

GLOBAL HEALTHCARE REIT, INC.

Form 10-Q

November 21, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2016

**OR**

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-15415

**GLOBAL HEALTHCARE REIT, INC.**

(Exact Name of Small Business Issuer as Specified in its Charter)

**Utah** **87-0340206**  
(State or other jurisdiction of I.R.S. Employer  
incorporation or organization) Identification number

**8480 E. Orchard Road, Suite 3600, Greenwood Village, CO**

(Address of Principal Executive Offices)

**Issuer's telephone number: (303) 449-2100**

Former name, former address, and former fiscal year, if changed since last report

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the last 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [ ] Smaller Reporting Company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [X]

As of November 21, 2016, the Registrant had 24,887,727 shares of its Common Stock outstanding.



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**PART 1. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements (Unaudited)****GLOBAL HEALTHCARE REIT, INC.****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Property and Equipment, Net	\$36,072,518	\$39,741,706
Cash and Cash Equivalents	1,352,015	71,055
Restricted Cash	564,416	541,835
Note Receivable - Related Party, Net of Discount	-	573,428
Prepaid Expenses, and Other	307,400	222,031
<b>Total Assets</b>	<b>\$38,296,349</b>	<b>\$41,150,055</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Debt, Net of Debt Issuance Costs and Discount of \$644,498 and \$700,692, Respectively	\$32,148,491	\$35,815,772
Accounts Payable and Accrued Liabilities	650,093	396,862
Dividends Payable	7,500	7,562
Warrant Liability	177,922	304,536
Lease Security Deposits	30,000	30,000
<b>Total Liabilities</b>	<b>33,014,006</b>	<b>36,554,732</b>
<b>Equity</b>		
<b>Stockholders' Equity</b>		
<b>Preferred Stock:</b>		
Series A - No Dividends, \$2.00 Stated Value, Non-Voting; 2,000,000 Shares Authorized, 200,500 Shares Issued and Outstanding	401,000	401,000
Series D - 8% Cumulative, Convertible, \$1.00 Stated Value, Non-Voting; 1,000,000 Shares Authorized, 375,000 Shares Issued and Outstanding	375,000	375,000
	1,245,636	1,112,323

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Common Stock - \$0.05 Par Value; 50,000,000 Shares Authorized,  
24,912,728 and 22,246,453 Shares Issued and Outstanding  
at September 30, 2016 and December 31, 2015, Respectively

Additional Paid-In Capital	9,900,290	8,978,914
Accumulated Deficit	(5,159,088 )	(4,840,289 )
Total Global Healthcare REIT, Inc. Stockholders' Equity	6,762,838	6,026,948
Noncontrolling Interests	(1,480,495 )	(1,431,625 )
Total Equity	5,282,343	4,595,323
Total Liabilities and Equity	\$38,296,349	\$41,150,055

*See accompanying notes to unaudited consolidated financial statements.*

**GLOBAL HEALTHCARE REIT, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue				
Rental Revenue	\$850,520	\$978,648	\$2,310,584	\$3,264,321
Expenses				
General and Administrative	734,891	654,202	1,616,476	1,296,328
Property Taxes, Insurance, and Other Operating	43,255	2,276	202,635	120,618
Acquisition Costs	-	1,950	52,325	1,950
Gain on Sale of Property and Equipment	-	-	(980,839 )	-
Depreciation	287,389	338,355	1,182,849	949,080
Total Expenses	1,065,535	996,783	2,073,446	2,367,976
Income (Loss) from Operations	(215,015 )	(18,135 )	237,138	896,345
Other (Income) Expense				
(Gain) Loss on Warrant Liability	31,110	-	(126,614 )	-
Gain on Extinguishment of Debt	(1,163,458 )	-	(1,163,458 )	-
Interest Income	-	(19,660 )	(32,149 )	(82,824 )
Interest Expense	603,511	735,843	1,971,025	2,074,854
Total Other (Income) Expense	(528,837 )	716,183	648,804	1,992,030
Equity in Income from Unconsolidated Partnership	-	-	-	53,688
Net Income (Loss)	313,822	(734,318 )	(411,666 )	(1,041,997 )
Net (Income) Loss Attributable to Noncontrolling Interests	42,005	11,963	115,367	(27,174 )
<b>Net Income (Loss) Attributable</b>	<b>355,827</b>	<b>(722,355 )</b>	<b>(296,299 )</b>	<b>(1,069,171 )</b>
<b>to Global Healthcare REIT, Inc.</b>				
Series D Preferred Dividends	(7,500 )	(7,561 )	(22,500 )	(22,438 )
Net Income (Loss) Attributable to Common Stockholders	\$348,327	\$(729,916 )	\$(318,799 )	\$(1,091,609 )
Per Share Data:				
<b>Net Income (Loss) per Share Attributable</b>				
<b>to Common Stockholders -</b>				
Basic	\$0.01	\$(0.03 )	\$(0.01 )	\$(0.05 )
Diluted	\$0.01	\$(0.03 )	\$(0.01 )	\$(0.05 )
Weighted Average Common Shares Outstanding:				
Basic	23,802,472	22,259,569	22,791,649	22,062,308
Diluted	23,377,972	22,259,569	22,791,649	22,062,308

*See accompanying notes to unaudited consolidated financial statements*





**GLOBAL HEALTHCARE REIT, INC.****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****(UNAUDITED)**

	Series A Preferred Stock		Series D Preferred Stock		Common Stock		Additional		Global Healthcare REIT, Inc. Stockholders' Equity
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Paid-In Capital	Accumulated Deficit	
Balance, December 31, 2015	200,500	\$401,000	375,000	\$375,000	22,246,453	\$1,112,323	\$8,978,914	\$(4,840,289)	\$6,026,9
Stock Based Compensation - Restricted Stock Awards	-	-	-	-	977,275	48,863	450,023	-	498,880
Common Stock Issued for Accounts Payable	-	-	-	-	250,000	12,500	100,000	-	112,500
Common Stock Issued for Debt Cost	-	-	-	-	35,000	1,750	22,050	-	23,800
Common Stock Issued for Debt	-	-	-	-	1,350,000	67,500	418,500	-	486,000
Series D Preferred Dividends	-	-	-	-	-	-	-	(22,500 )	(22,500)
Common Stock to Noncontrolling Interests	-	-	-	-	54,000	2,700	(69,197 )	-	(66,497)
Net Loss	-	-	-	-	-	-	-	(296,299 )	(296,299)
Balance, September 30, 2016	200,500	\$401,000	375,000	\$375,000	24,912,728	\$1,245,636	\$9,900,290	\$(5,159,088)	\$6,762,8

*See accompanying notes to unaudited consolidated financial statements.*



**GLOBAL HEALTHCARE REIT, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities		
Net Loss	\$(411,666 )	\$(1,041,997)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	1,182,849	949,080
Amortization and Accretion	90,725	115,463
Bad Debt Expense	-	380,000
Increase in Straight Line Rent Receivable	(63,665 )	(156,010 )
Stock Based Compensation	498,886	194,666
Equity in Income from Unconsolidated Partnership	-	(53,688 )
Gain on Warrant Liability	(126,614 )	-
Premium on Debt	120,250	-
Gain on Extinguishment of Debt	(1,163,458)	-
Forgiveness of Debt	(100,000 )	-
Loss on Settlement of Accounts Payable	12,500	-
Gain on Sale of Property and Equipment	(980,839 )	-
Changes in Operating Assets and Liabilities:		
Rents Receivable	(131,255 )	-
Accounts Payable and Accrued Liabilities	456,458	113,877
Lease Security Deposits	-	72,876
Other	109,551	(205,161 )
Net Cash Provided by (Used in) Operating Activities	(506,278 )	369,106
Cash Flows from Investing Activities		
Issuance of Note Receivable	-	(350,000 )
Collections on Notes Receivable - Related Parties	573,428	574,719
Net Advances from/to Related Parties	-	(80,000 )
Change in Restricted Cash	-	205,703
Earnest Money on Deposit	-	450,000
Proceeds from Sale of Property and Equipment	2,112,970	-
Capital Expenditures for Property and Equipment	(13,660 )	(328,651 )
Net Cash Provided by Investing Activities	2,672,738	471,771
Cash Flows from Financing Activities		

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Proceeds from Debt	-	2,303,815
Payments on Debt	(829,688 )	(2,721,921)
Change in Restricted Cash	(22,581 )	153,671
Deferred Loan Costs Paid	(10,731 )	(95,455 )
Exercise of Common Stock Warrants	-	14,573
Dividends Paid on Common Stock	-	(440,780 )
Dividends Paid on Preferred Stock	(22,500 )	(14,876 )
Distributions to Noncontrolling Interests	-	(117,037 )
Net Cash Used in Financing Activities	(885,500 )	(918,010 )
Net Increase (Decrease) in Cash and Cash Equivalents	1,280,960	(77,133 )
Cash and Cash Equivalents, Beginning of Period	71,055	533,597
Cash and Cash Equivalents, End of Period	\$1,352,015	\$456,464
Supplemental Disclosure of Cash Flow Information		
Cash Paid for Interest, Net of Capitalized Interest of \$0 and \$105,867 for the Nine Months Ended September 30, 2016 and 2015, Respectively	\$1,621,067	\$1,814,781
Cash Paid for Income Taxes	\$-	\$-

*See accompanying notes to unaudited consolidated financial statements.*

**GLOBAL HEALTHCARE REIT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Description of the Business**

Global Healthcare REIT, Inc. (the Company or Global) was organized with the intent of operating as a real estate investment trust (REIT) for the purpose of investing in real estate and other assets related to the healthcare industry. Prior to the Company changing its name to Global Healthcare REIT, Inc. on September 30, 2013, the Company was known as Global Casinos, Inc. Global Casinos, Inc. operated two gaming casinos which were split-off and sold on September 30, 2013. Simultaneous with the split-off and sale of the gaming operations, the Company acquired West Paces Ferry Healthcare REIT, Inc. (WPF) in a transaction accounted for as a reverse acquisition whereby WPF was deemed to be the accounting acquirer.

The Company intends to make a REIT election under sections 856 through 859 of the Internal Revenue Code of 1986, as amended. Such election will be made by the Board of Directors at such time as the Board determines that we qualify as a REIT under applicable provisions of the Internal Revenue Code.

The Company acquires, develops, leases, manages and disposes of healthcare real estate, and provides financing to healthcare providers. As of September 30, 2016, the Company owned eight healthcare properties which are leased to third-party operators under triple-net operating terms.

**Basis of Presentation**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities Exchange Commission. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary to make the consolidated financial statements not misleading have been included. Operating results for the nine months ended September 30, 2016 are not necessarily indicative of the results that may

be expected for the entire year. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission.

### **Recently Issued Accounting Pronouncements**

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new standard requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. On January 1, 2016, the Company adopted ASU 2015-03 and retrospectively applied the guidance to its Debt, Net for all periods presented. Unamortized deferred loan costs, which were previously included in Prepaid Expenses, Deferred Loan Costs and Other, totaling \$573,981 and \$626,688 are included in Debt, Net as of September 30, 2016 and December 31, 2015, respectively.

## 2. GOING CONCERN

The accompanying consolidated financial statements and notes have been prepared assuming the Company will continue as a going concern.

For the nine months ended September 30, 2016, the Company incurred a net loss of \$411,666, reported net cash used in operations of \$506,278 and has an accumulated deficit of \$5,159,088. These circumstances raise substantial doubt as to the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the Company's ability to generate sufficient revenues and cash flows to operate profitably and meet contractual obligations, or raise additional capital through debt financing or through sales of common stock.

The failure to achieve the necessary levels of profitability and cash flows or obtain additional funding would be detrimental to the Company. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

## 3. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

### *Limestone, LLC*

Effective March 5, 2014, the Company consummated a Membership Interest Purchase Agreement providing for the purchase from Connie Brogdon, spouse of Christopher Brogdon, President and Director of the Company, for nominal consideration (\$10), a 25% membership interest in Limestone Assisted Living, LLC ("Limestone LLC"). The remaining 75% membership interest in Limestone LLC was owned by Connie Brogdon (5%) and unaffiliated third parties (70%).

Limestone LLC owned 100% of the Limestone Assisted Living Facility, a 42-bed, 22,189 square foot assisted living facility located in Gainesville, Georgia. The Company extended a loan to Limestone LLC in the amount of \$550,000. On March 25, 2015, the Limestone facility was sold and the note receivable due the Company was repaid in full, including accrued interest of \$54,845.

The Company recorded this investment using the equity method since the Company had the ability to exercise significant influence, but not control, over Limestone LLC. Under the equity method, the Company recorded the



initial investment at cost and adjusted the carrying amount to reflect the Company's share of earnings and losses of Limestone LLC. For the nine months ended September 30, 2016 and 2015, the Company's share of income was \$0 and \$53,688, respectively. As of September 30, 2016 and 2015, the Company's carrying amount under the equity method was \$0.

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**4. PROPERTY AND EQUIPMENT**

The gross carrying amount and accumulated depreciation of the Company's property and equipment as of September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016	December 31, 2015
Land	\$1,577,500	\$1,611,000
Land Improvements	200,000	200,000
Buildings and Improvements	32,703,011	35,610,444
Furniture, Fixtures and Equipment	988,437	1,051,473
Construction in Progress	3,633,122	3,300,300
	39,102,070	41,773,217
Less Accumulated Depreciation	(3,029,552 )	(2,031,511 )
	\$36,072,518	\$39,741,706

	For the Three Months Ended September 30, 2016		For the Nine Months Ended September 30, 2015	
Capitalized Interest	\$-	\$-	\$-	\$105,867
Depreciation Expense	287,389	338,355	1,182,849	949,080
Cash Paid for Capital Expenditures	-	6,823	13,660	328,651
Construction in Progress Financed with Debt	129,606	-	319,163	-

Effective June 20, 2016, the Company sold its Greene Point Healthcare Center located in Union Point, Georgia for \$3,800,000 which resulted in a gain on sale of \$980,839. Cash proceeds from the sale were used to pay off the existing mortgage loan in the amount of \$1,683,200. The Company received \$2,112,970 in cash from the sale of the facility. The operating lease related to the facility was terminated effective June 30, 2016.

**5. NOTE RECEIVABLE - RELATED PARTY**

September	December
30, 2016	31, 2015

Note Receivable - Gemini Gaming, LLC	\$	-	\$573,428
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In connection with the split-off of gaming assets by Global, the Company accepted a note receivable in the amount of \$962,373 from Gemini Gaming, LLC. The note bore interest at 4.0% and was payable in quarterly installments of \$17,495 beginning on January 1, 2014 through maturity of the note on October 1, 2033. The note was secured by all rights, title, and interest in and to 100,000 shares of the membership interest in Gemini Gaming, LLC. In the event of default, the Company would not take possession of gaming assets or equipment or operate the casino unless duly licensed by the State of Colorado Division of Gaming.

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On the acquisition date, the fair value of the note receivable was estimated by discounting the expected cash flows at a rate of 10.0%, a rate at which management believes a similar loan with similar terms and maturity would be made. As a result, the note receivable was discounted by \$362,225 to its fair value of \$600,148. The discount was accreted into earnings using the interest method over the term of the note. For the nine months ended September 30, 2016 and 2015, \$0 and \$16,691, respectively, has been accreted into earnings.

During the quarter ended March 31, 2016, the Company collected an aggregate of \$573,428 in repayment of the note from Gemini Gaming, LLC, which was the discounted book value of the note, which the Company accepted in full satisfaction of the total outstanding liability under the note.

## 6. DEBT

The following is a summary of the Company's debt outstanding as of September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Convertible Notes Payable	\$3,200,000	\$3,200,000
Fixed-Rate Mortgage Loans	14,465,303	14,461,421
Variable-Rate Mortgage Loans	6,279,936	8,050,043
Bonds Payable	5,640,000	5,700,000
Other Debt	3,207,750	5,105,000
	32,792,989	36,516,464
Unamortized Discount and Debt Issuance Costs	(644,498 )	(700,692 )
	\$32,148,491	\$36,815,772

### Convertible Notes Payable

#### 6.5% Notes Due 2017

On September 26, 2014, the Company completed a private offering of its 6.5% Senior Secured Convertible Promissory Notes in the amount of \$3,200,000 which mature on September 25, 2017. The Notes can be called for

redemption at the option of the Company at any time (i) after September 15, 2015 but prior to September 15, 2016 at an early redemption price equal to 103% of the face amount of the Notes, plus accrued and unpaid interest, or (ii) any time after September 15, 2016 but prior to September 15, 2017 at an early redemption price equal to 102% of the face amount of the Notes, plus accrued and unpaid interest. Each Note is convertible at the option of the holder into shares of common stock of the Company at a conversion price of \$1.37 per share. The Notes will automatically convert into common stock at the conversion price in the event (i) there exists a public market for the Company's common stock, (ii) the closing price of the common stock in the principal trading market has been \$2.00 per share or higher for the preceding ten (10) trading days, and (iii) either (A) there is an effective registration statement registering for resale under the Securities Act of 1933, as amended, the conversion shares or (B) the conversion shares are eligible to be resold by non-affiliates of the Company without restriction under Rule 144 of the Securities Act. At the time of issuance and based on the Company's common stock trading activity, the Company determined that no beneficial conversion feature was associated with the Notes. As of September 30, 2016, none of the Notes have been converted into common stock.

The Notes are secured by a senior mortgage on the Meadowview Healthcare Center located in Seville, Ohio.

### Mortgage Loans

Mortgage loans are collateralized by all assets of each nursing home property and an assignment of its rents. Collateral for certain mortgage loans includes the personal guarantee of Christopher Brogdon. Mortgage loans for the periods presented consisted of the following:

Property	Face Amount	Principal Outstanding at September 30, 2016	December 31, 2015	Stated Interest Rate	Maturity Date
Middle Georgia Nursing Home <sup>(1)</sup>	\$4,200,000	\$3,760,857	\$3,849,678	5.50% Fixed	October 4, 2018
Goodwill Nursing Home <sup>(1) (4)</sup>	4,976,316	4,520,816	4,577,047	5.50% Fixed	March 19, 2017
Warrenton Nursing Home	2,720,000	2,490,927	2,562,765	5.00% Fixed	December 20, 2018
Edwards Redeemer Health & Rehab	2,303,815	2,182,231	2,249,772	5.50% Fixed	January 16, 2020
Southern Hills Retirement Center	1,750,000	1,510,472	1,222,159	4.75% Fixed	November 10, 2017
Providence of Sparta Nursing Home	1,725,000	1,661,930	1,686,506	Prime Plus 0.50%/6.00% Floor	September 26, 2017 <sup>(2)</sup>
Providence of Greene Point Healthcare Center	1,725,000	-	1,692,000	Prime Plus 0.50%/6.00% Floor	Repaid on June 20, 2016
Golden Years Manor Nursing Home <sup>(3)</sup>	5,000,000	4,618,006	4,671,537	Prime Plus 1.50%/5.75% Floor	August 3, 2037
		\$20,745,239	\$22,511,464		

<sup>(1)</sup> Mortgage loans are non-recourse to the Company except for the Southern Hills line of credit owed to First United Bank.

<sup>(2)</sup> Effective September 26, 2016, the maturity date was extended from September 17, 2016 to September 26, 2017.

<sup>(3)</sup> During the quarter ended September 30, 2016, we executed a Modification to the mortgage note pursuant to which some accrued payments were deferred and the lender agreed to permit interest only payments through March 2017. The mortgage loan collateralized by the Golden Years Manor Nursing Home is 80% guaranteed by the USDA and requires an annual renewal fee payable in the amount of 0.25% of the USDA guaranteed portion of the outstanding principal balance as of December 31 of each year. The Company is subject to financial covenants and customary

affirmative and negative covenants. As of September 30, 2016, the Company was not in compliance with certain of these non-financial covenants which is considered to be a technical Event of Default as defined in the note agreement. Remedies available to the lender in the event of a continuing Event of Default, at its option, include, but are necessarily limited to the following (1) lender may declare the principal and all accrued interest on the note due and payable; and (2) lender may exercise additional rights and remedies under the note agreement to include taking possession of the collateral or seeking satisfaction from the guarantors. The Company has not been notified by the lender regarding the exercise of any remedies available. Guarantors under the mortgage loan are Christopher Brogdon and GLN Investors, LLC, in which the Company owns a 100% membership interest.

On September 19, 2016, the maturity date of the loan related to our Goodwill Nursing Home property was extended to March 19, 2017. The terms of the renewal call for monthly interest only payments through maturity at which time all principal and unpaid interest is due. Edwards Redeemer Health & Rehab was pledged as additional<sup>(4)</sup> collateral on the loan. At September 30, 2016, there was approximately \$60,000 in accrued interest due on the loan. We are in discussions with the lender to roll this accrual into a new note which will be amortized over future payments. No binding agreement evidencing this restructure has been signed as of the date of this Report.

**Bonds Payable - Tulsa County Industrial Authority**

On March 1, 2014, Southern Tulsa, LLC (Southern Tulsa), a subsidiary of WPF that owns the Southern Hills Retirement Center, entered into a loan agreement with the Tulsa County Industrial Authority (Authority) in the State of Oklahoma pursuant to which the Authority lent to Southern Tulsa the proceeds from the sale of the Authority's Series 2014 Bonds. The Series 2014 Bonds consist of \$5,075,000 in Series 2014A First Mortgage Revenue Bonds and \$625,000 in Series 2014B Taxable First Mortgage Revenue Bonds. The Series 2014 Bonds were issued pursuant to a March 1, 2014 Indenture of Trust between the Authority and the Bank of Oklahoma. \$4,325,000 of the Series 2014A Bonds mature on March 1, 2044 and accrue interest at a fixed rate of 7.75% per annum. The remaining \$750,000 of the Series 2014A Bonds mature on various dates through final maturity on March 1, 2029 and accrue interest at a fixed rate of 7.0% per annum. The Series 2014B Bonds mature on March 1, 2023 and accrue interest at a fixed rate of 8.5% per annum. The debt is secured by a first mortgage lien on the independent living units and assisted living facility (facilities), an assignment of the facilities' leases, a first lien on all personal property located in the facilities, and a guarantee by the Company. Deferred loan costs incurred of \$478,950 and an original issue discount of \$78,140 related to the loan are amortized to interest expense over the life of the loan. Amortization expense related to deferred loan costs and the original issue discount totaled \$5,465 and \$653 for the three months ended September 30, 2016 and 2015, respectively, and \$22,340 and \$22,095 for the nine months ended September 30, 2016 and 2015, respectively. The loan agreement includes certain financial covenants required to be maintained by the Company, which were not in compliance as of September 30, 2016. No notice has been received from the lender regarding the exercise of any remedies available. As part of the loan terms, a \$60,000 principal reduction was paid on the bonds during March 2016. As of September 30, 2016, restricted cash of \$564,416 is related to these bonds.

**Other Debt**

Other debt at September 30, 2016 and December 31, 2015 includes unsecured notes payable issued to facilitate the acquisition of the nursing home properties.

Property	Face Amount	Principal Outstanding at		Stated Interest Rate	Maturity Date
		September 30, 2016	December 31, 2015		
Goodwill Nursing Home	\$2,180,000	\$1,344,000	\$1,280,000	17.0% Fixed <sup>(4)</sup>	June 30, 2017 <sup>(1)</sup>
Providence of Sparta Nursing Home	1,050,000	1,050,000	1,050,000	10.0% Fixed	August 1, 2016 <sup>(2)</sup>
Providence of Greene Point Healthcare Center	1,150,000	813,750	1,125,000	10.0% Fixed	June 30, 2017 <sup>(3)</sup>
Golden Years Manor Nursing Home	1,650,000	-	1,650,000	11.0% Fixed	April 1, 2016 <sup>(5)</sup>
		\$3,207,750	\$5,105,000		



(1) The subordinated note on Goodwill matured on July 1, 2015. Investors in the Goodwill note were entitled to an additional 5% equity in Goodwill Hunting, LLC every six months if the note is not paid when due. Effective December 31, 2015, all of the holders of the Goodwill subordinated note executed an Agreement Among Lenders pursuant to which they (i) waived all equity ratchets and (ii) extended the maturity date of their notes to June 30, 2017. In exchange, Goodwill Hunting LLC agreed to pay the investors a one-time premium equal to 5% of the principal amount of each individual note (approximately \$64,000) as such time as the note is repaid. For the nine months ended September 30, 2016, premium of \$64,000 has been recognized into earnings. The tenant, New Beginnings, of the Goodwill nursing facility filed for bankruptcy in January 2016. The facility is currently vacant and not generating any revenue and is unable to pay interest on the subordinated debt. The Company has been accruing the unpaid interest but is in default under the note.

(2) The subordinated note on Sparta matured on August 1, 2016. Investors in the Sparta note are entitled to an additional 5% equity in Providence HR, LLC every six months if the note is not paid when due. The Company is negotiating with these investors to purchase their residual equity interests in exchange for shares of common stock. There can be no assurance that these negotiations will be successful.

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The subordinated note on Greene Point matured on October 1, 2015. Investors in the Greene Point note were entitled to an additional 5% equity in Wash/Greene, LLC, the entity that owns the facility, every six months if the note is not paid when due. Effective December 31, 2015, all of the holders of the Wash/Greene subordinated note executed an Agreement Among Lenders pursuant to which they (i) waived all equity ratchets and (ii) extended the maturity date of their notes to June 30, 2017. In exchange, Wash/Greene LLC agreed to pay the investors a (3) one-time premium equal to 5% of the principal amount of each individual note (approximately \$56,000) as such time as the note is repaid. For the nine months ended September 30, 2016, premium of \$56,250 has been recognized into earnings. On June 20, 2016, the Greene Pointe facility was sold for cash proceeds of \$3.8 million. On the closing date, the Company paid off the mortgage loan related to this property. Subordinated notes in the amount of \$813,750 remain outstanding as of September 30, 2016. Subsequent to September 30, 2016, these subordinated notes were paid in full.

As of September 30, 2016, the income from the Goodwill facility was insufficient to cover debt service for the (4) subordinated debt for the facility. The debt is accruing interest at the default rate but not currently being paid. We are in discussions with the lender to restructure the accrued interest into a new note to be amortized through future payments.

Effective September 23, 2016, the Company exchanged 1,350,000 shares of common stock, at \$0.36 per share, for (5) an unsecured note payable with a principal balance of \$1,550,000 and unpaid interest of \$99,458. The transaction was accounted for as a debt extinguishment with a gain on extinguishment of debt in the amount of \$1,163,458 recorded in the consolidated statement of operations for the three months ended September 30, 2016. During the three month period ended September 30, 2016, principal in the amount of \$100,000 was forgiven resulting in a loss on forgiveness of debt which has been recognized in the consolidated statements of operations.

Future maturities of all of the notes and bonds payable listed above for the next five years and thereafter are as follows:

2016	\$12,192,756
2017	12,476,358
2018	6,103,051
2019	82,265
2020	1,938,559
2021 and Thereafter	-
	\$32,792,989

During the nine month period ended September 30, 2016, \$4,162,888 of debt was eliminated, of which \$829,688 was paid with cash, \$1,683,200 was paid through the sale of property, \$100,000 through forgiveness of debt and \$1,550,000 through exchange for shares of the Company's common stock. For the nine month period ended September 30, 2016, \$90,725 was recorded as amortization of discount and debt issuance costs.

## 7. STOCKHOLDERS' EQUITY

## **Preferred Stock**

The Company has authorized 10,000,000 shares of preferred stock. These shares may be issued in series with such rights and preferences as may be determined by the Board of Directors.

### **Series A Convertible Redeemable Preferred Stock**

The Company's Board of Directors has authorized 2,000,000 shares of \$2.00 stated value, Series A Preferred Stock. The preferred stock has a senior liquidation preference value of \$2.00 per share, has no voting or redemption rights and does not accrue dividends.

As of September 30, 2016 and December 31, 2015, the Company has 200,500 shares of Series A Preferred stock outstanding.

### Series D Convertible Preferred Stock

The Company has established a class of preferred stock designated “Series D Convertible Preferred Stock” (Series D preferred stock) and authorized an aggregate of 1,000,000 non-voting shares with a stated value of \$1.00 per share. Holders of the Series D preferred stock are entitled to receive dividends at the annual rate of eight percent (8%) based on the stated value per share computed on the basis of a 360 day year and twelve 30 day months. Dividends are cumulative, shall be declared quarterly, and are calculated from the date of issue and payable on the fifteenth day of April, July, October and January. The dividends may be paid, at the option of the holder either in cash or by the issuance of shares of the Company’s common stock valued at the market price on the dividend record date. Shares of the Series D preferred stock are redeemable at the Company’s option. At the option of the holder, shares of the Series D preferred stock plus any declared and unpaid dividends are convertible to shares of the Company’s common stock at a conversion rate of \$1.00 per share.

As of September 30, 2016 and December 31, 2015, the Company had 375,000 shares of Series D preferred stock outstanding.

Dividends of \$7,500 were declared for the three months ended September 30, 2016. All quarterly dividends previously declared have been paid. For the nine months ended September 30, 2016, dividends of \$22,500 have been declared and paid.

### Restricted Stock Awards

The following table summarizes the restricted stock activity during the nine months ended September 30, 2016 and 2015.

	2016	2015
Outstanding Non-Vested Restricted Stock , Beginning	-	-
Granted	977,275	251,549
Vested	(977,275)	(201,549)
Cancelled / Forfeited	-	(50,000 )
Outstanding Non-Vested Restricted Stock, Ending	-	-

In connection with these director restricted stock grants, the Company recognized stock-based compensation of \$348,886 and \$36,334 for the three months ended September 30, 2016 and 2015, respectively, and \$498,886 and

\$194,666 for the nine months ended September 30, 2016 and 2015, respectively. During the three months ended September 30, 2016, the Company issued 250,000 shares of restricted stock with a fair value of \$112,500 to a director in satisfaction of \$100,000 in accrued and unpaid legal fees, therefore a \$12,500 loss is recognized.

### **Common Stock Warrants**

As of September 30, 2016 and December 31, 2015, the Company had 1,221,736 and 2,921,736, respectively, of outstanding warrants to purchase common stock at a weighted average exercise price of \$0.77 and \$0.76, respectively. During the three month period ended September 30, 2016, 1,700,000 warrants with an exercise price of \$0.75 expired.

## Common Stock

During the quarter ending March 31, 2016, 54,000 shares of common stock were issued for equity positions to holders on non-controlling interests in one of the Company's subsidiary entities. In addition, 35,000 shares of common stock with a fair value of \$23,800 were issued as payment to the placement agent that solicited investors who agreed to restructure their subordinated debt. There were no issuances of common stock during the quarter ending September 30, 2016.

As described in Note 6, on September 23, 2016, the Company issued 1,350,000 shares of common stock, priced at \$0.36 per share, in exchange for an unsecured note payable in the principal amount of \$1,550,000 and unpaid interest of \$99,459.

## 9. RELATED PARTIES

Clifford Neuman, a director of the Company, is a manager and member of Gemini Gaming, LLC. As described in Note 5, the Company had a note receivable from Gemini Gaming, LLC. Mr. Neuman also serves as sole manager of the Company's affiliated subsidiaries. Mr. Neuman provides office space for the Company free of charge.

The Company transitioned the bookkeeping and property management for the Company to Colliers International. Andy Sink, a director and the interim Chief Operating Officer, is a partner of Colliers International.

Creative Cyberweb developed and maintains the Company's website, and is affiliated with CFO Zvi Rhine's family.

## 10. FACILITY LEASES

The following table summarizes our leasing arrangements related to the Company's healthcare facilities:

Facility	Monthly Lease Income <sup>(1)</sup>	Lease Expiration	Renewal Option, if any
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Middle Georgia <sup>(5)</sup>	\$ 49,000	June 30, 2017	Term may be extended for one additional five year term.
Warrenton	55,724	June 30, 2026	Term may be extended for one additional ten year term.
Goodwill <sup>(5),(7)</sup>	-	December 31, 2017	Term may be extended for one additional five year term.
Edwards Redeemer <sup>(5)</sup>	45,900	December 31, 2017	Term may be extended for one additional five year term.
Providence	42,519	June 30, 2026	Term may be extended for one additional ten year term.
Meadowview	33,695	October 31, 2024	Term may be extended for one additional five year term.
Golden Years <sup>(5) (6)</sup>	-	-	-
Southern Hills SNF <sup>(2)</sup>	37,000	May 31, 2019	Term may be extended for one additional five year term.
Southern Hills ALF <sup>(3)</sup>	22,000	March 31, 2019	None
Southern Hills ILF <sup>(4)</sup>	-	-	-

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Monthly lease income reflects rent income on a straight-line basis, where applicable, over the term of each lease.

- (1) Properties related to the New Beginnings properties (Middle Georgia/Dodge, Goodwill and Edwards Redeemer) are reflected on a cash basis until the tenant is out of bankruptcy and stable.)

Lease agreement dated May 21, 2014 with lease payments commencing February 1, 2015. On May 10, 2016, the Company obtained a Court Order appointing a Receiver to control and operate the Southern Hills SNF. The former

- (2) lease operator represented that it was unable to meet the financial commitments of the facility, including the payment of rent, payroll and other operating requirements. The Company plans to engage a new lease operator for the facility. See Note (8).

Lease agreement dated March 19, 2014. Lease payments were to have commenced on April 1, 2015; however the

- (3) ALF facility is not yet open and rent payments have not been made. The tenant for the ALF is the same tenant as the tenant for the Southern Hills SNF, discussed in Note 2. The Company plans to seek a new tenant for this entity to assume operations at the completion of construction. See Note (8).

- (4) The Southern Hills ILF requires renovation and is not subject to an operating lease. See Note (8).

On January 22, 2016, a lease operator that operates Middle Georgia, Edwards Redeemer, Golden Years (until January 1, 2016) and Goodwill filed a voluntary petition in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. Under the Chapter 11 Bankruptcy, the lease operator can either assume or reject the leases of Middle

- (5) Georgia, Edwards Redeemer and Goodwill. As of the date of this Report, the lease operator has not made any binding elections, but has verbally represented that he intends to assume the leases of Middle Georgia and Edwards Redeemer under existing lease terms and reject the lease covering Goodwill. If the lease operator assumes a lease, he is required to bring the leases current as a condition to such assumption.

Effective January 1, 2016, the Golden Years facility was leased to another operator for a period of ten years at a monthly base rent of \$30,000 which was subject to increases based on census levels. Under the terms of the lease, the Company agreed to fund certain capital expenditures, which it was unable to fulfill. In July 2016, the new tenant served notice that it was terminating the lease effective August 31, 2016. The Company entered into a Lease Termination Agreement under which it paid the tenant \$145,000 and is obligated to make future payments.

- (6) Effective August 30, 2016, the Company entered into a new lease agreement with another nursing home operator for its Golden Years facility. The lease term commences at the end of a straddle period which is defined as the period the nursing home operator takes occupancy of and commences operations of the facility and ends the later of (i) such time the Company has recovered 100% of all advances made to the operator to cover initial operating losses incurred or (ii) twelve months from the occupancy date. During the straddle period, the Company has agreed to make working capital advances to enable the operator to cover cash flow deficits resulting from initial operations of the facility. If at the end of the straddle period, the operator has not reimbursed the full amount of advances to the Company, the Company or operator have the right to terminate the lease agreement. No amounts have been advanced to the operator by the Company as of September 30, 2016. If the lease term commences, the Company will receive monthly base rents beginning at \$35,000 which is subject to increases based on census levels.

- (7) In January 2016, concurrently with the Chapter 11 Bankruptcy filing by the lease operator, the Goodwill facility was closed by Georgia regulators and all residents were removed. The Goodwill facility is not generating any revenue as of the date of this report. In a transaction related to the sale of the Greene Point facility, an affiliate of the buyer of Greene Point has executed a ten year operating lease covering Goodwill. The lease will not become effective until and unless the State of Georgia approves the issuance of all licenses, permits and other regulatory approvals necessary to recertify and reopen the facility. The former lease has been terminated. After receiving



regulatory approvals, the lease operator invested approximately \$2.0m in capital improvements in the property. The facility is scheduled to reopen as early as December 2016 pending a successful survey. If the facility is not reopened by January 2017 (one year from that date it was closed), the Certificate of Need for the facility will be terminated, and the property will no longer be eligible to be operated as a licensed nursing home.

On August 3, 2016, the Company entered into a non-binding letter of intent with a new tenant for all three (8) Southern Hills facilities. New leases will not be executed until renovations at the ALF and ILF have been completed.

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Lessees are responsible for payment of insurance, taxes and other charges while under the lease. Should the lessees not pay all such charges, as required under the leases, the Company may become liable for such operating expenses. We have been required to cover those expenses at Goodwill since the facility was closed by regulators in January 2016. The Company has also committed to extending a line of credit to the Receiver for the Southern Hills SNF for working capital in the maximum amount of \$250,000, of which \$150,000 has already been advanced. The line of credit will represent a senior obligation of the Receivership estate.

Future cash payments for rent to be received during the initial terms of the leases for the next five years and thereafter are as follows (excludes Middle Georgia, Edwards Redeemer, Goodwill, Golden Years, Southern Tulsa SNF, Southern Tulsa ALF and Southern Tulsa ILF):

2016	\$348,000
2017	1,446,000
2018	1,511,040
2019	1,545,342
2020	1,576,254
2021 and Thereafter	8,571,204
	\$14,997,840

The Company is in active negotiations with potential lease operators to assume the operations of the properties whose operator is in bankruptcy (Middle Georgia, Edwards Redeemer and Goodwill) as well as a new operator for the Southern Hills' facilities.

## 11. FAIR VALUE MEASUREMENTS

Our consolidated balance sheets include the following financial instruments: cash and cash equivalents, advances to related parties, notes receivable, restricted cash, accounts payable, debt and lease security deposits. We consider the carrying values of our short-term financial instruments to approximate fair value because they generally expose the Company to limited credit risk, because of the short period of time between origination of the financial assets and liabilities and their expected settlement, or because of their proximity to acquisition date fair values. The carrying value of debt approximates fair value based on borrowing rates currently available for debt of similar terms and maturities.

Upon acquisition of real estate properties, the Company determines the total purchase price of each property and allocates this price base on the fair value of the tangible assets and intangible assets, if any, acquired and any liabilities assumed based on Level 3 inputs. These Level 3 inputs can include comparable sales values, discount rates, and

capitalization rate assumptions from a third party appraisal or other market sources.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 are summarized below:

Total	Fair Value Measurement		
	Level 1	Level 2	Level 3
Warrant Liability \$177,922	-	-	\$177,922

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 are summarized below:

Total	Fair Value Measurement		
	Level 1	Level 2	Level 3
Warrant Liability \$304,536	-	-	\$304,536

The warrant liability is marked-to-market each reporting period with the change in fair value recorded as a gain or loss within Other (Income) Expense on the Company's Consolidated Statement of Operations until the warrants are exercised, expire, or other facts and circumstances lead the warrant liability to be reclassified as an equity instrument. The fair value of the warrant liability is determined each reporting period by utilizing the Black-Scholes option pricing model.

The table presented below is a summary of changes in the fair value of the Company's Level 3 valuation for the warrant liability for the nine months ended September 30, 2016:

Beginning Balance, January 1, 2016	\$ 304,536
Change in Fair Value of Warrant Liability	(126,614)
Exercise of Warrants	-
Ending Balance, September 30, 2016	\$ 177,922

The significant assumptions used in the Black-Scholes option pricing model as of September 30, 2016 and December 31, 2015 include the following:

	September 30, 2016	December 31, 2015
Volatility	94.8% - 142.3%	95.3% - 152.8%
Risk-free Interest Rate	0.29% - 0.88%	0.65% - 1.31%
Exercise Price	\$0.50 - \$1.37	\$0.50 - \$1.37
Fair Value of Common Stock	\$0.40	\$0.68
Expected Life	.36 - 3.0 years	1.1 - 3.7 years

**12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Supplemental cash flow information for the nine months ended September 30 follows:

	2016	2015
Acquisition of Membership Interests in Exchange for Common Stock	\$66,497	\$-
Common Stock Issued for Debt Cost	23,800	-
Common Stock Issued for Debt and Accrued Interest	486,000	-
Common Stock issued for Settlement Accounts Payable	112,500	-
Dividends Declared on Preferred Stock	22,500	7,500
Dividends Declared on Common Stock	-	218,317
Payment of Mortgage Debt through Sale of Property	1,683,200	-
Construction in Progress Financed with Debt	319,163	-

**13. LEGAL PROCEEDINGS**

The Company and/or its affiliated subsidiaries are involved in the following litigation:

*Southern Tulsa, LLC v. Healthcare Management of Oklahoma, LLC*, District Court of Tulsa County, State of Oklahoma, Case No. CJ – 2016- 01781.

This matter was brought by us to have the appointment of a Receiver for the Southern Tulsa SNF and to recover damages from our former operator at that facility. The Court has ordered the appointment of a Receiver effective May 10, 2016. Other claims and matters are pending.

*Joann Howard v. Southern Tulsa, LLC, West Paces Ferry Healthcare REIT, LLC, et. al.* District Court of Tulsa County, State of Oklahoma, Case No. CJ- 2015-03048.

This is a personal injury lawsuit brought by the heirs of a former resident of the Southern Tulsa SNF. Our affiliates were named as defendants due to their ownership of the property. As we were not the operators of the SNF at the time of the alleged injury, we believe the likelihood of a material adverse outcome is remote.

*Gregory D. Hughes, Esq. v. Janis M Tilford, et. al.*, Superior Court of Cobb County, Georgia, Civil Action File No. 16-1-2391-49.

This civil action arises from the termination of the Stock Purchase Agreement entered into by the Company's subsidiary TNH Acquisition, LLC to acquire the skilled nursing facility in Ridgeway, South Carolina. The dispute is over the disposition of our \$100,000 earnest money deposit which the escrow agent has interpleaded into the Court. This matter was settled in the quarter ended September 30, 2016.

*Thomas v. Edwards Redeemer Property Holdings, LLC, et.al.*, District Court for Oklahoma County, Oklahoma, Case No. CJ 2016-2160.

This action arises from a personal injury claim brought by heirs of a former resident of our Edwards Redeemer facility. We are entitled to indemnification from the lease operator and should be covered under the lease operators general liability policy. As we are not the operators of the facility and believe we have indemnity coverage, we believe the likelihood of a material adverse outcome is remote.

*Verizon Construction, Inc., v. Southern Tulsa, LLC, et. al.*, District Court of Tulsa County, Oklahoma, Case No. CJ-2015-04326.

This is a mechanic's lien foreclosure action on the Southern Hills facility in Tulsa arising from work performed. The Plaintiff was a subcontractor to our general contractor; and while we paid the general contractor for that work, the general contractor apparently did not pay the subcontractor. Plaintiff is seeking \$441,938.51 previously invoiced to the general contractor, plus attorney's fees and costs. The general contractor, also a named defendant, is liable for this amount but may not have the resources to pay the plaintiff, therefore the Company may be liable for some unknown amount less than or equal to Plaintiff's claim. The company will attempt to reach a settlement in the near future, of which there can be no assurance. The potential liability cannot be reasonably estimated and is not reflected in the financial statements of the Company.

#### **14. SUBSEQUENT EVENTS**

On October 1, 2016, subordinated debt with an outstanding principal balance of \$813,750 related to our Providence of Greene Pointe Healthcare Center was paid off.



## **ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 2. OF OPERATIONS**

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with our interim financial statements and notes thereto contained elsewhere in this report. This section contains forward-looking statements, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 as filed with the SEC.

Our actual future results and trends may differ materially from expectations depending on a variety of factors discussed in our filings with the SEC. These factors include without limitation:

macroeconomic conditions, such as a prolonged period of weak economic growth, and volatility in capital markets;

changes in national and local economic conditions in the real estate and healthcare markets specifically;

legislative and regulatory changes impacting the healthcare industry, including the implementation of the healthcare reform legislation enacted in 2010;

the availability of debt and equity capital;

changes in interest rates;

competition in the real estate industry; and,

the supply and demand for operating properties in our market areas.

### **Overview**

Global Healthcare REIT, Inc. ("Global" or "we" or the "Company") was organized for the purpose of investing in real estate related to the long-term care industry.



We plan to elect to be treated as a real estate investment trust (REIT) in the future; however, we did not make that election for the 2015 fiscal year.

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The Company invests primarily in real estate serving the healthcare industry in the United States. We acquire, develop, lease, manage and dispose of healthcare real estate. Our portfolio will be comprised of investments in the following five healthcare segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) post-acute/skilled nursing and (v) hospital. We will make investments within our healthcare segments using the following five investment products: (i) properties under lease, (ii) mortgage debt investments, (iii) developments and redevelopments, (iv) investment management and (v) RIDEA, which represents investments in senior housing operations utilizing the structure permitted by the Housing and Economic Recovery Act of 2008.

The delivery of healthcare services requires real estate and, as a result, tenants and operators depend on real estate, in part, to maintain and grow their businesses. We believe that the healthcare real estate market provides investment opportunities due to the following:

Compelling demographics driving the demand for healthcare services;

Specialized nature of healthcare real estate investing; and

Ongoing consolidation of a fragmented healthcare real estate sector.

### **Acquisitions**

We did not acquire any properties during the nine month periods ended September 30, 2016 and 2015.

### **Dispositions**

Effective June 20, 2016, we sold our Providence of Greene Point Healthcare Center for cash proceeds of \$3.8 million.

### **Properties**

As of September 30, 2016, we owned eight long-term care facilities. The following table provides summary information regarding these facilities at September 30, 2016:

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Property Name	Location	Percentage Equity Ownership		Date Acquired	Gross Square Feet	Purchase Price	Outstanding Debt at September 30, 2016
Middle GA Nursing Home (a/k/a Crescent Ridge)	Eastman, GA	100	%	3/15/2013	28,808	\$5,000,000	\$3,760,857
Warrenton Health and Rehabilitation	Warrenton, GA	100	%	12/31/2013	26,894	3,500,000	2,490,926
Southern Hills Retirement Center	Tulsa, OK	100	%	2/07/2014	104,192	2,000,000	7,150,472
Goodwill Nursing Home	Macon, GA	83.62	%(2)	5/19/2014	46,314	7,185,000	5,864,816
Edwards Redeemer Health & Rehab	Oklahoma City, OK	100	%	9/16/2014	31,939	3,142,233	2,182,232
Providence of Sparta Nursing Home	Sparta, GA	97.36	%(3)	9/16/2014	19,441	2,836,930	2,711,930
Meadowview Healthcare Center	Seville, OH	100	%	9/30/2014	27,500	3,000,000	3,200,000
Golden Years Manor Nursing Home	Lonoke, AR	100	%	9/16/2014	40,737	6,742,767	4,618,006

Property Name	Annual Lease Revenue	Operating Lease Expiration
Middle Georgia Nursing Home (a/k/a Crescent Ridge) <sup>(4)</sup>	\$570,000	6/30/2017
Warrenton Health and Rehabilitation	668,690	6/30/2026
Southern Hills Retirement Center <sup>(1)</sup>	427,000	5/31/2019
Goodwill Nursing Home <sup>(2) (4)(5)</sup>	-	12/31/2017
Edwards Redeemer Health & Rehab <sup>(4)</sup>	540,000	12/31/2017
Providence of Sparta Nursing Home <sup>(3)</sup>	510,223	6/30/2026
Meadowview Healthcare Center	361,000	10/31/2024
Golden Years Manor Nursing Home <sup>(4)</sup>	-	-

Southern Hills Retirement Center consists of a skilled nursing facility (SNF), assisted living facility (ALF) and independent living facility (ILF) under separate lease agreements. Lease revenues for the SNF began in February 1, 2015. On May 10, 2016, the Company obtained a Court Order appointing a Receiver to control and operate the Southern Hills SNF. The former lease operator represented that it was unable to meet the financial commitments of the facility, including the payment of rent, payroll and other operating requirements. During the nine month (1) period ended September 30, 2016, actual payment of rent has been sporadic. The Company plans to engage a new lease operator for the facility. Lease revenues for the ALF were to have begun April 1, 2015; however, additional renovations are required to open the facility. Lease revenues for the ILF are expected to commence when needed renovations to the facility are completed. On the date acquired, the ALF and ILF were vacant and in need of renovation. The Company obtained financing through the issuance of bonds and a mortgage loan to fund the renovation costs and to fund the acquisition of the facilities.

The subordinated note on Goodwill matured on July 1, 2015. Investors in the Goodwill note were entitled to an additional 5% equity in Goodwill Hunting, LLC every six months if the note is not paid when due. Effective (2) December 31, 2015, the investors holding the subordinated debt executed an Agreement Among Lenders pursuant to which they (i) agreed to waive any and all equity ratchets and (ii) agreed to extend the maturity date of the subordinated debt to June 30, 2017. In exchange, Goodwill Hunting agreed to pay the investors an additional one-time premium equal to 5% of the principal amount of the individual note at such time as the note is repaid.

The subordinated notes on Sparta and Greene Pointe matured on August 1, 2015. Investors in the Sparta and Greene Pointe notes are entitled to an additional 5% equity in Providence HR, LLC and Wash/Greene, LLC, respectively, every six months if the note is not paid when due. The Company's percentage ownership in Sparta (3) gives effect to this equity ratchet; however effective December 31, 2015, the investors holding the subordinated debt in Greene Pointe executed an Agreement Among Lenders pursuant to which they (i) agreed to waive any and all equity ratchets and (ii) agreed to extend the maturity date of the subordinated debt to June 30, 2017. In exchange, Wash/Greene LLC agreed to pay the investors an additional one-time premium equal to 5% of the principal amount of the individual note at such time as the note is repaid.

(4) On January 22, 2016, the lease operator that operates Middle Georgia Nursing Home, Edwards Redeemer Health & Rehab, Goodwill Nursing Home and formerly Golden Years Manor Nursing Home filed a voluntary petition in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. We cannot predict the effect of this bankruptcy filing on future lease terms. The Golden Years Manor Nursing Home has been re-leased to an unaffiliated third party

operator effective January 1, 2016 at an initial lease rate of \$360,000 per year, subject to future census adjustments. In July 2016, the Golden Years operator served notice that it was terminating the lease effective August 31, 2016, claiming that GL Nursing, LLC, our subsidiary, failed to fulfill its obligations under the lease. Effective August 30, 2016, the Company entered into a new lease agreement with another nursing home operator for its Golden Years facility. The lease term commences at the end of a straddle period which is defined as the period the nursing home operator takes occupancy of and commences operations of the facility and ends the later of (i) such time the Company has recovered 100% of all advances made to the operator to cover initial operating losses incurred or (ii) twelve months from the occupancy date. During the straddle period, the Company has agreed to make working capital advances to enable the operator to cover cash flow deficits resulting from initial operations of the facility. If at the end of the straddle period, the operator has not reimbursed the full amount of advances to the Company, the Company or operator have the right to terminate the lease agreement. No amounts have been advanced to the operator by the Company as of September 30, 2016. If the lease term commences, the Company will receive monthly base rents beginning at \$35,000 which is subject to increases based on census levels.

Goodwill was closed by regulators in January 2016 and is currently not generating any revenue. The Goodwill facility is not generating any revenue as of the date of this report. In a transaction related to the sale of the Greene Point facility, an affiliate of the buyer of Greene Point has executed a ten year operating lease covering Goodwill. (5) The lease will not become effective until and unless the State of Georgia approves the issuance of all licenses, permits and other regulatory approvals necessary to recertify and reopen the facility. The lease is also conditional on the termination of the current lease covering the property which is held by the former operator which filed a voluntary Chapter 11 bankruptcy petition in January 2016. The lease operator has agreed to invest not less than \$1.0 million in capital improvements in the property pending receipt of regulatory approvals.

## Results of Operations

The following discussion of the financial condition, results of operations, cash flows, and changes in our financial position should be read in conjunction with our interim consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q.

### Results of Operations - Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

Rental revenues for the three month periods ended September 30, 2016 and 2015 totaled \$850,520 and \$978,648, respectively, a decrease of \$128,128. On January 22, 2016, the lease operator that leased our Middle Georgia, Edwards Redeemer, Golden Years and Goodwill properties filed a voluntary petition in bankruptcy under Chapter 11 of the U.S Bankruptcy Code, and at the same time the regulators closed the Goodwill facility. At the time of the bankruptcy petition, we were owed pre-petition rent of over \$600,000 which likely will not be recovered. The bankrupt lease operator also owed unpaid property taxes on each of the controlled properties totaling approximately \$300,000 which constitute a lien on our interests and must be paid. We continue to have to service the senior secured loan at Goodwill even though the property is closed and generates no revenues. We have not recognized any rental revenues related to the Golden Years property, and under the terms of the new lease with a new operator, we'll continue to not receive any rental revenues until the costs of refurbishment and operating losses incurred by the new operator have been reimbursed, which we expect may occur during the second quarter of 2017. We have restructured our senior loan related to Golden Years which permitted us to defer certain payments in 2016 and pay interest only until April 1, 2017. Rental revenues from our Southern Hills SNF has been sporadic under the Receivership on that property; and we have additional refurbishment costs for that facility. We recognized no rental revenues related to our assisted and independent living facilities in Tulsa, Oklahoma which were to have begun April 1, 2015; however, additional renovations are required to open the facilities at an estimated cost of approximately \$3.0 million. We have been unable to service our unsecured debt at Lonoke and Goodwill and cannot predict when those properties will generate sufficient revenues to resume those payments. We expect to recognize rental revenues on the assisted living facility during 2016. Rental revenues for our independent living facility in Tulsa, Oklahoma will be recognized after construction activities and renovations have been completed, forecast to occur in 2016. Revenues from Goodwill ceased in January 2016 and it is unlikely that we will realize any rental revenues from that property for the remainder of 2016. For the three months ended September 30, 2015, we recognized rental revenues on all properties with the exception of Goodwill and our assisted living facility and independent living facilities located in Tulsa, Oklahoma. We have also not received any rental income from the Southern Hills skilled nursing facility since the appointment of our Receiver in May 2016.

General and administrative expenses were \$734,891 and \$654,202 for the three month periods ended September 30, 2016 and 2015, respectively, an increase of \$80,689. This classification primarily consisted of salaries and legal, accounting and other professional fees to comply with regulatory reporting requirements. The increase is attributed to the recognition of stock based compensation of \$337,500 during the three months ended September 30, 2016 compared to \$36,334 during the three months ended September 30, 2015.

Property taxes, insurance, and other operating expenses totaled \$43,255 and \$2,276 for the three month periods ended September 30, 2016 and 2015, respectively. Lessees are responsible for the payment of insurance, taxes and other charges while under the lease. Should the lessee not pay all such charges, as required under the leases, we may be liable for such operating expenses. We have been required to cover these expenses at our Goodwill since the facility was closed by regulators in January 2016. We are also responsible for property taxes and insurance related to the ALF and ILF at our Southern Hills Retirement Center.

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Acquisition costs were \$0 and \$1,950 for the three months ended September 30, 2016 and 2015, respectively.

Depreciation expense decreased \$50,966 from \$338,355 for the three months ended September 30, 2015 to \$287,389 for three months ended September 30, 2016. We have not recorded depreciation expense on our assisted living facility and independent living facility located at our Southern Hills Retirement Center which will commence once renovations have been completed and the properties are placed in service. We did not recognize depreciation expense on our Providence of Greene Point Healthcare Center during the three months ended September 30, 2016 due to the sale of that facility in June 2016. Depreciation expense recognized on our Providence of Greene Point Healthcare Center for the three months ended September 30, 2015 totaled \$42,446.

During the three months ended September 30, 2016, we recognized a loss on warrant liability of \$31,110. Warrants to purchase our common stock contain nonstandard antidilution provisions which require them to be classified as liabilities and recorded at their estimated fair value at each reporting period. Changes in the fair value of these warrants during the reporting period are recorded as a gain or loss in our consolidated statement of operations.

We recognized a gain on extinguishment of debt in the amount of \$1,163,458 during the three months ended September 30, 2016. During the period, we issued 1,350,000 shares of common stock, priced at \$0.36 per share, for an unsecured note payable with a principal balance of \$1,550,000 and unpaid interest of \$99,459.

Interest income for the three months ended September 30, 2016 was \$0 compared to \$19,660 for the same period in 2015. During the first quarter of 2016, we collected a note receivable from a related party in full satisfaction of the note; and, as of September 30, 2016, there were no notes receivable outstanding. During the quarter ended September 30, 2015, interest income was recognized on notes receivable with average balances approximating \$1.1 million.

Interest expense decreased \$132,332 from \$735,843 for the three months ended September 30, 2015 to \$603,511 for the three months ended September 30, 2016. The decrease is attributable to reductions in the principal amount of debt from 2015 to 2016.



**Results of Operations - Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015**

Rental revenues for the nine month periods ended September 30, 2016 and 2015 totaled \$2,310,584 and \$3,264,321, respectively, a decrease of \$953,737. On January 22, 2016, the lease operator that leased our Middle Georgia, Edwards Redeemer, Golden Years and Goodwill properties filed a voluntary petition in bankruptcy under Chapter 11 of the U.S Bankruptcy Code, and at the same time the regulators closed the Goodwill facility. At the time of the bankruptcy petition, we were owed pre-petition rent of over \$600,000 which likely will not be recovered. The bankrupt lease operator also owned unpaid property taxes on each of the controlled properties totaling approximately \$300,000 which constitute a lien on our interests and must be paid. We continue to have to service the senior secured loan at Goodwill even though the property is closed and generates no revenues. We have not recognized any rental revenues related to the Golden Years property, and under the terms of the new lease with a new operator, we'll continue to not receive any rental revenues until the costs of refurbishment and operating losses incurred by the new operator have been reimbursed, which we expect may occur during the second quarter of 2017. We have restructured our senior loan related to Golden Years which permitted us to defer certain payments in 2016 and pay interest only until April 1, 2017. Rental revenues from our Southern Hills SNF has been sporadic under the Receivership on that property; and we have additional refurbishment costs for that facility. We recognized no rental revenues related to our assisted and independent living facilities in Tulsa, Oklahoma which were to have begun April 1, 2015; however, additional renovations are required to open the facilities. We have been unable to service our unsecured debt at Lonoke and Goodwill and cannot predict when those properties will generate sufficient revenues to resume those payments. We expect to recognize rental revenues on the assisted living facility during 2016. Rental revenues for our independent living facility in Tulsa, Oklahoma will be recognized after construction activities and renovations have been completed, forecast to occur in 2016. Revenues from Goodwill ceased in January 2016 and it is unlikely that we will realize any rental revenues from that property for the remainder of 2016. For the nine months ended September 30, 2015, we recognized rental revenues on all properties with the exception of Goodwill and our assisted living facility and independent living facilities located in Tulsa, Oklahoma.

General and administrative expenses were \$1,616,476 and \$1,296,328 for the nine month periods ended September 30, 2016 and 2015, respectively, an increase of \$320,148. This classification primarily consisted of salaries and legal, accounting and other professional fees to comply with regulatory reporting requirements. For the nine months ended September 30, 2016 and 2015, general and administrative expenses includes \$498,886 and \$194,666 of share based compensation related to restricted stock and common stock awards. We also recognized higher legal costs during the nine months ended September 30, 2016 due to the bankruptcy of a lease operator.

Property taxes, insurance, and other operating expenses totaled \$202,635 and \$120,618 for the nine month periods ended September 30, 2016 and 2015, respectively. Lessees are responsible for the payment of insurance, taxes and other charges while under the lease. Should the lessee not pay all such charges, as required under the leases, we may be liable for such operating expenses. We have been required to cover these expenses at our Goodwill since the facility was closed by regulators in January 2016. We are also responsible for property taxes and insurance related to the ALF and ILF at our Southern Hills Retirement Center.

Acquisition costs were \$52,325 and \$1,950 for the nine months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016, we incurred acquisition costs in the form of a partial forfeiture of an earnest money deposit related to the potential purchase of a skilled nursing facility. The acquisition failed to close.

We recognized a gain on disposal of property and equipment of \$980,839 during the nine months ended September 30, 2016 related to the sale of our Providence of Greene Point Healthcare Center for cash proceeds of \$3.8 million.

Depreciation expense increased \$233,769 from \$949,080 for the nine months ended September 30, 2015 to \$1,182,849 for nine months ended September 30, 2016. We have not recorded depreciation expense on our assisted living facility and independent living facility located at our Southern Hills Retirement Center which will commence once renovations have been completed and the properties are placed in service.

During the nine months ended September 30, 2016, we recognized a gain on warrant liability of \$126,614. Warrants to purchase our common stock contain nonstandard antidilution provisions which require them to be classified as liabilities and recorded at their estimated fair value at each reporting period. Changes in the fair value of these warrants during the reporting period are recorded as a gain or loss in our consolidated statement of operations.

We recognized a gain on extinguishment of debt in the amount of \$1,163,458 during the three months ended September 30, 2016. During the period, we issued 1,350,000 shares of common stock, priced at \$0.36 per share, for an unsecured note payable with a principal balance of \$1,550,000 and unpaid interest of \$99,459.

Interest income decreased \$50,675 from \$82,824 for the nine months ended September 30, 2015 to \$32,149 recognized for the nine months ended September 30, 2016 as a result of decreased average balances outstanding related to our note receivable from a related party.

Interest expense decreased \$103,829 from \$2,074,854 for the nine months ended September 30, 2015 to \$1,971,025 for the nine months ended September 30, 2016. The decrease is attributable to reductions in the principal amount of debt from 2015 to 2016. For the nine months ended September 30, 2015, we capitalized interest costs on construction in progress of \$105,867 related to renovations at our Southern Hills Retirement Center. We did not capitalize any interest during the nine months ended September 30, 2016.

## **Liquidity and Capital Resources**

Throughout its history, the Company has experienced shortages in working capital and has relied, from time to time, upon sales of properties and debt and equity securities to meet cash demands.

At September 30, 2016, the Company had cash and cash equivalents of \$1.4 million on hand. In June 2016, we sold our Greene Point facility for gross cash proceeds of \$3.8 million. A portion of the proceeds were used to pay off an existing mortgage related to the facility in the amount of \$1.7 million and related subordinated debt of \$367,500. Our liquidity is expected to increase from potential equity and debt offerings and decrease as net offering proceeds are expended in connection with the acquisition of properties. Our continuing short-term liquidity requirements consisting primarily of operating expenses and debt service requirements, excluding balloon payments at maturity, are expected to be achieved from rental revenues received and existing cash on hand. We plan to renew senior debts that mature during 2016, as our projected cash flow from operations will be insufficient to retire the debt. Our restricted cash approximated \$0.6 million as of September 30, 2016 which is to be expended on debt service associated with our Southern Hills Retirement Center.

We have an agreement for the Goodwill facility that should start generating revenues in January 2017 after the new operator has completed renovations and obtained necessary licenses and permits. We also have an agreement from the senior lender to extend and modify the Goodwill senior loan to require interest only payments for six months. An agreement is also in place at Golden Years in which the Company makes advances to the operator to cover operating deficits until operations at the facility sufficiently recover. The operator has initiated over \$400,000 in property improvements, which will be complete by year-end. Our advances will be reimbursed by any operating surpluses prior to

commencement of the lease. Any remaining unreimbursed advances after twelve months will not be recovered and either party has the option to reject the lease prior to commencement. We expect all advances to be repaid and the lease to commence in April 2017.

Cash used in operating activities was \$506,278 for the nine months ended September 30, 2016 compared to cash provided by operating activities of \$369,106 for the nine months ended September 30, 2015. Cash flows provided by operations was primarily impacted by the decrease in rental revenues received during the first quarter of 2016 as a result of the bankruptcy filing of a lease operator and the closure of one facility.

Cash provided by investing activities was \$2,672,738 for the nine month period ended September 30, 2016 compared to cash provided by investing activities of \$471,771 for the nine month period ended September 30, 2015. For the nine months ended September 30, 2016, we collected the total carrying value of a note receivable with a related party in the amount of \$573,428 and received proceeds of \$2,112,970 from the sale of our Greene Point facility. For the nine months ended September 30, 2015, we issued a note receivable of \$350,000 to a nursing home operator, collected \$574,719 from notes receivable to related parties, received back a \$450,000 earnest money on deposit related to a potential acquisition and incurred capital expenditures of \$328,651 related to our Southern Hills Retirement Center.

Cash used in financing activities was \$885,500 and \$918,010 for the nine months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2015, we issued \$2.3 million in debt and made payments on debt of \$2.7 million. During the nine months ended September 30, 2016, we did not issue any new debt and made payments on debt of \$0.8 million.

As of September 30, 2016 and December 31, 2015, our debt balances consisted of the following:

	September 30, 2016	December 31, 2015
Convertible Notes Payable	\$3,200,000	\$3,200,000
Fixed-Rate Mortgage Loans	14,465,303	14,461,421
Variable-Rate Mortgage Loans	6,279,936	8,050,043
Bonds Payable	5,640,000	5,700,000
Other Debt	3,207,750	5,105,000
	32,792,989	36,516,464
Unamortized Discount and Debt Issuance Costs	(644,498 )	(700,692 )
	\$32,148,491	\$35,815,772

The weighted average interest rate and term of our fixed rate debt are 6.94% and 6.0 years, respectively, as of September 30, 2016. The weighted average interest rate and term of our variable rate debt are 5.82% and 15.3 years, respectively, as of September 30, 2016.

We have \$6.8 million of debt maturing during the remaining three months of 2016. We expect to refinance this debt as the associated properties meet loan to value requirements currently being employed in commercial lending markets. During 2016, we paid off a \$1.7 mortgage note using proceeds from the sale of our Greene Pointe facility, exchanged \$1.6 million of subordinated debt for our common stock, and paid off \$367,500 of subordinated debt related to our Greene Point facility. In January 2015, the Company paid off a note payable in the amount of \$880,000 and refinanced an existing fixed-rate mortgage loan related to the Edwards Redeemer Health & Rehab facility.

The mortgage loan collateralized by the Golden Years Manor Nursing Home is 80% guaranteed by the USDA and is subject to financial covenants and customary affirmative and negative covenants. As of September 30, 2016, the Company was not in compliance with certain of these non-financial covenants which is considered to be a technical Event of Default as defined in the note agreement. Remedies available to the lender in the event of a continuing Event of Default, at its option, include, but are necessarily limited to the following (1) lender may declare the principal and all accrued interest on the note due and payable; and (2) lender may exercise additional rights and remedies under the note agreement to include taking possession of the collateral or seeking satisfaction from the guarantors. The Company has not been notified by the lender regarding the exercise of any remedies available. Guarantors under the mortgage loan are Christopher Brogdon and GLN Investors, LLC, of which the Company owns a 100% membership interest. There is approximately \$60,000 in accrued interest due under this mortgage loan at September 30, 2016; and we are in negotiations with the lender to restructure that amount in a new note to be amortized over future payments.

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*Contractual Obligations*

As of September 30, 2016, we had the following contractual obligations:

	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Notes and Bonds Payable - Principal	\$29,592,989	\$ 21,469,114	\$ 6,103,051	\$ 2,020,824	\$ -
Notes and Bonds Payable - Interest	13,458,082	1,796,302	1,954,236	1,482,181	8,225,363
Convertible Notes Payable - Principal	3,200,000	3,200,000	-	-	-
Convertible Notes Payable - Interest	260,000	208,000	52,000	-	-
Total	\$46,511,071	\$26,673,416	\$8,109,287	\$3,503,005	\$8,225,363

Revenues from operations are not sufficient to meet all the working capital needs of the Company for the foreseeable future. Cash on hand of \$1.4 million as of September 30, 2016 has increased during the year through the repayment of our note receivable with Gemini Gaming of \$573,428 and net cash proceeds from the sale of our Greene Point facility during the first six months of 2016 offset by reductions in debt. Existing cash on hand combined with revenues generated from operations were not sufficient to cover all of our operating expenses and debt service requirements during the first nine months of 2016. The closure of Goodwill, the bankruptcy of our operator at Eastman, Edwards Redeemer and Goodwill, the renegotiation of the operating lease for Lonoke, and the Receivership at Southern Tulsa SNF, have impaired our cash flow for the near term. Debt maturities are expected to be refinanced at reasonable terms upon maturity. The Company anticipates a combination of conventional mortgage loans, at market rates, issuance of revenue bonds and possibly additional equity injections to fund the acquisition cost of any additional properties. We have ongoing capital improvement and recurring capital expenditure commitments at most of our properties, which range from minor capital expenditure needs at Edwards Redeemer and Eastman to significant commitments at Lonoke and the Southern Hills. We will likely need to consider further equity and debt financings to meet our short term capital requirements, for which there currently exist no commitments or agreements.

*Off-Balance Sheet Arrangements*

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that we consider material.

**Critical Accounting Policies**

Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. Certain of these accounting policies are particularly important for an understanding of the financial position and results of operations presented in the consolidated financial statements set forth elsewhere in this report. These policies require that application of judgment and assumptions by management and, as a result, are subject to a degree of uncertainty. Actual results could differ as a result of such judgment and assumptions.

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### *Property Acquisitions*

We allocate the purchase price of acquired properties to net tangible and identified intangible assets and any liabilities based on relative fair values. Fair value estimates are based on information obtained from independent appraisals, other market data, information obtained during due diligence and information related to the marketing and leasing at the specific property. Acquisition-related costs such as due diligence, legal and accounting fees are expensed as incurred and not applied in determining the purchase price or fair value of an acquired property.

### *Impairment of Long Lived Assets*

When circumstances indicate the carrying value of property may not be recoverable, the Company reviews the asset for impairment. This review is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. This estimate considers factors such as expected future operating income, market and other applicable trends and residual value, as well as the effects of leasing demand, competition and other factors. If impairment exists, due to the inability to recover the carrying amount of the property, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. Estimated fair value is determined with the assistance from independent valuation specialists using recent sales of similar assets, market conditions and projected cash flows of properties using standard industry valuation techniques.

### *Notes Receivable*

The Company evaluates its notes receivable for impairment when it is probable the payment of interest and principal will not be made in accordance with the contractual terms of the note receivable agreement. Once a note has been determined to be impaired, it is measured to establish the amount of the impairment, if any, based on the fair value of the note determined by using present value of expected future cash flows discounted at the note's effective interest rate. If the fair value of the impaired note receivable is less than the recorded investment in the note, a valuation allowance is recognized.

### **Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP when it

becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Before this new standard, there was minimal guidance in U.S. GAAP specific to going concern. Under the new standard, disclosures are required when conditions give rise to substantial doubt about a company's ability to continue as a going concern within one year from the financial statement issuance date. The guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with early adoption permitted. The Company has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new standard requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. On January 1, 2016, the Company adopted ASU 2015-03 and retrospectively applied the guidance to its Debt, Net for all periods presented. Unamortized deferred loan costs, which were previously included in Prepaid Expenses, Deferred Loan Costs and Other, totaling \$582,284 and \$626,688 are included in Debt, Net as of September 30, 2016 and December 31, 2015, respectively.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments". Under this guidance, an acquirer is required to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this ASU require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this ASU require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in this ASU, which should be applied prospectively, are effective for annual and interim periods beginning after December 15, 2015. The Company adopted ASU No. 2015-16 on January 1, 2016, and the adoption did not have a material impact on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases", which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes previous leasing standards. ASU 2016-02 is effective for the Company for reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently assessing the potential impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". ASU 2016-09 is intended to improve the accounting for share-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment awards are simplified with ASU 2016-09, including income tax consequences, classification of awards as equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for the Company for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently assessing the potential impact that the adoption of ASU 2016-09 will have on its

consolidated financial statements.

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## **SUBSEQUENT EVENTS**

On October 1, 2016, subordinated debt with an outstanding principal balance of \$813,750 related to our Providence of Greene Pointe Healthcare Center was paid off.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

## **ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives.

Our management, including our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were not effective as of such date to provide assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to management as appropriate, to allow timely decisions regarding disclosures.

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

The Company and/or its affiliated subsidiaries are involved in the following litigation:

*Southern Tulsa, LLC v. Healthcare Management of Oklahoma, LLC*, District Court of Tulsa County, State of Oklahoma, Case No. CJ – 2016- 01781.

This matter was brought by us to have the appointment of a Receiver for the Southern Tulsa SNF and to recover damages from our former operator at that facility. The Court has ordered the appointment of a Receiver effective May 10, 2016. Other claims and matters are pending.

*Joann Howard v. Southern Tulsa, LLC, West Paces Ferry Healthcare REIT, LLC, et. al.* District Court of Tulsa County, State of Oklahoma, Case No. CJ- 2015-03048.

This is a personal injury lawsuit brought by the heirs of a former resident of the Southern Tulsa SNF. Our affiliates were named as defendants due to their ownership of the property. As we were not the operators of the SNF at the time of the alleged injury, we believe the likelihood of a material adverse outcome is remote.

*Gregory D. Hughes, Esq. v. Janis M Tilford, et. al.*, Superior Court of Cobb County, Georgia, Civil Action File No. 16-1-2391-49.

This civil action arises from the termination of the Stock Purchase Agreement entered into by the Company's subsidiary TNH Acquisition, LLC to acquire the skilled nursing facility in Ridgeway, South Carolina. The dispute is over the disposition of our \$100,000 earnest money deposit which the escrow agent has interpleaded into the Court. This matter was settled in the quarter ended September 30, 2016.

*Thomas v. Edwards Redeemer Property Holdings, LLC, et.al.*, District Court for Oklahoma County, Oklahoma, Case No. CJ 2016-2160.

This action arises from a personal injury claim brought by heirs of a former resident of our Edwards Redeemer facility. We are entitled to indemnification from the lease operator and should be covered under the lease operators general liability policy. As we are not the operators of the facility and believe we have indemnity coverage, we believe the likelihood of a material adverse outcome is remote.

*Verizon Construction, Inc., v. Southern Tulsa, LLC, et. al.*, District Court of Tulsa County, Oklahoma, Case No. CJ-2015-04326.

This is a mechanic's lien foreclosure action on the Southern Hills facility in Tulsa arising from work performed. The Plaintiff was a subcontractor to our general contractor; and while we paid the general contractor for that work, the general contractor apparently did not pay the subcontractor. Plaintiff is seeking \$441,938.51 previously invoiced to the general contractor, plus attorney's fees and costs. The general contractor, also a named defendant, is liable for this amount but may not have the resources to pay the plaintiff, therefore the Company may be liable for some unknown amount less than or equal to Plaintiff's claim. The company will attempt to reach a settlement in the near future, of which there can be no assurance. The potential liability cannot be reasonably estimated and is not reflected in the financial statements of the Company.

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**Item 1A. Risk Factors**

None, except as previously disclosed.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None, except as previously disclosed.

**Item 3. Defaults Upon Senior Securities**

None, except as disclosed.

**Item 4. Mine Safety Disclosures**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

32. Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



101.INS XBRL Instance Document\*\*

101.SCHXBRL Schema Document\*\*

101.CALXBRL Calculation Linkbase Document\*\*

101.LABXBRL Label Linkbase Document\*\*

101.PRE XBRL Presentation Linkbase Document\*\*

101.DEF XBRL Definition Linkbase Document\*\*

\* filed herewith

\*\*furnished, not filed

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**GLOBAL HEALTHCARE  
REIT, INC.**

Date: November 21, 2016 By */s/ Lance Baller*\_\_\_\_  
Lance Baller, Interim CEO

Date: November 21, 2016 By: */s/ Zvi Rhine*  
Zvi Rhine,  
Chief Financial Officer

