemented, a New Repurchase Program will not obligate the Company to repurchase any specific dollar amount or to acquire any specific number of shares. The timing and amount of repurchases, if any, will depend upon several factors, including market and business conditions, the market price of the common stock and Series A Preferred Stock and the nature of other investment opportunities. Any New Repurchase Program may be limited, suspended or discontinued at any time without prior notice. In addition, share repurchases pursuant to any New Repurchase Program could affect the market price of the common stock or Series A Preferred Stock and increase their volatility. The implementation of a New Repurchase Program could cause the market price of the common stock or Series A Preferred Stock to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity of such shares. Additionally, any New Repurchase Program could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. Although any New Repurchase Program would be intended to enhance long-term shareholder value, we give no assurance that any such program will do so and short-term stock price fluctuations could reduce any such program’s effectiveness.

The price of our stock has fluctuated, and a number of factors may cause the price of our stock to decline.

The market price of our stock has fluctuated and may fluctuate significantly in the future, depending upon many factors, many of which are beyond our control. These factors include:

- actual or anticipated fluctuations in our operating results;
- changes in our financial condition, performance and prospects;
- changes in general economic and market conditions and other external factors;
- the market price of securities issued by other companies in our industry;
- announcements by us or our competitors of significant acquisitions, dispositions, strategic partnerships or other transactions;
- press releases or negative publicity relating to us or our competitors or relating to trends in healthcare;
- government action or regulation, including changes in federal, state and local healthcare regulations to which our tenants are subject;
- changes in financial estimates, our ability to meet those estimates, or recommendations by securities analysts with respect to us or our competitors; and
- future sales of our common stock, our Series A Preferred Stock or another series of our preferred stock, or debt securities.

In addition, the market price of our Series A Preferred Stock also depends upon:

- prevailing interest rates, increases in which may have an adverse effect on the market price of our Series A Preferred Stock;
- trading prices of preferred equity securities issued by other companies in our industry; and
- the annual yield from distributions on our Series A Preferred Stock as compared to yields on other financial instruments.

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

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

There are no assurances of our ability to pay dividends in the future.

We are a holding company, and we have no significant operations. We rely primarily on dividends and other distributions from our subsidiaries to us so we may, among other things, pay dividends on our capital stock, if and to the extent declared by the board of directors. The ability of our subsidiaries to pay dividends and make other distributions to us depends on their earnings and may be restricted in the future by the terms of certain agreements governing their indebtedness. If our subsidiaries are in default under such agreements, then they may not pay dividends or make other distributions to us.

In addition, we may only pay dividends on our capital stock if we have funds legally available to pay dividends and such payment is not restricted or prohibited by law, the terms of any shares with higher priority with respect to dividends or any documents governing our indebtedness. We are restricted by Georgia law from paying dividends on our capital stock if we are not able to pay our debts as they become due in the normal course of business or if our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy preferential rights upon dissolution. In addition, no cash dividends may be declared or paid on the common stock unless full cumulative dividends on our Series A Preferred Stock have been, or contemporaneously are, declared and paid, or declared and a sum sufficient for the payment thereof is set apart for payments, for all past dividend periods. In addition, future debt, contractual covenants or arrangements we or our subsidiaries enter into may restrict or prevent future dividend payments.

As such, we could become unable, on a temporary or permanent basis, to pay dividends on our stock, including our common stock and our Series A Preferred Stock. The payment of any future dividends on our stock will be at the discretion of the board of directors and will depend, among other things, on the earnings and results of operations of our subsidiaries, their ability to pay dividends and make other distributions to us under agreements governing their indebtedness, our financial condition and capital requirements, any debt service requirements and any other factors the board of directors deems relevant.

The costs of being publicly owned may strain our resources and impact our business, financial condition, results of operations and prospects.

As a public company, we are subject to the reporting requirements of the Exchange Act, and the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"). The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls for financial reporting. We are required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting.

These requirements may place a strain on our systems and resources and have required us, and may in the future require us, to hire additional accounting and financial resources with appropriate public company experience and technical accounting knowledge. In addition, failure to maintain such internal controls could result in us being unable to provide timely and reliable financial information which could potentially subject us to sanctions or investigations by the SEC or other regulatory authorities or cause us to be late in the filing of required reports or financial results. Any of the foregoing events could have a materially adverse effect on our business, financial condition, results of operations and prospects.

VOTING AND PROXIES

This proxy statement/prospectus is furnished in connection with the solicitation of proxies by the board of directors for use at the special meeting of shareholders to be held on September 20, 2017, or any adjournments or postponements thereof.

Date, Time and Place of the Special Meeting

The special meeting will be held on September 20, 2017 at 10:00 a.m., local time, at the Sonesta Gwinnett Place Atlanta located at 1775 Pleasant Hill Road, Duluth, Georgia.

Purpose of the Special Meeting

The purposes of the special meeting are: