

ALABAMA POWER CO
Form 424B2
January 11, 2016

Filed Pursuant to Rule 424(b)(2)

Registration No. 333-194227

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee (1)(2)
Series 2016A 4.300% Senior Notes due January 2, 2046	\$400,000,000	99.334%	\$397,336,000	\$40,012

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended.

(2) This "Calculation of Registration Fee" table shall be deemed to update the "Calculation of Registration Fee" table in Alabama Power Company's Registration Statement on Form S-3 (Registration No. 333-194227).

PROSPECTUS SUPPLEMENT

(To Prospectus dated February 28, 2014)

\$400,000,000

Series 2016A 4.300% Senior Notes
due January 2, 2046

This is a public offering by Alabama Power Company of \$400,000,000 of Series 2016A 4.300% Senior Notes due January 2, 2046. Interest on the Series 2016A Senior Notes is payable semiannually in arrears on January 2 and July 2 of each year, beginning July 2, 2016.

Alabama Power Company may redeem the Series 2016A Senior Notes, in whole or in part, at any time and from time to time, at redemption prices as described under the caption "Description of the Series 2016A Senior Notes — Optional Redemption."

The Series 2016A Senior Notes will be unsecured and unsubordinated obligations of Alabama Power Company and will rank equally with all of Alabama Power Company's other unsecured and unsubordinated indebtedness from time to time outstanding and will be effectively subordinated to all secured indebtedness of Alabama Power Company. See "RISK FACTORS" on page S-3 for a description of certain risks associated with investing in the Series 2016A Senior Notes.

	Per Series 2016A Senior Note	Total
Initial Public Offering Price (1)	99.334 %	\$397,336,000
Underwriting Discount	0.875 %	\$3,500,000
Proceeds, before expenses, to Alabama Power Company	98.459 %	\$393,836,000

(1) Plus accrued interest, if any, from the date of original issuance of the Series 2016A Senior Notes, which is expected to be January 13, 2016.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this Prospectus Supplement or the accompanying Prospectus. Any representation to the contrary is a criminal offense.

The Series 2016A Senior Notes are expected to be delivered on or about January 13, 2016 through the book-entry facilities of The Depository Trust Company for the accounts of its participants, including Euroclear Bank S.A./N.V. or

Clearstream Banking, société anonyme, Luxembourg.

Joint Book-Running Managers

Barclays

BNP PARIBAS

Goldman, Sachs & Co.

MUFG

January 8, 2016

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this Prospectus Supplement, the accompanying Prospectus or any written communication from Alabama Power Company or the underwriters specifying the final terms of the offering. Neither Alabama Power Company nor any underwriter takes any responsibility for, nor can it provide any assurance as to the reliability of, any other information that others may give you. This Prospectus Supplement, the accompanying Prospectus and any written communication from Alabama Power Company or the underwriters specifying the final terms of the offering is an offer to sell only the Series 2016A Senior Notes offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. The information incorporated by reference or contained in this Prospectus Supplement, the accompanying Prospectus and any written communication from Alabama Power Company or the underwriters specifying the final terms of the offering is current only as of its respective date.

TABLE OF CONTENTS

	Page
Prospectus Supplement	
Risk Factors	S-3
The Company	S-3
Selected Financial Information	S-3
Use of Proceeds	S-4
Description of the Series 2016A Senior Notes	S-4
United States Federal Income Tax Considerations for Non-U.S. Holders	S-7
Underwriting	S-10
Experts	S-12
Prospectus	
About this Prospectus	2
Risk Factors	2
Available Information	2
Incorporation of Certain Documents by Reference	2
Alabama Power Company	3
Selected Information	3
Use of Proceeds	4
Description of the Class A Preferred Stock	4
Description of the Preference Stock	6
Description of the Senior Notes	7
Description of the Junior Subordinated Notes	10
Plan of Distribution	14
Legal Matters	14
Experts	14

RISK FACTORS

Investing in the Series 2016A Senior Notes involves risk. Please see the risk factors in Alabama Power Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, along with disclosure related to the risk factors contained in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015, June 30, 2015 and September 30, 2015, which are incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The risks and uncertainties not presently known to Alabama Power Company or that Alabama Power Company currently deems immaterial may also impair its business operations, its financial results and the value of the Series 2016A Senior Notes.

THE COMPANY

Alabama Power Company (the "Company") is a corporation organized under the laws of the State of Alabama on November 10, 1927, by the consolidation of a predecessor Alabama Power Company, Gulf Electric Company and Houston Power Company. The Company has its principal office at 600 North 18th Street, Birmingham, Alabama 35291, telephone (205) 257-1000. The Company is a wholly owned subsidiary of The Southern Company.

The Company is a regulated public utility engaged in the generation, purchase, transmission, distribution and sale of electric energy within an approximately 44,500 square mile service area comprising most of the State of Alabama.

SELECTED FINANCIAL INFORMATION

The following selected financial data for the years ended December 31, 2010 through December 31, 2014 has been derived from the Company's audited financial statements and related notes and the unaudited selected financial data incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The following selected financial data for the nine months ended September 30, 2015 has been derived from the Company's unaudited financial statements and related notes, incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The information set forth below is qualified in its entirety by reference to and, therefore, should be read together with management's discussion and analysis of results of operations and financial condition, the financial statements and related notes and other financial information incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The information set forth below does not reflect the issuance of the Series 2016A Senior Notes offered hereby or the use of proceeds therefrom. See "Use of Proceeds" in this Prospectus Supplement.

	Year Ended December 31,					Nine Months Ended September 30,	
	2010	2011	2012	2013	2014	2015(1)	
	(Millions, except Ratios)						
Operating Revenues	\$5,976	\$5,702	\$5,520	\$5,618	\$5,942	\$4,551	
Earnings Before Income Taxes	1,209	1,225	1,220	1,229	1,312	1,113	
Net Income After Dividends on Preferred and Preference Stock	707	708	704	712	761	665	
Ratio of Earnings to Fixed Charges(2)	4.55	4.76	4.91	5.27	5.49	5.66	
	Capitalization						
	As of September 30, 2015						
	(Millions, except Percentages)						
Common Stockholder's Equity					\$6,000	46.2	%
Cumulative Redeemable Preferred Stock					85	0.7	
Preference Stock					196	1.5	
Senior Notes					5,400	41.6	
Other Long-term Debt					1,299	10.0	

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Total, excluding amounts due within one year of \$600 million	\$12,980	100.0	%
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S-3

- (1) Due to seasonal variations in the demand for energy, operating results for the nine months ended September 30, 2015 do not necessarily indicate operating results for the entire year.
- This ratio is computed as follows: (i) “Earnings” have been calculated by adding to “Earnings Before Income Taxes” “Interest expense, net of amounts capitalized,” the distributed income of equity investees, the interest component of rental expense and the debt portion of allowance for funds used during construction and excluding from “Earnings Before Income Taxes” the amount of income of equity investees; and (ii) “Fixed Charges” consist of “Interest expense, net of amounts capitalized,” the interest component of rental expense and the debt portion of allowance for funds used during construction.

USE OF PROCEEDS

The net proceeds from the sale of the Series 2016A Senior Notes will be used by the Company to repay at maturity \$200,000,000 aggregate principal amount of the Company’s Series FF 5.200% Senior Notes due January 15, 2016 and for general corporate purposes, including the Company’s continuous construction program.

DESCRIPTION OF THE SERIES 2016A SENIOR NOTES

Set forth below is a description of the specific terms of the Series 2016A 4.300% Senior Notes due January 2, 2046 (the “Series 2016A Senior Notes”). This description supplements, and should be read together with, the description of the general terms and provisions of the senior notes set forth in the accompanying Prospectus under the caption “Description of the Senior Notes.” The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the description in the accompanying Prospectus and the Senior Note Indenture dated as of December 1, 1997, as supplemented (the “Senior Note Indenture”), between the Company and Regions Bank (as successor to The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank))), as trustee (the “Senior Note Indenture Trustee”).

General

The Series 2016A Senior Notes will be issued as a series of senior notes under the Senior Note Indenture. The Series 2016A Senior Notes will initially be issued in the aggregate principal amount of \$400,000,000. The Company may, at any time and without the consent of the holders of the Series 2016A Senior Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Series 2016A Senior Notes (except for the public offering price and issue date and the initial interest accrual date and initial Interest Payment Date (as defined below), if applicable). Any additional notes having such similar terms, together with the Series 2016A Senior Notes, will constitute a single series of senior notes under the Senior Note Indenture.

Unless earlier redeemed, the entire principal amount of the Series 2016A Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on January 2, 2046. The Series 2016A Senior Notes are not subject to any sinking fund provision. The Series 2016A Senior Notes are available for purchase in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

Interest

Each Series 2016A Senior Note will bear interest at the rate of 4.300% per year (the “Securities Rate”) from the date of original issuance, payable semiannually in arrears on January 2 and July 2 of each year (each, an “Interest Payment Date”) to the person in whose name such Series 2016A Senior Note is registered at the close of business on the fifteenth calendar day prior to such Interest Payment Date (whether or not a Business Day). The initial Interest Payment Date is July 2, 2016. The amount of interest payable will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series 2016A Senior Notes is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date. “Business Day” means a day other than (i) a Saturday or Sunday, (ii) a day on which banks in New York, New York are authorized or obligated by law or executive order to remain closed or (iii) a day on which the Senior Note Indenture Trustee’s corporate trust office is closed for business.

Ranking

The Series 2016A Senior Notes will be direct, unsecured and unsubordinated obligations of the Company, ranking equally with all other unsecured and unsubordinated obligations of the Company from time to time outstanding. The Series 2016A Senior Notes will be effectively subordinated to all secured indebtedness of the Company. As of

September 30, 2015, the Company did not have any outstanding secured indebtedness. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

S-4

Optional Redemption

At any time and from time to time prior to July 2, 2045, the Series 2016A Senior Notes will be subject to redemption at the option of the Company in whole or in part upon not less than 30 nor more than 60 days' notice, at redemption prices equal to the greater of (i) 100% of the principal amount of the Series 2016A Senior Notes being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Series 2016A Senior Notes being redeemed (not including any portion of such payments of interest accrued to the redemption date) discounted (for purposes of determining present value) to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Treasury Yield (as defined below) plus 25 basis points, plus, in each case, accrued and unpaid interest on the Series 2016A Senior Notes being redeemed to the redemption date. At any time and from time to time on or after July 2, 2045, the Series 2016A Senior Notes will be subject to redemption at the option of the Company in whole or in part upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the Series 2016A Senior Notes being redeemed plus accrued and unpaid interest on the Series 2016A Senior Notes being redeemed to the redemption date.

“Treasury Yield” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Series 2016A Senior Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Series 2016A Senior Notes.

“Comparable Treasury Price” means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations or (ii) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means an independent investment banking institution of national standing appointed by the Company.

“Reference Treasury Dealer” means a primary U.S. Government securities dealer in the United States appointed by the Company.

“Reference Treasury Dealer Quotation” means, with respect to a Reference Treasury Dealer and any redemption date, the average, as determined by the Company, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount and quoted in writing to the Company by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day in New York City preceding such redemption date).

If notice of redemption is given as aforesaid, the Series 2016A Senior Notes so to be redeemed will, on the redemption date, become due and payable at the applicable redemption price described above together with any accrued and unpaid interest thereon, and from and after such date (unless the Company has defaulted in such payment of the redemption price and accrued interest) such Series 2016A Senior Notes shall cease to bear interest. If any Series 2016A Senior Note called for redemption shall not be paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the redemption date at the Securities Rate. See “Description of the Senior Notes — Events of Default” in the accompanying Prospectus.

Subject to the foregoing and to applicable law (including, without limitation, U.S. federal securities laws), the Company or its affiliates may, at any time and from time to time, purchase outstanding Series 2016A Senior Notes by tender, in the open market or by private agreement.

Information Concerning the Senior Note Indenture Trustee

The Company and certain of its affiliates maintain deposit accounts and banking relationships with Regions Bank. Regions Bank also serves as trustee under other indentures pursuant to which securities of certain affiliates of the Company are outstanding.

Book-Entry Only Issuance — The Depository Trust Company

The Depository Trust Company (“DTC”) will act as the initial securities depository for the Series 2016A Senior Notes. The Series 2016A Senior Notes will be issued only as fully registered securities registered in the name of Cede & Co., DTC’s nominee, or such other name as may be requested by an authorized representative of DTC. One or more fully registered global Series 2016A Senior Notes certificates will be issued, representing in the aggregate the total principal amount of Series 2016A Senior Notes, and will be deposited with the Senior Note Indenture Trustee on behalf of DTC. Investors may hold interests in the Series 2016A Senior Notes through DTC if they are participants in DTC or indirectly through organizations that are

S-5

participants in DTC, including Euroclear Bank S.A./N.V., as operator of the Euroclear system, or Clearstream Banking, société anonyme, Luxembourg (“Clearstream”).

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The contents of such website do not constitute part of this Prospectus Supplement.

Purchases of Series 2016A Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016A Senior Notes on DTC’s records. The ownership interest of each actual purchaser of each Series 2016A Senior Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners, however, are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners purchased Series 2016A Senior Notes. Transfers of ownership interests in the Series 2016A Senior Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2016A Senior Notes, except in the event that use of the book-entry system for the Series 2016A Senior Notes is discontinued.

To facilitate subsequent transfers, all Series 2016A Senior Notes deposited by Direct Participants with DTC are registered in the name of DTC’s nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016A Senior Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any changes in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016A Senior Notes. DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2016A Senior Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices will be sent to DTC. If less than all the Series 2016A Senior Notes are being redeemed, DTC’s practice is to determine by lot the amount of interest of each Direct Participant in such Series 2016A Senior Notes to be redeemed.

Although voting with respect to the Series 2016A Senior Notes is limited, in those cases where a vote is required, neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2016A Senior Notes unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Company as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the

Series 2016A Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy). Payments on the Series 2016A Senior Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Senior Note Indenture Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Company,

S-6

disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Except as provided herein, a Beneficial Owner of a global Series 2016A Senior Note will not be entitled to receive physical delivery of Series 2016A Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series 2016A Senior Notes. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in a global Series 2016A Senior Note.

DTC may discontinue providing its services as securities depository with respect to the Series 2016A Senior Notes at any time by giving reasonable notice to the Company. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2016A Senior Notes certificates will be required to be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) with respect to the Series 2016A Senior Notes. The Company understands, however, that under current industry practices, DTC would notify its Direct and Indirect Participants of the Company's decision, but will only withdraw beneficial interests from a global Series 2016A Senior Note at the request of each Direct or Indirect Participant. In that event, certificates for the Series 2016A Senior Notes will be printed and delivered to the applicable Direct or Indirect Participant.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Company believes to be reliable, but neither the Company nor any underwriter takes any responsibility for the accuracy thereof. Neither the Company nor any underwriter has any responsibility for the performance by DTC or its Direct or Indirect Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

Global Clearance and Settlement Procedures

Secondary market trading between Clearstream participants and/or Euroclear system participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and the Euroclear system, as applicable.

Cross-market transfers between persons holding directly or indirectly through DTC on the one hand, and directly or indirectly through Clearstream participants or Euroclear system participants on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream participants and Euroclear system participants may not deliver instructions directly to their respective U.S. depositories.

Because of time-zone differences, credits of Series 2016A Senior Notes received in Clearstream or the Euroclear system as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such Series 2016A Senior Notes settled during such processing will be reported to the relevant Euroclear system participant or Clearstream participant on such business day. Cash received in Clearstream or the Euroclear system as a result of sales of the Series 2016A Senior Notes by or through a Clearstream participant or a Euroclear system participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or the Euroclear system cash account only as of the business day following settlement in DTC.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following discussion summarizes the material United States ("U.S.") federal income tax considerations relevant to the acquisition, ownership and disposition of the Series 2016A Senior Notes, and insofar as it relates to matters of U.S. federal income tax laws and regulations or legal conclusions with respect thereto, constitutes the opinion of the Company's tax counsel, Balch & Bingham LLP. The following discussion does not purport to be a complete analysis

of all potential U.S. federal income tax considerations. This discussion only applies to Series 2016A Senior Notes that are held as capital assets, within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”), and that are purchased in the initial offering at the initial offering price, by Non-U.S. Holders (as defined below). This summary is based on the Code, administrative pronouncements, judicial decisions and regulations of the Treasury Department, changes to any of which subsequent to the date of this Prospectus Supplement may affect the tax consequences described herein. This discussion does not describe all of the U.S. federal income tax considerations that may be relevant to Non-U.S. Holders in light of their particular circumstances or to Non-U.S. Holders subject to special rules, such as certain financial institutions, tax-exempt organizations, insurance companies,

S-7

“controlled foreign corporations”, “passive foreign investment companies”, partnerships or other pass-through entities for U.S. federal income tax purposes, traders or dealers in securities or commodities, persons holding Series 2016A Senior Notes as part of a hedge or other integrated transaction, or certain former citizens or residents of the United States.

Persons considering the purchase of Series 2016A Senior Notes are urged to consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction. Furthermore, this discussion does not describe the effect of U.S. federal estate and gift tax laws or the effect of any applicable foreign, state or local law.

The Company has not and will not seek any rulings or opinions from the Internal Revenue Service (the “IRS”) with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the acquisition, ownership or disposition of the Series 2016A Senior Notes or that any such position would not be sustained.

For purposes of this summary, a “Non-U.S. Holder” means a beneficial owner of a Series 2016A Senior Note (other than a partnership) that, for U.S. federal income tax purposes, is not (i) an individual that is a citizen or resident of the United States; (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes that is created or organized under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if (A) a court within the United States is able to exercise primary control over its administration and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of such trust, or (B) the trust has made an election under the applicable Treasury regulations to be treated as a United States person. If a partnership, or other entity or arrangement treated as a partnership for U.S. federal income tax purposes, holds Series 2016A Senior Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Partners in a partnership holding Series 2016A Senior Notes should consult their tax advisors as to the particular U.S. federal income tax considerations relevant to the acquisition, ownership and disposition of the Series 2016A Senior Notes applicable to them.

Interest

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on payments of interest on the Series 2016A Senior Notes provided that such Non-U.S. Holder (A) does not directly or indirectly, actually or constructively, own 10% or more of the total combined voting power of all classes of the Company’s stock entitled to vote, (B) is not a controlled foreign corporation that is related to the Company directly or constructively through stock ownership, (C) is not a bank receiving such interest on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business, and (D) satisfies certain certification requirements. Such certification requirements will be met if (x) the Non-U.S. Holder provides its name and address, and certifies on an IRS Form W-8BEN or W-8BEN-E (or a substantially similar form), under penalties of perjury, that it is not a United States person or (y) a securities clearing organization or certain other financial institutions holding the Series 2016A Senior Notes on behalf of the Non-U.S. Holder certifies on IRS Form W-8IMY, under penalties of perjury, that such certification has been received by it and furnishes the Company or its paying agent with a copy thereof. In addition, the Company or its paying agent must not have actual knowledge or reason to know that the beneficial owner of the Series 2016A Senior Notes is a United States person.

If interest on the Series 2016A Senior Notes is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States, but such Non-U.S. Holder does not satisfy the other requirements outlined in the preceding paragraph, interest on the Series 2016A Senior Notes generally will be subject to U.S. withholding tax at a 30% rate (or lower applicable treaty rate).

If interest on the Series 2016A Senior Notes is effectively connected with the conduct by a Non-U.S. Holder of a trade or business within the United States, and, if certain tax treaties apply, is attributable to a permanent establishment or fixed base within the United States, the Non-U.S. Holder generally will be subject to U.S. federal income tax on a net income basis at the rate applicable to United States persons generally (and, with respect to corporate Non-U.S. Holders, may also be subject to a 30% branch profits tax (or a lower applicable treaty rate)). If interest is subject to U.S. federal income tax on a net income basis in accordance with these rules, such interest payments will not be

subject to U.S. withholding tax so long as the Non-U.S. Holder provides the Company or its paying agent with the appropriate documentation (generally an IRS Form W-8ECI).

Sale or Other Taxable Disposition of the Series 2016A Senior Notes

A Non-U.S. Holder generally will not be subject to U.S. federal withholding tax with respect to gain, if any, recognized on the sale or other taxable disposition of the Series 2016A Senior Notes. A Non-U.S. Holder will also generally not be subject to U.S. federal income tax with respect to such gain, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States, and, if certain tax treaties apply, is attributable to a

S-8

permanent establishment or fixed base within the United States, or (ii) in the case of a Non-U.S. Holder that is a nonresident alien individual, such Non-U.S. Holder is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are satisfied. In the case described in (i) above, gain or loss recognized on the disposition of such Series 2016A Senior Notes generally will be subject to U.S. federal income taxation in the same manner as if such gain or loss were recognized by a United States person, and, in the case of a Non-U.S. Holder that is a foreign corporation, may also be subject to the branch profits tax at a rate of 30% (or a lower applicable treaty rate). In the case described in (ii) above, the Non-U.S. Holder will be subject to a 30% tax on any capital gain recognized on the disposition of the Series 2016A Senior Notes (after being offset by certain U.S. source capital losses).

Information Reporting and Backup Withholding

Information returns will be filed annually with the IRS in connection with payments the Company makes on the Series 2016A Senior Notes. Copies of these information returns may also be made available under the provisions of a specific tax treaty or other agreement to the tax authorities of the country in which the Non-U.S. Holder resides. Unless the Non-U.S. Holder complies with certification procedures to establish that it is not a United States person, information returns may be filed with the IRS in connection with the proceeds from a sale or other disposition, and the Non-U.S. Holder may be subject to backup withholding tax (currently at a rate of 28%) on payments on the Series 2016A Senior Notes or on the proceeds from a sale or other disposition of the Series 2016A Senior Notes. The certification procedures required to claim the exemption from withholding tax on interest described above will satisfy the certification requirements necessary to avoid the backup withholding tax as well. The amount of any backup withholding from a payment to a Non-U.S. Holder may be allowed as a credit against the Non-U.S. Holder's U.S. federal income tax liability or may entitle the Non-U.S. Holder to a refund, provided that the required information is furnished to the IRS in a timely manner.

Foreign Account Tax Compliance Act Withholding

A withholding tax of 30% will apply to interest income paid on the Series 2016A Senior Notes held by a Non-U.S. Holder and, after December 31, 2016 (as modified below), to the gross proceeds from a disposition of the Series 2016A Senior Notes held by a Non-U.S. Holder, where the Non-U.S. Holder is (i) a foreign financial institution (as a beneficial owner or as an intermediary), unless such institution enters into an agreement with the U.S. government to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which would include certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners), or (ii) a foreign entity that is not a financial institution (as a beneficial owner or as an intermediary), unless such entity provides the withholding agent with a certification identifying the substantial U.S. owners of the entity, which generally includes any United States person who directly or indirectly owns more than 10% of the entity. Recently issued IRS guidance provides, in part, that the Treasury Department and the IRS intend to amend the regulations governing these rules to extend the start date of gross proceeds withholding to sales or other dispositions occurring after December 31, 2018. Prior to the issuance of such amendments, taxpayers may rely on the guidance in determining their withholding obligations. An intergovernmental agreement between the U.S. and an applicable foreign country may modify these requirements. Under certain circumstances, a Non-U.S. Holder might be eligible for a refund or credit of such taxes, and a Non-U.S. Holder might be required to file a U.S. federal income tax return to claim such refund or credit. The Company will not pay any additional amounts to "gross up" payments to holders as a result of any withholding or deduction for such taxes. Non-U.S. Holders are encouraged to consult with their tax advisors regarding the possible implications of these withholding requirements on their investment in the Series 2016A Senior Notes, including the recently issued IRS guidance that extends the start date for certain aspects of the withholding rules.

UNDERWRITING

Subject to the terms and conditions of an underwriting agreement (the "Underwriting Agreement"), the Company has agreed to sell to each of the underwriters named below (the "Underwriters") for whom Barclays Capital Inc., BNP Paribas Securities Corp., Goldman, Sachs & Co. and Mitsubishi UFJ Securities (USA), Inc. are acting as representatives (the "Representatives") and each of the Underwriters has severally agreed to purchase from the Company the principal amount of the Series 2016A Senior Notes set forth opposite its name below:

Underwriters	Principal Amount of Series 2016A Senior Notes
Barclays Capital Inc.	\$ 71,000,000
BNP Paribas Securities Corp.	71,000,000
Goldman, Sachs & Co.	71,000,000
Mitsubishi UFJ Securities (USA), Inc.	71,000,000

NAME OF REPORTING PERSONS

CCM OPPORTUNISTIC ADVISORS, LLC

2 CHECK THE APPROPRIATE BOX IF A (a) MEMBER OF A GROUP* (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS*
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

TEXAS

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER
	8	85,500 SHARED VOTING POWER
	9	-0- SOLE DISPOSITIVE POWER
	10	85,500 SHARED DISPOSITIVE POWER

11 -0-
AGGREGATE AMOUNT
BENEFICIALLY OWNED BY EACH
REPORTING PERSON
85,500

- 12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES*
- 13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
- 14 Less than 1%
TYPE OF REPORTING PERSON*

IA

*SEE INSTRUCTIONS BEFORE FILLING OUT!

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13D

Page 9 of 15 Pages

1 NAME OF REPORTING PERSONS

A. JOHN KNAPP, JR.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF (a) []
 A GROUP* (b) []

3 SEC USE ONLY

4 SOURCE OF FUNDS*
 OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED []
 PURSUANT TO ITEM 2(d) OR 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER
		-0-
	8	SHARED VOTING POWER
		85,500
	9	SOLE DISPOSITIVE POWER
		-0-
	10	SHARED DISPOSITIVE POWER
		85,500

11 AGGREGATE AMOUNT BENEFICIALLY OWNED
 BY EACH REPORTING PERSON
 85,500

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* []

13 PERCENT OF CLASS REPRESENTED BY AMOUNT
 IN ROW (11)

Less than 1%

14 TYPE OF REPORTING PERSON*

IN

***SEE INSTRUCTIONS BEFORE FILLING OUT!**

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13D

Page 10 of 15 Pages

This Amendment No. 2 to Schedule 13D amends and supplements the Schedule 13D originally filed with the Securities and Exchange Commission (the "SEC") on April 4, 2013, with respect to the Common Stock of AdCare Health Systems, Inc., an Ohio corporation (the "Issuer").

Item 4. Purpose of the Transaction.

Item 4 is amended and supplemented to add the following information for updating as of the date of this Amendment:

On August 26, 2013, on behalf of the Reporting Persons, Michael J. Fox, sent to the Issuer the letter that is attached to this Amendment as Exhibit 5.

Item 7. Material to Be Filed as Exhibits

Item 7 is amended and supplemented to add the following information for updating as of the date of this Amendment:

Exhibit 5 Letter from Michael J. Fox to David Tenwick, Chairman of the Board of the Issuer dated August 26, 2013

CUSIP 00650W300

13D

Page 11 of 15 Pages

SIGNATURES

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

Dated: August 26, 2013

PARK CITY CAPITAL OFFSHORE MASTER, LTD.

PARK CITY CAPITAL, LLC

By: /s/ Michael J. Fox
Michael J. Fox,
Director

By: /s/ Michael J. Fox
Michael J. Fox,
Manager

PCC SOF GP LLC

MICHAEL J. FOX

By: /s/ Michael J. Fox
Michael J. Fox,
Managing Member

By: /s/ Michael J. Fox
Michael J. Fox

PARK CITY CAPITAL SPECIAL OPPORTUNITY
FUND, LP

CCM OPPORTUNISTIC PARTNERS, LP

By: PCC SOF GP LLC, its general
partner

By: CCM Opportunistic Partners GP,
LP, its general partner

By: /s/ Michael J. Fox
Michael J. Fox,
Managing Member

By: CCM GP, LLC, its general partner

By: /s/ A. John Knapp, Jr.
A. John Knapp, Jr.
Manager

CCM OPPORTUNISTIC ADVISORS, LLC

A. JOHN KNAPP, JR.

By: /s/ A. John Knapp, Jr.
A. John Knapp, Jr.,
Manager

By: /s/ A. John Knapp, Jr.
A. John Knapp, Jr.

PARK CITY CAPITAL

Exhibit 5
August 26, 2013

Mr. David Tenwick
Chairman of the Board
AdCare Health Systems, Inc

Dear Dave,

Thank you for meeting with me on Monday August 12, 2013 to discuss the plan we laid out in the letter I sent you on July 15, 2013. I appreciate your willingness to listen to our ideas and potentially adding me to the Board of Directors of AdCare Health Systems, Inc. (“AdCare” or the “Company”).

In this letter, we incorporate your and Boyd’s comments on the plan we discussed in our previous letter, accounting for the capitalized rent for the operating company, which Boyd mentioned, as well as the updated information the Company provided in its most recent earnings release. In this letter we also present a REIT conversion scenario that would split the Company into a REIT and an operating company. This plan may be the most favorable outcome because it would result in an even higher value for the real estate, could be more beneficial to shareholders from a tax perspective, and shareholders that remain shareholders in the REIT would receive a sizable dividend.

Our analysis, which is outlined below illustrates that in the REIT conversion scenario, the REIT would be worth \$5.28 per share and pay an annual dividend of \$0.28 per share (5.4% dividend yield). We estimate the operating company would be worth \$6.43 per share, resulting in a combined value of the REIT and the operating company of \$11.71 per share.

We also continue to believe the Company’s owned real estate could be sold to a REIT and the Company could pay off its debt and have approximately \$4.03 per share in cash to distribute to shareholders. In addition, we believe that the remaining operating company would be debt free and worth \$6.43 per share, representing a total value of \$10.46 per share.

12400 Coit Road, Suite 800
Dallas, TX 75251
214.954.0333

PARK CITY CAPITAL

We believe the operating company would be worth \$6.43 per share. We continue to believe that management, or perhaps another management team, should easily achieve double digit EBITDAR margins by the fourth quarter of 2013, and should achieve double-digit EBITDA margins over time. Table 1 shows that the Company's peers earned trailing twelve month EBITDAR margins of 12.7%. In addition, Table 1 shows that the Company's peers trade at a mean EV/EBITDAR multiple of 7.5x.

Table 1: Company Peers Trade at 7.5x EBITDAR

Company	TTM EBITDAR Margin	EV/EBITDAR	TTM EBITDA Margin	EV/EBITDA
Ensign Group	13.9%	8.6x	12.4%	9.7x
Skilled Healthcare	11.4%	6.4x	9.2%	7.9x
Average	12.7%	7.5x	10.8%	8.8x

Source: Company filings and Park City Capital estimates.

Table 2 illustrates at 7.5x EV/EBITDAR, the operating company would be worth \$6.43 per share assuming a revenue run rate of \$230 million and a 12.7% EBITDAR margin.

Table 2: Operating Company Should Trade at \$6.43 per Share

Sales	\$230,000,000
EBITDAR Margin	12.7 %
EBITDAR	\$29,210,000
EV/EBITDAR	7.5 x
Enterprise Value	219,075,000
Cash	10,928,000
Capitalized Rent	69,300,000
Market Value	160,703,000
Shares	25,000,000
Price	\$6.43

Source: Company filings and Park City Capital estimates.

Note: This analysis assumes conversion of convertible notes.

In a sale-lease back scenario, we continue to believe the Company's real estate portfolio is worth \$4.03 per share. According to Levin Associates, in 2012 REITs paid an average of \$89,300 per bed for skilled nursing facilities. Table 3 shows that if the Company's owned facilities were sold for \$90,000 per bed, these assets would generate approximately \$242 million. At June 30, 2013, the Company had total debt (excluding the convertible notes) of approximately \$141 million. If the Company were to use the proceeds to pay back all of its debt (excluding the convertible notes), it would have approximately \$101 million (\$4.03 per share) to distribute to shareholders in a special one-time dividend.

Table 3: Real Estate Asset Sale Should Generate Net Cash of \$4.03 per Share

Owned Beds	2,691
Sales Price Per Bed	\$90,000
Proceeds	242,190,000
Debt	141,374,000

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Net Cash	100,816,000
Shares	25,000,000
Net Cash Per Share	\$4.03

Source: Company filings and Park City Capital estimates.

Note: This analysis assumes conversion of convertible notes.

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In a REIT conversion scenario, we estimate the REIT would be worth \$5.28 per share and would pay a \$0.28 per share annual dividend, representing a 5.4% annual dividend yield. In this scenario, the combined value of the REIT and the operating company would be \$11.71 per share. As mentioned above, this plan may be the most favorable outcome because it would result in an even higher value for the real estate, could be more beneficial to shareholders from a tax perspective, and shareholders that remain shareholders in the REIT would receive a sizable dividend.

Table 4 illustrates how the REIT would be able to pay a \$0.28 annual dividend per share assuming a 9% capitalization rate and the aforementioned \$90,000 value per bed. We annualized the Company's second quarter of 2013 interest expense and applied a 6.0% of rental income G&A expense, which is in-line with peers. In an effort to triangulate rental income from multiple calculations, in Table 5, we calculated the rental income for the REIT using a coverage ratio of 1.3x.

Table 4: AdCare REIT Should Trade at \$5.28 per Share

Owned Beds	2,691
Value Per Bed	\$ 90,000
Carrying Value	242,190,000
Cap Rate	9.0 %
Rental Income	21,797,100
Interest Expense	13,412,000
G&A Expense	1,307,826
Spread	7,077,274
Shares	25,000,000
Dividend per Share	0.28
Yield	5.4 %
Price per Share	\$ 5.28

Source: Company filings and Park City Capital estimates.

Note: This analysis assumes conversion of convertible notes and a 100% dividend payout ratio.

Table 6 shows the current dividend yield on AdCare's senior housing REIT peer group of 5.4%, based on stock prices as of August 23, 2013.

Table 6: Senior Housing REITs Trade at a 5.4% Dividend Yield

Company	Dividend Yield
Health Care REIT	4.9%
AVIV REIT	5.5%
Sabra Health Care REIT	5.9%
HCP	5.1%
Omega Healthcare Investors	6.3%
National Health Investors	4.8%
LTC Properties	5.1%
Average	5.4%

Source: Company filings and Park City Capital estimates.

PARK CITY CAPITAL

AdCare is at a defining moment and I challenge you to take action. As Chairman, you have a unique opportunity and obligation to maximize shareholder value. The shareholders are depending on you and we are confident that you will do the right thing. I'll remind you that when we met we spoke a lot about how in hindsight there were many mistakes that have been made over the past couple years. When weighing the decisions and alternatives that are currently in front of you, we urge you to look into the future and make them with the benefit of what you might know 12 months from now. Now is the time for action!

Sincerely,
/s/ Michael Fox
Michael Fox
Founder and CEO
Park City Capital, LLC

cc: Chris Brogdon
Vice Chairman, Adcare Health Systems, Inc
Boyd Gentry
CEO, Adcare Health Systems, Inc
George Lee
Partner, Lee and Stone, LLP
Richard Heller
Partner, Thompson Hine, LLP