

GLOBAL HEALTHCARE REIT, INC.  
Form 10-Q  
December 31, 2013

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, 2013

**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.**

**f/k/a GLOBAL CASINOS, INC.**

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

Utah  
(State or other jurisdiction  
of incorporation or organization)

I.R.S. Employer

87-0340206  
Identification number

3050 Peachtree Road, Suite 355, Atlanta, Georgia 30305

(Address of Principal Executive Offices)

Issuer's telephone number: (404) 549-4293

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  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

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

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

As of December 23, 2013, the Registrant had 10,365,553 shares of its Common Stock outstanding.



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**GLOBAL HEALTHCARE REIT, INC.****f/k/a GLOBAL CASINOS, INC.****CONSOLIDATED BALANCE SHEET****SEPTEMBER 30, 2013**

(Unaudited)

**ASSETS****Property and Equipment**

Land	\$ 50,000
Land Improvements	200,000
Buildings and Improvements	4,230,100
Furniture, Fixtures and Equipment	400,000
	4,880,100
Less Accumulated Depreciation	(242,917)
Property and Equipment, net	4,637,183

Cash and Cash Equivalents	270,456
Advances from Related Parties	481,055
Advance Receivable	350,000
Restricted Cash	201,138
Note Receivable	600,148
Other Assets, net	89,520
Straight Line Rent Adjustment	27,000
Goodwill	1,400,454
Total Assets	\$ 8,056,954

**LIABILITIES AND EQUITY****Liabilities**

Accounts Payable and Accrued Liabilities	\$ 171,981
Convertible Notes Payable, net	240,752
Notes Payable	5,235,055
Lease Security Deposit	25,000
Total Liabilities	5,672,788

**Equity**

Preferred Stock: 10,000,000 Shares Authorized	
Series A - No Dividends, \$2.00 Stated Value, Non-Voting,	
2,000,000 Shares Authorized, 200,500 Shares Issued	
and Outstanding	401,000
Series B - 8% Cumulative, Convertible, \$10.00 Stated Value,	-

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Non-Voting, 400,000 Shares Authorized, No Shares Issued and Outstanding Series C - 7% Cumulative, Convertible, \$1.20 Stated Value, Voting, 600,000 Shares Authorized, No Shares Issued and Outstanding Series D - 8% Cumulative, Convertible, \$1.00 Stated Value, Non-Voting, 1,000,000 Shares Authorized, 700,000 Shares Issued and Outstanding Series E - Convertible, \$0.25 Stated Value, Non-Voting, 600,000 Shares Authorized, No Shares Issued and Outstanding Common Stock - \$0.05 Par Value; 50,000,000 Shares Authorized; 10,365,553 Shares Issued and Outstanding Additional Paid-In Capital Accumulated Deficit Non-Controlling Interests Total Equity Total Liabilities and Equity	<p>-</p> <p>700,000</p> <p>-</p> <p>518,279</p> <p>1,122,639</p> <p>(256,035)</p> <p>2,485,883</p> <p>(101,717)</p> <p>2,384,166</p> <p>\$ 8,056,954</p>
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**GLOBAL HEALTHCARE REIT, INC.****f/k/a GLOBAL CASINOS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND FROM MARCH 13, 2013 (DATE OF INCEPTION) THROUGH SEPTEMBER 30, 2013****(Unaudited)**

	Three Months Ended September 30, 2013	March 13, 2013 (date of inception) through September <u>30, 2013</u>
<b>Revenue</b>		
Rental Revenue	\$ 140,000	\$ 303,333
<b>Expenses</b>		
General and Administrative	28,353	112,337
Bad Debt	-	108,182
Depreciation	48,584 76,937	105,264 325,783
<b>Income (Loss) from Operations</b>	<b>63,063</b>	<b>(22,450)</b>
<b>Other (Income) Expense</b>		
Interest Expense, net	118,522	269,191
<b>Net Loss</b>	<b>(55,459)</b>	<b>(291,641)</b>
Net Loss Attributable to Non-Controlling Interests	9,173	78,578
<b>Net Loss Attributable to Global Healthcare REIT, Inc.</b>	<b>(46,286)</b>	<b>(213,063)</b>
Series D Preferred Dividends	(14,311)	(45,778)
<b>Net Loss Attributable to Common Stockholders</b>	<b>\$(60,597)</b>	<b>\$ (258,841)</b>
<b>Net Loss Attributable to Common Stockholders -</b>		
Basic and Diluted	\$(0.01)	\$(0.04)
<b>Weighted Average Number of Common Shares Outstanding</b>		



Basic and Diluted

7,281,629

7,262,493

See accompanying notes to these unaudited consolidated financial statements.

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## GLOBAL HEALTHCARE REIT, INC.

f/k/a GLOBAL CASINOS, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)

FOR THE PERIOD FROM MARCH 13, 2013 (DATE OF INCEPTION) THROUGH SEPTEMBER 30, 2013

(Unaudited)

	Series A Preferred Stock		Series D Preferred Stock		Common Stock			Additional Paid-In Capital	Accumulated Deficit
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Subscriptions Receivable		
Balances, March 13, 2013 (Date of Inception)	-	\$ -	-	\$ -	-	\$ -	\$ -	\$ -	\$ -
Acquisition of Controlling Interest in Dodge NH, LLC	-	-	-	-	-	-	-	-	(42,900)
Issuance of Common Stock for Subscriptions Receivable	-	-	-	-	1,000	100	(100)	-	-
Effect of Reverse Acquisition	200,500	401,000	700,000	700,000	10,364,553	518,179	100	1,168,417	-
Series D Preferred Dividends	-	-	-	-	-	-	-	(45,778)	-
Net Loss	-	-	-	-	-	-	-	-	(213,000)
Balances, September 30, 2013	200,500	\$ 401,000	700,000	\$ 700,000	10,365,553	\$ 518,279	\$ -	\$ 1,122,639	\$(256,000)

See accompanying notes to these unaudited consolidated financial statements.

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**GLOBAL HEALTHCARE REIT, INC.****f/k/a GLOBAL CASINOS, INC.****CONSOLIDATED STATEMENT OF CASH FLOWS****FOR THE PERIOD FROM MARCH 13, 2013 (DATE OF INCEPTION)****THROUGH SEPTEMBER 30, 2013**

(Unaudited)

**Cash Flows from Operating Activities**

Net Loss	\$ (291,641)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities	
Depreciation	105,264
Amortization	25,232
Allowance for Doubtful Accounts	108,182
Increase in Straight Line Rent Adjustment	(10,000)
Changes in Operating Assets and Liabilities:	
Restricted Cash	(1,138)
Accounts Payable and Accrued Liabilities	130,001
Deferred Revenue	(22,500)
Net Cash Provided by Operating Activities	43,400

**Cash Flows from Investing Activities**

Acquisition of Dodge NH, LLC - Controlling Interest, Net of Cash Acquired in Reverse Acquisition	254,680
Net Cash Provided by Investing Activities	254,680

**Cash Flows from Financing Activities**

Payments on Notes Payable	(31,157)
Net Advances from / to Related Parties	(7,655)
Net Cash Used in Financing Activities	(38,812)

<b>Net Increase in Cash and Cash Equivalents</b>	<b>259,268</b>
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<b>Cash and Cash Equivalents, Beginning</b>	<b>11,188</b>
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<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 270,456</b>
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**Supplemental Cash Flow Information**

Cash Paid for Interest	\$ 215,303
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See accompanying notes to these unaudited consolidated financial statements.



**GLOBAL HEALTHCARE REIT, INC.**

**f/k/a GLOBAL CASINOS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2013**

**(Unaudited)**

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

This summary of significant accounting policies of Global Healthcare REIT, Inc. (the Company), formerly known as Global Casinos, Inc., is presented to assist in understanding the Company's consolidated financial statements. The consolidated financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

**Organization and Consolidation**

The Company was organized with the intent of operating as a real estate investment trust (REIT) for the purpose of investing in real estate related to the long-term care industry. Prior to the Company changing its name to Global Healthcare REIT, Inc. on September 30, 2013, 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).

The Company intends to elect in 2014, and we believe we are operating so as to qualify, as a REIT under section 856 through 859 of the Internal Revenue Code of 1986, as amended.

The Company plans to change its year-end from June 30, 2013 to December 31, 2013.

**Acquisition of West Paces Ferry Healthcare REIT, Inc. (WPF)**

On September 30, 2013, Global Healthcare REIT, Inc. (Global) acquired all of the outstanding common stock of WPF in consideration of \$100. WPF is an LLC which owns a 65% membership interest in Dodge NH, LLC, which owns a

skilled nursing facility located in Eastman, Georgia. Upon acquisition of WPF, a new board of directors and executive officers were appointed who have the ability to exercise control over the combined entity. WPF's total assets and revenues are the largest of each of the combined entities. Accounting principles generally accepted in the United States generally require that a company whose board of directors and management are able to control the combined entity and the entity which has the larger assets and revenues be treated as the acquirer for financial reporting purposes. The acquisition was accounted for as a reverse acquisition whereby WPF was deemed to be the accounting acquirer. The results of operations of Global have been included in the consolidated financial statements since the date of the reverse acquisition. The historical financial statements of WPF are presented as the historical financial statements of the Company.

#### **Acquisition of Dodge NH, LLC**

WPF acquired a 65% controlling interest in Dodge NH, LLC (Dodge), on March 15, 2013, from Georgia Healthcare REIT, Inc. (Ga. REIT). Ga. REIT is related to WPF through common ownership and control. Dodge was formed for the purpose of acquiring Middle Georgia Nursing Home, a 100 bed nursing home located in Eastman, Georgia. The nursing home acquisition was completed by Dodge effective July 1, 2012. From inception, Dodge has leased the facility to an unrelated third party nursing home operator described more fully in Note 11. The remaining 35%

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of Dodge is owned by Dodge Investors, LLC (Dodge Investors). Dodge Investors loaned funds totaling \$1,100,000 to Dodge that were used in conjunction with a loan from Colony Bank (Note 6) to acquire the facility on July 1, 2012. Dodge Investors represents the non-controlling interest in these consolidated financial statements.

All significant inter-company balances and transactions have been eliminated in consolidation.

### **Basis of Presentation**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, without being audited, pursuant to the rules and regulations of the Securities Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary to make the financial statements not misleading have been included. Operating results for the three months ended September 30, 2013 and from March 13, 2013 (date of inception) through September 30, 2013 are not necessarily indicative of the results that may be expected for the period from March 13, 2013 (date of inception) through December 31, 2013. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's current report on Form 8-K/A filed on December 17, 2013 and the Company's annual report on Form 10-K for the year ended June 30, 2013 filed with the Securities and Exchange Commission.

### **Use of Estimates and Assumptions**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates included herein relate to the recoverability of assets, the value of long-lived assets and liabilities, and the value of debt and equity instruments. Actual results may differ from estimates.

### **Cash and Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.



**Restricted Cash Escrow Account**

Funds accumulated in the restricted cash - escrow account total \$201,138 at September 30, 2013, and are restricted for uses described more fully in Note 5.

**Property and Equipment**

In accordance with purchase accounting guidance established for entities under common control, the original property and equipment owned by Dodge are stated at historical cost as held by Dodge on the date of acquisition. Any subsequent betterments and improvements will also be stated at historical cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Upon sale, retirement or other disposition of an asset, the cost and accumulated depreciation are removed and any gain or loss on the disposition is included in income. Estimated useful lives of the assets are summarized as follows:

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Land Improvements	15 years
Building and Improvements	30 years
Furniture, Fixtures and Equipment	10 years

### **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.

### **Advances To and From Related Parties**

The Company will periodically advance cash to and from various related parties as a part of the normal course of business. The Company plans to monitor these advances on a continual basis, evaluating the creditworthiness of the related party and its ability to repay the advance, generally using the strength and projected cash flows of the underlying related party operations as a basis for extending credit. The Company records allowances for collection against the advances or writes off the account directly, when indisputable factors are present that indicate the related party will not be able to repay the advance.

### **Note Receivable**

The Company evaluates its note 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 present value of expected future cash flows discounted at the note's effective interest. If the measure of the impaired note receivable is less than the recorded investment in the note, a valuation allowance is recognized.

### **Deferred Loan Costs**

Deferred loan costs are amortized over the life of the loan. Amortization expense for the three month period ended September 30, 2013 and the period from March 13, 2013 to September 30, 2013 totaled \$10,646 and \$23,066, respectively. Accumulated amortization totaled \$53,228 as of September 30, 2013. Amortization of this intangible asset is expected to total approximately \$42,600, per year through the maturity date of the Colony Bank loan.

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### **Deferred Lease Incentive**

Dodge provided the lessee with an incentive to execute the lease on July 1, 2012, valued at \$20,000. This amount has been capitalized and is being amortized over the life of the lease. Amortization of this intangible asset is expected to total approximately \$4,000, per year through the initial term of the lease.

### **Goodwill**

Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill resulting from acquisitions is not amortized, but is tested for impairment annually or whenever events change and circumstances indicate that it is more likely than not that an impairment loss has occurred. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. The second step, if necessary, measures the amount of impairment, if any. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium.

No goodwill impairment losses have been reported during the periods presented.

### **Revenue Recognition**

Rent from the Dodge facility is usually received and recognized as revenue by the Company in the month to which it relates. The Dodge lease is subject to annual escalations of the minimum monthly rent required under the lease. The accompanying financial statements reflect rental income on a straight-line basis over the term of the lease.

Cumulative adjustments associated with the straight-line rent requirement are reflected as a long-term asset and totaled \$27,000 as of September 30, 2013. Adjustments to reflect rent income on a straight line basis totaled \$3,000 for the three month period ended September 30, 2013 and \$10,000 for the period from March 13, 2013 through September 30, 2013.

### **Income Taxes**

To qualify as a REIT, the Company must meet a number of organizational and operational requirements including a requirement that it distribute at least 90% of its taxable income to its stockholders. As a REIT, the Company generally will not be subject to corporate level federal income tax on net income it distributes currently to its stockholders. The Company intends to qualify as a REIT beginning in 2014 and, accordingly, no provision for income taxes has been included in the accompanying consolidated financial statements. The Company may be subject to certain state and local taxes on its income and property and to federal income and excise tax on its undistributed taxable income.

## **Loss Per Common Share**

Basic loss per share is computed by dividing the net loss attributable to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed based on the weighted average number of common shares and potentially dilutive common shares outstanding. The calculation of diluted net loss per share excludes potential common shares if the effect would be anti-dilutive. Potential common shares consist of incremental common shares issuable upon the exercise of stock options, warrants, and shares issuable upon the conversion of preferred stock.

Potentially dilutive shares of 3,714,250 were not included in the calculations of diluted earnings per share for the periods ended September 30, 2013, as their inclusion would have been

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anti-dilutive due to the loss recorded for the periods, and represent stock purchase warrants and shares issuable upon conversion of preferred stock.

## Comprehensive Income

For the periods presented, there were no differences between reported net income and comprehensive income.

## 2. REVERSE ACQUISITION

On September 30, 2013, Global acquired all of the outstanding common stock of WPF in consideration of \$100 . Upon acquisition of WPF, a new board of directors and executive officers were appointed who have the ability to exercise control over the combined entity. WPF's total assets and revenues are the larger of the combined entities. Accounting principles generally accepted in the United States generally require that a company whose board of directors and management are able to control the combined entity and the entity which has the larger assets and revenues be treated as the acquirer for financial reporting purposes. The acquisition was accounted for as a reverse acquisition whereby WPF was deemed to be the accounting acquirer and Global the accounting acquiree.

The fair value of the consideration effectively transferred is based on what the legal subsidiary (accounting acquirer) would have had to issue to give the owners of the legal parent the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value effectively transferred should be based on the most reliable measure. The quoted market price of the Company's shares provide a more reliable basis for measuring the fair value consideration than the estimated fair value of the share in WPF, as WPF's shares were privately-held.

Prior to the transaction, the accounting acquiree had 10,365,553 shares of common stock outstanding of which WPF's shareholders owned 13% and the remaining group of shareholders owned 87%. Upon combination of the entities, the remaining group of shareholders owned 67% of the combined entity. The fair value of the consideration would be what WPF would hypothetically have had to pay to acquire a 20% interest (87% less 67%) in the Company. As such, the fair value of the consideration effectively transferred was determined to be \$2,741,918.

Goodwill is calculated as the consideration effectively transferred less the net recognized values of the accounting acquiree's identifiable assets and liabilities. Goodwill of \$1,300,454 has been calculated by subtracting the accounting acquiree's assets and liabilities from the fair value of the consideration effectively transferred of \$2,741,918. Goodwill represents the benefit to WPF of being a public company post merger and having access to capital markets and stockholder liquidity.

The goodwill recorded as a result of the reverse acquisition is not deductible for tax purposes.

The preliminary purchase allocation is subject to material change pending the completion of the valuation of assets acquired and liabilities assumed. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

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Cash	\$ 254,880
Advance Receivable	350,000
Note Receivable	1,100,148
Accrued Interest Receivable	18,750
Notes Payable	(240,752)
Accounts Payable and Accrued Liabilities	(41,562)
Fair Value of Net Assets Acquired	1,441,464
Goodwill	1,300,454
Consideration Effectively Transferred	\$ 2,741,918

### 3. ACQUISITION OF A CONTROLLING INTEREST IN DODGE NH, LLC

The Dodge acquisition was recorded by WPF by measuring the recognized assets and liabilities of Dodge at their carrying amount in the accounts of Ga. REIT at the date of transfer.

WPF completed the acquisition of a controlling 65% equity interest in Dodge on March 15, 2013. The operations of Dodge are presented as if the acquisition occurred on the earliest date presented in the consolidated financial statements of the acquirer. Accordingly, the consolidated financial statements reflect rental operations of Dodge for the period from March 13, 2013, through June 30, 2013. The purchase price of this 65% controlling interest was equal to \$100. The equity interest acquired is considered to be a controlling interest in Dodge. Accordingly, the Company has consolidated 100% of the carrying amount of the assets and liabilities of Dodge in the consolidated financial statements and has also accounted for the non-controlling 35% equity interest on the date of acquisition as follows in this condensed presentation:

Cash and Cash Equivalents	\$ 11,188
Due from Affiliates	131,682
Property and Equipment, net	4,742,347
Restricted Cash - USDA Escrow	200,000
Goodwill	100,000
Other Intangible Assets, net	131,752
 Total Assets	 \$ 5,316,969
 Due to Member	 \$ 50,000
Deferred Revenue	22,500
Other Liabilities	44,368
Note Payable - Colony Bank	4,166,212
Note Payable - Dodge Investors, LLC	1,100,000
Total Liabilities	5,383,080
Accumulated Deficit	(42,972)
Non-Controlling Interest	(23,139)



Total Liabilities and Members' Deficit

\$ 5,316,969

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#### **4. ADVANCE RECEIVABLE**

The \$350,000 advance receivable is due from Gemini Gaming, LLC in connection with the split-off of gaming assets by Global. The advance receivable is unsecured with no established terms of repayment.

#### **5. NOTE RECEIVABLE**

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 bears interest at 4.0% and is payable in quarterly installments of \$17,495 beginning on January 1, 2014. The note is 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 may not take possession of gaming assets or equipment or operate the casino unless duly licensed by the State of Colorado Division of Gaming.

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.

#### **6. NOTES PAYABLE**

Notes payable consisted of the following as of September 30, 2013:

Note payable to Colony Bank with interest at 6.25%, payable in equal monthly installments of \$26,386 with a final balloon payment of the remaining principal and interest totaling approximately \$4,064,400, on May 29, 2015. Collateral for this note is described below.

\$4,135,055

Note payable to Dodge Investors, LLC with interest at 13.00%.

1,100,000

Interest is payable monthly with principal due on July 1, 2014.

\$5,235,055

### **Note Payable to Colony Bank**

The note payable to Colony Bank is secured by all assets of the Dodge nursing home and the personal guarantee of Christopher Brogdon for the full amount of the note and the performance of all conditions stipulated in the loan agreement.

As additional collateral for the loan, the following security instruments have been executed and are being held in escrow in accordance with the agreement described below:

Coffee ALF, LLC (Coffee) - The bank holds a second priority deed to secure debt on an assisted living facility owned by Coffee located in Douglas, Georgia. Brogdon Family, LLC, of which the Christopher Brogdon is a member and the manager, is a 50% owner of Coffee.

Bay Landing ALF, LLC (Bay Landing) - The bank holds a second mortgage on an assisted living facility owned by Bay Landing located in Lynn Haven, Florida. Brogdon Family, LLC, of which the Christopher Brogdon is a member and the manager, is a 100% owner of Bay Landing.

The additional collateral from Coffee and Bay Landing will not be recorded unless the terms of the Escrow Agreement (below) are not met.

The Company intends to repay the loan from Colony Bank from the proceeds of a loan which is insured, guaranteed or extended by the United States Department of Agriculture (USDA) or some other agency of the United States of America. To ensure the payment of the loan fees associated with the proposed loan, Colony Bank required the Company to deposit \$200,000 into an escrow account to be used to pay those costs when incurred. The escrow agent will also hold in escrow the security documents for the security interests in Coffee and Bay Landing described above.

According to the escrow agreement, in the event the Company is unable to obtain the contemplated loan on or before June 30, 2013, the escrow agent is instructed to disburse the \$200,000 maintained in the escrow account to be applied at the Lender's election against the balance of the Colony Bank loan. In addition, the security documents held in escrow for the Coffee and Bay Landing security interests will be released to Colony Bank who will have the right to record the security documents in the respective county and state in which each property lies. The Company did not obtain the contemplated loan as of June 30, 2013. The cash deposit remains in the escrow account and the Company has not been notified that Colony Bank has taken action with respect recording the appropriate documents evidencing additional security interests in the Coffee and Bay Landing facilities.

#### **Note Payable - Dodge Investors, LLC**

Dodge Investors loaned proceeds totaling \$1,100,000, to Dodge which were used in conjunction with the loan from Colony Bank to acquire the nursing home. Dodge NH can prepay the note without penalty, without notice and at any time provided all interest is paid through the prepayment date. Repayment of the note is subordinate to the first mortgage held by Colony Bank on the nursing home. Repayment of this note will be due immediately upon the sale of the facility.

In accordance with the operating agreement of Dodge NH, LLC, if less than \$550,000 of the Dodge Investors note payable is repaid on or before December 31, 2013, Dodge will not only continue to pay interest on the unpaid balance portion of the note at the rate of 13%, but it will also increase the equity shares then owned by Dodge Investors from 35% to 37.5% of Dodge.

Future maturities of the notes payable are as follows:

#### Years Ending December 31,

<u>2013</u>	<u>\$ 19,950</u>
<u>2014</u>	<u>1,161,170</u>
<u>2015</u>	<u>4,053,935</u>

\$5,235,055

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## **7. CONVERTIBLE DEBT**

### **10% Notes Due 2014 and Stock Purchase Warrants**

On September 23, 2013, the Company sold an aggregate of \$255,000 Units of its Securities in a private placement to ten accredited investors, each Unit consisting of a 10% Convertible Note ( Note ) and an aggregate of 63,750 warrants to purchase common stock. The Units were offered at a price equal to the principal amount of the Note. The Notes accrued interest at the rate of 10% per annum and are due and payable six months following the issue date. If the Notes are not paid on or before the maturity date, they will be convertible, at the option of the holder, into shares of common stock of the Company at a conversion price of \$0.25 per share. The Notes are unsecured.

Each Warrant is exercisable for fifteen (15) months from the date of issuance to purchase one share of Common Stock at an exercise price of \$1.00 per share. Investors received one Warrant for every \$4.00 in principal amount of Note purchased.

## **8. 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 and do not bear dividends.

As of September 30, 2013, the Company has 200,500 shares of Series A Preferred stock outstanding.

### **Series B Convertible Redeemable Preferred Stock**

The Company's Board of Directors has authorized 400,000 shares of \$10.00 stated value, Series B Convertible Preferred Stock. Each share of Series B preferred stock is convertible into one share of the Company's common stock or may be redeemed at an exercise price of \$10.00 per share. In addition, the Series B shares have a junior liquidation preference of \$10.00 per share. Holders of the Series B preferred stocks are entitled to receive an annual dividend payable at the rate of 8% per annum, which is cumulative, and unpaid dividends bear interest at an annual rate of 12%. As of September 30, 2013 there were no shares outstanding.

#### **Series C Convertible Preferred Stock**

The Company has authorized 600,000 Series C shares with a stated value of \$1.20 per share. Series C shares are convertible into common stock at a rate of \$1.20 per share. Holders of Series C preferred stock are entitled to vote and to receive dividends at the annual rate of 7% based on the stated value per share. In addition, the holders of Series C preferred stock are entitled to participate, pro rata, in dividends paid on outstanding shares of common stock. The dividends are cumulative and unpaid dividends bear interest at an annual rate of 10%. As of September 30, 2013 there were no shares outstanding.

#### **Series D Convertible Preferred Stock**

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The Company has established a series of 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, 2013, the Company has 700,000 shares of Series D preferred stock outstanding.

Dividends of \$14,311 were declared on September 30, 2013. All quarterly dividends previously declared have been paid.

#### **Series E Convertible Preferred Stock**

The Company authorized 600,000 shares of Preferred Stock to be designated as Series E Convertible Preferred Stock, having a stated value of \$0.25 per share. Holders of the Preferred Stock shall have no voting rights, but shall be entitled to receive dividends when, as and if declared by the Board of Directors, in its sole discretion. In addition, the holders of the Preferred Stock shall be entitled to participate, *pro rata*, in dividends paid on outstanding shares of common stock. The Preferred Stock is redeemable by the Company at its sole option and discretion at any time after six months from the initial issue date, at the Preferred Stock's stated value plus any accrued and unpaid dividends, if any, and may be paid in cash or in shares of common stock valued at 75% of the volume weighted-average price of the common stock for the ten trading days immediately prior to the date of the redemption notice. In addition, at any time prior to redemption, but after the earlier of ninety days from the date of issuance, or the effective date of a Registration Statement registering for sale the shares of the common stock issuable upon such conversion, holders of the Preferred Stock shall have the right to convert their shares into common stock, at a conversion rate of \$0.25 per share plus any accrued or unpaid dividends. As of September 30, 2013, no shares of Series E Convertible Preferred Stock were outstanding.

#### **Common Stock Warrants**

As of September 30, 2013, the Company had 3,014,250 of outstanding warrants to purchase common stock at an average exercise price of \$0.68.



**9. COMMITMENTS AND CONTINGENCIES**

The Company has a contingent liability for rental payments on a long-term lease related to the casino operations split-off and sold to Gemini Gaming, LLC. The total minimum rentals under this lease total \$76,086 for the three months ended December 31, 2013, \$304,344 for the year ended December 2014, and \$177,534 for the period from January 1, 2015 through termination of the lease agreement in July 2015. No payments on the contingency have been required to date.

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## 10. RELATED PARTIES

Christopher Brogdon is a member of the Company's board of directors and also the Chief Executive Officer of the Company.

The Company has accepted an unsecured, interest free receivable due from Christopher Brogdon totaling \$500,000, as of September 30, 2013. This amount has been netted in the consolidation against an advance owed back to him by Dodge totaling \$50,000. Additionally, Christopher Brogdon committed to advance funds totaling \$100 to the WPF used to purchase the 65% interest in Dodge (Note 2) on March 15, 2013. In addition to the stockholder advance above, Christopher Brogdon is affiliated with other companies to which advances have been made or received. As of September 30, 2013, the Company has unsecured and interest-free, net amounts due from companies affiliated with Christopher Brogdon totaling \$31,055. These affiliates are related to the Company through common control and ownership of Christopher Brogdon.

The Company determined that an advance by Dodge to an affiliate (Georgia Healthcare REIT, Inc.) totaling \$108,182, was no longer collectible. Accordingly, the Company recorded this amount as a bad debt expense on the Consolidated Statement of Operations during the period from March 13, 2013 (date of inception) through September 30, 2013.

## 11. FACILITY LEASE

The Dodge nursing home is being operated under a lease agreement with Eastman Healthcare and Rehab, LLC, (Eastman Rehab). The initial term of the lease is for five years commencing July 1, 2012, and ending June 30, 2017. The lease requires lease payments to be made in advance in the amount of \$45,000 per month for the first year of the lease. The monthly lease payments escalate by \$1,000 per month on each lease anniversary, thereafter. The initial term of the lease can be extended for one additional term of five years if Eastman Rehab elects to exercise its renewal option and meets the requirements stated in the lease agreement. Payment terms of the rent will be negotiated at the time of renewal. Eastman Rehab is responsible for payment of insurance, taxes and other charges while under the lease.

Future cash payments for rent to be received during the initial term of the lease are as follows:

Years Ending December 31,

2013

\$

138,000

2014

558,000

2015

570,000

2016

582,000

2017

294,000

\$ 2,142,000

## 12. FAIR VALUE MEASUREMENTS

Financial accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs have the highest priority, and Level 3 inputs have the lowest priority. In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. When this happens, the level in the fair value hierarchy that the asset or liability falls under is based on the lowest input level that is significant to the fair value measurement in its entirety.

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*Level 1 Inputs*

Fair values are based on quoted prices (unadjusted) in active markets for identical assets that the Company has the ability to access at the measurement date.

*Level 2 Inputs*

Fair values are based on inputs other than quoted prices included within Level 1 that are observable for valuing the asset or liability, either directly or indirectly (i.e. interest rate and yield curves observable at commonly quoted intervals, default rates, etc.) Observable inputs include quoted prices for similar assets or liabilities in active or non-active markets. Level 2 inputs may also include insignificant adjustments to market observable inputs.

*Level 3 Inputs*

Fair values are based on unobservable inputs used for valuing the asset or liability. Unobservable inputs are those that reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

Assets and liabilities measured at fair value are classified according to the lowest level input that is significant to their valuation. A financial instrument that has a significant unobservable input along with significant observable inputs may still be classified as a Level 3 instrument.

We generally determine or calculate the fair value of financial instruments using quoted market prices in active markets when such information is available or using appropriate present value or other valuation techniques, such as discounted cash flow analyses, incorporating available market discount rate information for similar types of instruments and our estimates for non-performance and liquidity risk. These techniques are significantly affected by the assumptions used, including the discount rate, credit spreads, and estimates of future cash flow.

Our balance sheet includes the following financial instruments: cash and cash equivalents, advances from related parties, advance receivable, note receivable, restricted cash, accounts payable and accrued liabilities, notes payable and lease security deposit. We consider the carrying values of our 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.

Assets acquired and liabilities assumed in the reverse acquisition described in Note 2 were recorded at fair value on the acquisition date. The fair value of assets acquired and liabilities assumed were primarily determined using unobservable inputs and deemed to be Level 3.

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

The Company acquired a controlling 65% interest in Dodge NH, LLC on March 15, 2013. On this acquisition date, unrestricted cash and cash equivalents held by Dodge and included in the consolidation totaled \$11,188. The non-cash elements of this acquisition are described in more detail in Notes 1 and 3.

On September 30, 2013, consideration effectively transferred in the reverse acquisition totaled \$2,741,918. The fair value of assets acquired and liabilities assumed in the transaction are described in more detail in Note 2.

Accrued and unpaid dividends on Series D preferred stock totaled \$14,311 as of September 30, 2013.

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**14. SUBSEQUENT EVENTS**

On December 11, 2013, the Board of Directors formally approved to issue members of Dodge Investors warrants to purchase 200,000 shares of the Company's common stock, exercisable at \$0.65 per share for a period four years.

The Company has evaluated subsequent events through the time of issuance of the financial statements.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our 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 financial statements and notes thereto included in the Company's current report on Form 8-K/A filed on December 17, 2013 and the Company's annual report on Form 10-K for the year ended June 30, 2013 as filed with the SEC, and the risks identified in Part II, Item 1A of the quarterly report.

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;

legislative and regulatory changes impacting real estate investment trusts, or REITs, including their taxation;

the availability of debt and equity capital;

changes in interest rates;

competition in the real estate industry;

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

changes in accounting principles generally accepted in the United States of America, or GAAP.

## **Overview**

Global Healthcare REIT, Inc. (the Company) was organized with the intent of operating as a real estate investment trust (REIT) for the purpose of investing in real estate related to the long-term care 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).

The Company will invest primarily in real estate serving the healthcare industry in the United States. We plan to 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:

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Compelling demographics driving the demand for healthcare services;

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Specialized nature of healthcare real estate investing; and

.  
Ongoing consolidation of a fragmented healthcare real estate sector.

#### **Acquisition of West Paces Ferry Healthcare REIT, Inc.**

On September 30, 2013, Global Healthcare REIT, Inc. acquired all of the outstanding common stock of WPF in consideration of \$100. WPF is a real estate investment trust which owns a 65% membership interest in Dodge NH, LLC, which owns a skilled nursing facility located in Eastman, Georgia.

Concurrently with the consummation of the split-off of gaming operations and the stock purchase, Clifford Neuman, Pete Bloomquist and Leonard Nacht resigned as Directors, and Mr. Neuman and Todd Huss resigned as executive officers of the Company. Also concurrently, the Board of Directors of Global Casinos was reconstituted to consist of Christopher Brogdon, Steven Bathgate and John Sheehan, Jr. The executive officers were also changed to consist of

Mr. Brogdon as CEO and President and Steven Bathgate, as Secretary.

### **Acquisition of Middle Georgia Nursing Home**

Effective July 1, 2012, Georgia REIT consummated its first acquisition: the Middle Georgia Nursing Home. Middle Georgia Nursing Home located at 556 Chester Highway, Eastman, Georgia ( Middle Georgia or the Facility ). The Facility was acquired through Dodge NH, LLC, a limited liability company formed for the purpose of acquiring Middle Georgia that was initially wholly-owned by Georgia REIT. Dodge Investors, LLC was formed and organized as a financing entity to raise \$1.1 million in funding to complete the financing required to complete the acquisition, as more fully described below.

The terms of the acquisition of Middle Georgia were as follows: The purchase price was \$5.0 million, of which \$4.0 million was paid with the proceeds of a commercial mortgage with Colony Bank, as senior lender, which accrues interest at 6.25% per annum; and the balance of \$1.0 million was provided by Dodge Investors, LLC. Dodge Investors funded Dodge NH, LLC with \$1.1 million in consideration of 13% unsecured notes and a carried 35% membership interest in Dodge NH, LLC. Of the \$1.1 million raised by Dodge Investors, LLC, \$125,000 was invested by Georgia REIT from loan proceeds from the Company, representing a 4% membership interest of the total 35% membership interest held by Dodge Investors, LLC. The Dodge NH, LLC notes

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purchased by Dodge Investors, LLC accrue interest at the rate of 13% per annum, interest payable monthly, with the outstanding balance of principal and accrued and unpaid interest due July 1, 2014. The 35% membership interest of Dodge Investors, LLC will continue as a carried interest after the repayment of the notes.

Dodge NH, LLC has an operating lease agreement with Eastman Healthcare and Rehab, LLC, owned by a professional skilled nursing facility operator, having an initial term of five years with an option to renew for an additional five-year period. The rent begins at \$45,000 per month and increases by \$1,000 per month on each lease anniversary, thereafter.

Effective March 15, 2013, Georgia REIT conveyed its entire 65% membership interest in Dodge NH to WPF.

## **Healthcare Industry**

Healthcare is the single largest industry in the U.S. based on Gross Domestic Product ("GDP"). According to the National Health Expenditures report by the Centers for Medicare and Medicaid Services ("CMS"): (i) national health expenditures are expected to remain just under 4.0% in 2013; (ii) the average compounded annual growth rate for national health expenditures, over the projection period of 2012 through 2022, is anticipated to be 5.8%; and (iii) the healthcare industry is projected to represent 18.0% of U.S. GDP in 2013.

Senior citizens are the largest consumers of healthcare services. According to CMS, on a per capita basis, the 75-year and older segment of the population spends 76% more on healthcare than the 65 to 74-year-old segment and over 200% more than the population average.

## **Business Strategy**

Our primary goal is to increase shareholder value through profitable growth. Our investment strategy to achieve this goal is based on three principles: (i) opportunistic investing, (ii) portfolio diversification and (iii) conservative financing.

### *Opportunistic Investing*

We will make investment decisions that are expected to drive profitable growth and create shareholder value. We will attempt to position ourselves to create and take advantage of situations to meet our goals and investment criteria.

*Portfolio Diversification*

We believe in maintaining a portfolio of healthcare investments diversified by segment, geography, operator, tenant and investment product. Diversification reduces the likelihood that a single event would materially harm our business and allows us to take advantage of opportunities in different markets based on individual market dynamics. While pursuing our strategy of diversification, we will monitor, but will not limit, our investments based on the percentage of our total assets that may be invested in any one property type, investment product, geographic location, the number of properties which we may lease to a single operator or tenant, or mortgage loans we may make to a single borrower. With investments in multiple segments and investment products, we can focus on opportunities with the most attractive risk/reward profile for the portfolio as a whole. We may structure transactions as master leases, require operator or tenant insurance and indemnifications, obtain credit enhancements in the form of guarantees, letters of credit or security deposits, and take other measures to mitigate risk.

*Conservative Financing*

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We believe a conservative balance sheet is important to our ability to execute our opportunistic investing approach. We will strive to maintain a conservative balance sheet by actively managing our debt-to-equity levels and maintaining multiple sources of liquidity, such as our revolving line of credit facility, access to capital markets and secured debt lenders, relationships with current and prospective institutional joint venture partners, and our ability to divest of assets. Our debt obligations will be primarily fixed rate with staggered maturities, which reduces the impact of rising interest rates on our operations.

We plan to finance our investments based on our evaluation of available sources of funding. For short-term purposes, we may arrange for short-term borrowings from banks or other sources. We may also arrange for longer-term financing through offerings of equity and debt securities, placement of mortgage debt and capital from other institutional lenders and equity investors.

## **Competition**

Investing in real estate serving the healthcare industry is highly competitive. We will face competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our objectives. Our ability to compete may also be impacted by national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends.

Income from our facilities is dependent on the ability of our operators and tenants to compete with other companies on a number of different levels, including: the quality of care provided, reputation, the physical appearance of a facility, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in surrounding areas, and the financial condition of our tenants and operators. Private, federal and state payment programs as well as the effect of laws and regulations may also have a significant influence on the profitability of our tenants and operators. For a discussion of the risks associated with competitive conditions affecting our business, see "Risk Factors" presented in Part II, Item 1A.

## **Healthcare Segments**

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*Senior housing.* Senior housing facilities include assisted living facilities ("ALFs"), independent living facilities ("ILFs") and continuing care retirement communities ("CCRCs"), which cater to different segments of the elderly

population based upon their needs. Services provided by our operators or tenants in these facilities are primarily paid for by the residents directly or through private insurance and are less reliant on government reimbursement programs such as Medicaid and Medicare. Senior housing property types are further described below:

*Assisted Living Facilities.* ALFs are licensed care facilities that provide personal care services, support and housing for those who need help with activities of daily living ("ADL") yet require limited medical care. The programs and services may include transportation, social activities, exercise and fitness programs, beauty or barber shop access, hobby and craft activities, community excursions, meals in a dining room setting and other activities sought by residents. These facilities are often in apartment-like buildings with private residences ranging from single rooms to large apartments. Certain ALFs may offer higher levels of personal assistance for residents with Alzheimer's disease or other forms of dementia. Levels of personal assistance are based in part on local regulations.

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*Independent Living Facilities.* ILFs are designed to meet the needs of seniors who choose to live in an environment surrounded by their peers with services such as housekeeping, meals and activities. These residents generally do not need assistance with ADL, such as bathing, eating and dressing. However, residents have the option to contract for these services.

*Continuing Care Retirement Communities.* CCRCs provide housing and health-related services under long-term contracts. This alternative is appealing to residents as it eliminates the need for relocating when health and medical needs change, thus allowing residents to "age in place." Some CCRCs require a substantial entry or buy-in fee and most also charge monthly maintenance fees in exchange for a living unit, meals and some health services. CCRCs typically require the individual to be in relatively good health and independent upon entry.

*Post-acute/skilled nursing.* Skilled Nursing Facilities (SNF) offer restorative, rehabilitative and custodial nursing care for people not requiring the more extensive and sophisticated treatment available at hospitals. Ancillary revenues and revenues from sub-acute care services are derived from providing services to residents beyond room and board and include occupational, physical, speech, respiratory and intravenous therapy, wound care, oncology treatment, brain injury care and orthopedic therapy as well as sales of pharmaceutical products and other services. Certain SNFs provide some of the foregoing services on an out-patient basis. Post-acute/skilled nursing services provided by our operators and tenants in these facilities will be primarily paid for either by private sources or through the Medicare and Medicaid programs.

*Life science.* These properties contain laboratory and office space primarily for biotechnology and pharmaceutical companies, scientific research institutions, government agencies and other organizations involved in the life science industry. While these properties contain similar characteristics to commercial office buildings, they generally contain more advanced electrical, mechanical, and heating, ventilating, and air conditioning ("HVAC") systems. The facilities generally have equipment including emergency generators, fume hoods, lab bench tops and related amenities. In many instances, life science tenants make significant investments to improve their leased space, in addition to landlord improvements, to accommodate biology, chemistry or medical device research initiatives.

*Medical office.* Medical office buildings ("MOBs") typically contain physicians' offices and examination rooms, and may also include pharmacies, hospital ancillary service space and outpatient services such as diagnostic centers, rehabilitation clinics and day-surgery operating rooms. While these facilities are similar to commercial office buildings, they require additional plumbing, electrical and mechanical systems to accommodate multiple exam rooms that may require sinks in every room, and special equipment such as x-ray machines. In addition, MOBs are often built to accommodate higher structural loads for certain equipment and may contain "vaults" or other specialized construction. We expect our MOBs will be typically multi-tenant properties leased to healthcare providers (hospitals and physician practices).

*Hospital.* Services provided by our operators and tenants in these facilities are paid for by private sources, third-party payors (e.g., insurance and Health Maintenance Organizations or "HMOs"), or through the Medicare and Medicaid programs. Hospital property types include acute care, long-term acute care, and specialty and rehabilitation hospitals.

## **Investment Products**

*Properties under lease.* We plan to primarily generate revenue by leasing properties under long-term leases. Most of our rents and other earned income from leases will be received under triple-net leases or leases that provide for a substantial recovery of operating expenses. However, some of our MOBs and life science facility rents will be structured under gross or modified gross

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leases. Accordingly, for such gross or modified gross leases, we may incur certain property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities and insurance.

Our ability to grow income from properties under lease depends, in part, on our ability to (i) increase rental income and other earned income from leases by increasing rental rates and occupancy levels, (ii) maximize tenant recoveries and (iii) control non-recoverable operating expenses. Most of our leases will include contractual annual base rent escalation clauses that are either predetermined fixed increases and/or are a function of an inflation index.

*Debt investments.* Our mezzanine loans will generally be secured by a pledge of ownership interests of an entity or entities, which directly or indirectly own properties, and are subordinate to more senior debt, including mortgages and more senior mezzanine loans. Our interest in mortgages and construction financing will typically be issued by healthcare providers and will generally be secured by healthcare real estate. Borrowers of our interests in mortgage and construction loans will typically be healthcare providers and healthcare real estate generally secures these loans.

*Developments and redevelopments.* We will generally commit to development projects that are at least 50% pre-leased or when we believe that market conditions will support speculative construction. We will work closely with our local real estate service providers, including brokerage, property management, project management and construction management companies to assist us in evaluating development proposals and completing developments. Our development and redevelopment investments will likely be in the life science and medical office segments. Redevelopments are properties that require significant capital expenditures (generally more than 25% of acquisition cost or existing basis) to achieve property stabilization or to change the primary use of the properties.

*Investment management.* We may co-invest in real estate properties with institutional investors through joint ventures structured as partnerships or limited liability companies. We may target institutional investors with long-term investment horizons who seek to benefit from our expertise in healthcare real estate. Predominantly, we plan to retain non controlling interests in the joint ventures ranging from 20% to 30% and serve as the managing member. These ventures generally allow us to earn acquisition and asset management fees, and have the potential for promoted interests or incentive distributions based on performance of the joint venture.

*Operating properties ("RIDEA").* We may enter into contracts with healthcare operators to manage communities that are placed in a structure permitted by the Housing and Economic Recovery Act of 2008 (commonly referred to as "RIDEA"). Under the provisions of RIDEA, a REIT may lease "qualified health care properties" on an arm's length basis to a taxable REIT subsidiary ("TRS") if the property is operated on behalf of such subsidiary by a person who qualifies as an "eligible independent contractor." We view RIDEA as a structure primarily to be used on properties that present attractive valuation entry points, where repositioning with a new operator that is aligned with health care providers can bring scale, operating efficiencies, and/or ancillary services to drive growth.

## **Government Regulation, Licensing and Enforcement**

*Overview*

Our tenants and operators will typically be subject to extensive and complex federal, state and local healthcare laws and regulations relating to fraud and abuse practices, government reimbursement, licensure and certificate of need and similar laws governing the operation of healthcare facilities, and we expect that the healthcare industry, in general, will continue to face

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increased regulation and pressure in the areas of fraud, waste and abuse, cost control, healthcare management and provision of services, among others. These regulations are wide-ranging and can subject our tenants and operators to civil, criminal and administrative sanctions. Affected tenants and operators may find it increasingly difficult to comply with this complex and evolving regulatory environment because of a relative lack of guidance in many areas as certain of our healthcare properties will be subject to oversight from several government agencies and the laws may vary from one jurisdiction to another. Changes in laws and regulations and reimbursement enforcement activity and regulatory non-compliance by our tenants and operators can all have a significant effect on their operations and financial condition, which in turn may adversely impact us, as detailed below and set forth under "Risk Factors" presented in part II, Item 1A.

We will seek to mitigate the risk to us resulting from the significant healthcare regulatory risks faced by our tenants and operators by diversifying our portfolio among property types and geographical areas, diversifying our tenant and operator base to limit our exposure to any single entity, and seeking tenants and operators who are not largely dependent on Medicaid reimbursement for their revenues.

The following is a discussion of certain laws and regulations generally applicable to our operators, and in certain cases, to us.

#### *Fraud and Abuse Enforcement*

There are various extremely complex federal and state laws and regulations governing healthcare providers' relationships and arrangements and prohibiting fraudulent and abusive practices by such providers. These laws include (i) federal and state false claims acts, which, among other things, prohibit providers from filing false claims or making false statements to receive payment from Medicare, Medicaid or other federal or state healthcare programs, (ii) federal and state anti-kickback and fee-splitting statutes, including the Medicare and Medicaid anti-kickback statute, which prohibit the payment or receipt of remuneration to induce referrals or recommendations of healthcare items or services, (iii) federal and state physician self-referral laws (commonly referred to as the "Stark Law"), which generally prohibit referrals by physicians to entities with which the physician or an immediate family member has a financial relationship, (iv) the federal Civil Monetary Penalties Law, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services and (v) federal and state privacy laws, including the privacy and security rules contained in the Health Insurance Portability and Accountability Act of 1996, which provide for the privacy and security of personal health information. Violations of healthcare fraud and abuse laws carry civil, criminal and administrative sanctions, including punitive sanctions, monetary penalties, imprisonment, denial of Medicare and Medicaid reimbursement and potential exclusion from Medicare, Medicaid or other federal or state healthcare programs. These laws are enforced by a variety of federal, state and local agencies and can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring qui tam or "whistleblower" actions. Many of our operators and tenants are subject to these laws, and some of them may in the future become the subject of governmental enforcement actions if they fail to comply with applicable laws.

#### *Reimbursement*

Sources of revenue for many of our tenants and operators will include, among other sources, governmental healthcare programs, such as the federal Medicare program and state Medicaid programs, and non-governmental payors, such as insurance carriers and HMOs. As federal and state governments focus on healthcare reform initiatives, and as many states face significant budget deficits, efforts to reduce costs by these payors will likely continue, which may result in reduced or slower growth in reimbursement for certain services provided by some of our tenants and operators.

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*Healthcare Licensure and Certificate of Need*

Certain healthcare facilities in our portfolio will be subject to extensive federal, state and local licensure, certification and inspection laws and regulations. In addition, various licenses and permits are required to dispense narcotics, operate pharmacies, handle radioactive materials and operate equipment. Many states require certain healthcare providers to obtain a certificate of need, which requires prior approval for the construction, expansion and closure of certain healthcare facilities. The approval process related to state certificate of need laws may impact some of our tenants' and operators' abilities to expand or change their businesses.

*Life Science Facilities*

While certain of our life science tenants may include some well-established companies, other such tenants may be less established and, in some cases, may not yet have a product approved by the Food and Drug Administration or other regulatory authorities for commercial sale. Creating a new pharmaceutical product or medical device requires substantial investments of time and money, in part, because of the extensive regulation of the healthcare industry; it also entails considerable risk of failure in demonstrating that the product is safe and effective and in gaining regulatory approval and market acceptance.

*Senior Housing Entrance Fee Communities*

Certain of the senior housing facilities mortgaged to or owned by us may be operated as entrance fee communities. Generally, an entrance fee is an upfront fee or consideration paid by a resident, a portion of which may be refundable, in exchange for some form of long-term benefit. Some of the entrance fee communities will be subject to significant state regulatory oversight, including, for example, oversight of each facility's financial condition, establishment and monitoring of reserve requirements and other financial restrictions, the right of residents to cancel their contracts within a specified period of time, lien rights in favor of the residents, restrictions on change of ownership and similar matters.

*Americans with Disabilities Act (the "ADA")*

Our properties must comply with the ADA and any similar state or local laws to the extent that such properties are "public accommodations" as defined in those statutes. The ADA may require removal of barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. To date, we have not received any notices of noncompliance with the ADA that have caused us to incur substantial capital expenditures to address ADA concerns. Should barriers to access by persons with disabilities be discovered at any of our properties, we may be directly or indirectly responsible for additional costs that may be required to make facilities ADA-compliant. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations pursuant to the ADA is an ongoing one, and we continue to assess our property, as well as future acquisitions, and make modifications as appropriate in this respect.

*Environmental Matters*

A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect healthcare facility operations. These complex federal and state statutes, and their enforcement, involve a myriad of regulations, many of which involve strict liability on the part of the potential offender. Some of these federal and state statutes may directly impact us. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender, such as us, may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The cost of any required remediation, removal, fines or personal or property damages and the owner's or secured lender's liability therefore could exceed or impair the value of the property, and/or the assets of the owner or secured lender. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenues.

**Taxation**

**Federal Income Tax Considerations**

The following summary of the taxation of the Company and the material federal tax consequences to the holders of our debt and equity securities is for general information only and is not tax advice. This summary does not address all aspects of taxation that may be relevant to certain types of holders of stock or securities (including, but not limited to, insurance companies, tax-exempt entities, financial institutions or broker-dealers, persons holding shares of common stock as part of a hedging, integrated conversion, or constructive sale transaction or a straddle, traders in securities that use a mark-to-market method of accounting for their securities, investors in pass-through entities and foreign corporations and persons who are not citizens or residents of the United States).

This summary does not discuss all of the aspects of U.S. federal income taxation that may be relevant to you in light of your particular investment or other circumstances. In addition, this summary does not discuss any state or local income taxation or foreign income taxation or other tax consequences. This summary is based on current U.S. federal income tax law. Subsequent developments in U.S. federal income tax law, including changes in law or differing interpretations, which may be applied retroactively, could have a material effect on the U.S. federal income tax consequences of purchasing, owning and disposing of our securities as set forth in this summary. Before you purchase our securities, you should consult your own tax advisor regarding the

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particular U.S. federal, state, local, foreign and other tax consequences of acquiring, owning and selling our securities.

*General*

We will elect to be taxed as a real estate investment trust (a REIT ) commencing with our first full taxable year following consummation of the Reorganization in 2014. We intend to continue to operate in such a manner as to qualify as a REIT, but there is no guarantee that we will qualify or remain qualified as a REIT for subsequent years. Qualification and taxation as a REIT depends upon our ability to meet a variety of qualification tests imposed under federal income tax law with respect to income, assets, distribution level and diversity of share ownership as discussed below under Qualification as a REIT. There can be no assurance that we will be owned and organized and will operate in a manner so as to qualify or remain qualified.

In any year in which we qualify as a REIT, in general, we will not be subject to federal income tax on that portion of our REIT taxable income or capital gain that is distributed to stockholders. We may, however, be subject to tax at normal corporate rates on any taxable income or capital gain not distributed. If we elect to retain and pay income tax on our net long-term capital gain, stockholders are required to include their proportionate share of our undistributed long-term capital gain in income, but they will receive a refundable credit for their share of any taxes paid by us on such gain.

Despite the REIT election, we may be subject to federal income and excise tax as follows:

To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100%, of our REIT taxable income, as adjusted, we will be subject to tax on the undistributed amount at regular corporate tax rates;

If we have net income from the sale or other disposition of foreclosure property that is held primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, such income will be taxed at the highest corporate rate;



Any net income from prohibited transactions (which are, in general, sales or other dispositions of property held primarily for sale to customers in the ordinary course of business, other than dispositions of foreclosure property and dispositions of property due to an involuntary conversion) will be subject to a 100% tax;

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If we fail to satisfy either the 75% or 95% gross income tests (as discussed below), but nonetheless maintain our qualification as a REIT because certain other requirements are met, we will be subject to a 100% tax on an amount equal to (1) the gross income attributable to the greater of (i) 75% of our gross income over the amount of qualifying gross income for purposes of the 75% gross income test (discussed below) or (ii) 95% of our gross income over the amount of qualifying gross income for purposes of the 95% gross income test (discussed below) multiplied by (2) a fraction intended to reflect our profitability;

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If we fail to distribute during each year at least the sum of (1) 85% of our REIT ordinary income for the year, (2) 95% of our REIT capital gain net income for such year (other than capital gain that we elect to retain and pay tax on) and (3) any undistributed taxable income from preceding periods, we will be subject to a 4% excise tax on the excess of such required distribution over amounts actually distributed; and

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We will be subject to a 100% tax on the amount of any rents from real property, deductions or excess interest paid to us by any of our taxable REIT subsidiaries that would be reduced through reallocation under certain federal income tax principles in order to more clearly reflect income of the taxable REIT subsidiary. See *Qualification as a REIT Investments in Taxable REIT Subsidiaries*.

We may be subject to the corporate alternative minimum tax on any items of tax preference, including any deductions of net operating losses.

If we acquire any assets from a corporation, which is or has been a C corporation, in a carryover basis transaction, we could be liable for specified liabilities that are inherited from the C corporation. A C corporation is generally defined as a corporation that is required to pay full corporate level federal income tax. If we recognize gain on the disposition of the assets during the ten-year period beginning on the date on which the assets were acquired by us, then, to the extent of the assets built-in gain (i.e., the excess of the fair market value of the asset over the adjusted tax basis in the asset, in each case determined as of the beginning of the ten-year period), we will be subject to tax on the gain at the highest regular corporate rate applicable. The results described in this paragraph with respect to the recognition of built-in gain assume that the built-in gain assets, at the time the built-in gain assets were subject to a conversion transaction (either where a C corporation elected REIT status or a REIT acquired the assets from a C corporation), were not treated as sold to an unrelated party and gain recognized. For those properties that are subject to the built-in-gains tax, if triggered by a sale within the ten-year period beginning on the date on which the properties were acquired by us, then the potential amount of built-in-gains tax will be an additional factor when considering a possible sale of the properties.

#### *Qualification as a REIT*

A REIT is defined as a corporation, trust or association:

(1)

which is managed by one or more trustees or directors;

(2)

the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;

(3)

which would be taxable as a domestic corporation but for the federal income tax law relating to REITs;

(4)

which is neither a financial institution nor an insurance company;

(5)

the beneficial ownership of which is held by 100 or more persons in each taxable year of the REIT except for its first taxable year;

(6)

not more than 50% in value of the outstanding stock of which is owned during the last half of each taxable year, excluding its first taxable year, directly or indirectly, by or for five or fewer individuals (which includes certain entities) (the Five or Fewer Requirement ); and

(7)

which meets certain income and asset tests described below.

Conditions (1) to (4), inclusive, must be met during the entire taxable year and condition (5) must be met during at least 335 days of a taxable year of 12 months or during a proportionate part of a taxable year of less than 12 months. For purposes of conditions (5) and (6), pension funds and certain other tax-exempt entities are treated as individuals, subject to a look-through exception in the case of condition (6).

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We may own a number of properties through wholly owned subsidiaries. A corporation will qualify as a qualified REIT subsidiary if 100% of its stock is owned by a REIT, and the REIT does not elect to treat the subsidiary as a taxable REIT subsidiary. A qualified REIT subsidiary will not be treated as a separate corporation, and all assets, liabilities and items of income, deductions and credits of a qualified REIT subsidiary will be treated as assets, liabilities and items (as the case may be) of the REIT. A qualified REIT subsidiary is not subject to federal income tax, and our ownership of the voting stock of a qualified REIT subsidiary will not violate the restrictions against ownership of securities of any one issuer which constitute more than 10% of the value or total voting power of such issuer or more than 5% of the value of our total assets, as described below under Asset Tests.

If we invest in a partnership, a limited liability company or a trust taxed as a partnership or as a disregarded entity, we will be deemed to own a proportionate share of the partnership's, limited liability company's or trust's assets. Likewise, we will be treated as receiving our share of the income and loss of the partnership, limited liability company or trust, and the gross income will retain the same character in our hands as it has in the hands of the partnership, limited liability company or trust. These look-through rules apply for purposes of the income tests and assets tests described below.

*Income Tests.* There are two separate percentage tests relating to our sources of gross income that we must satisfy for each taxable year.

At least 75% of our gross income (excluding gross income from certain sales of property held primarily for sale) must be directly or indirectly derived each taxable year from rents from real property, other income from investments relating to real property or mortgages on real property or certain income from qualified temporary investments.

At least 95% of our gross income (excluding gross income from certain sales of property held primarily for sale) must be directly or indirectly derived each taxable year from any of the sources qualifying for the 75% gross income test and from dividends (including dividends from taxable REIT subsidiaries) and interest.

As to transactions entered into in taxable years beginning after October 22, 2004, any of our income from a clearly identified hedging transaction that is entered into by us in the normal course of business, directly or indirectly, to manage the risk of interest rate movements, price changes or currency fluctuations with respect to borrowings or obligations incurred or to be incurred by us, to acquire or hold real estate assets, or such other risks that are prescribed by the Internal Revenue Service, is excluded from the 95% gross income test.

Any of our income from a clearly identified hedging transaction that is entered into by us in the normal course of business, directly or indirectly, to manage the risk of interest rate movements, price changes or currency fluctuations with respect to borrowings or obligations incurred or to be incurred by us, to acquire or hold real estate assets, is excluded from the 95% and 75% gross income tests.

Any of our income from a clearly identified hedging transaction entered into by us primarily to manage risk of currency fluctuations with respect to any item of income or gain that is included in gross income in the 95% and 75% gross income tests is excluded from the 95% and 75% gross income tests.

In general, a hedging transaction is clearly identified if (1) the transaction is identified as a hedging transaction before the end of the day on which it is entered into and (2) the items or risks being hedged are identified substantially contemporaneously with the hedging transaction. An

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identification is not substantially contemporaneous if it is made more than 35 days after entering into the hedging transaction.

Passive foreign exchange gain for any taxable year will not constitute gross income for purposes of the 95% gross income test and real estate foreign exchange gain for any taxable year will not constitute gross income for purposes of the 75% gross income test. Real estate foreign exchange gain is foreign currency gain (as defined in Internal Revenue Code section 988(b)(1)) which is attributable to: (i) any qualifying item of income or gain for purposes of the 75% gross income test; (ii) the acquisition or ownership of obligations secured by mortgages on real property or interests in real property; or (iii) becoming or being the obligor under obligations secured by mortgages on real property or on interests in real property. Real estate foreign exchange gain also includes Internal Revenue Code section 987 gain attributable to a qualified business unit (a QBU) of a REIT if the QBU itself meets the 75% income test for the taxable year and the 75% asset test at the close of each quarter that the REIT has directly or indirectly held the QBU. Real estate foreign exchange gain also includes any other foreign currency gain as determined by the Secretary of the Treasury. Passive foreign exchange gain includes all real estate foreign exchange gain and foreign currency gain which is attributable to: (i) any qualifying item of income or gain for purposes of the 95% gross income test; (ii) the acquisition or ownership of obligations; (iii) becoming or being the obligor under obligations; and (iv) any other foreign currency gain as determined by the Secretary of the Treasury.

Generally, other than income from clearly identified hedging transactions entered into by us in the normal course of business, any foreign currency gain derived by us from dealing, or engaging in substantial and regular trading, in securities will constitute gross income which does not qualify under the 95% or 75% gross income tests.

Rents received by us will qualify as rents from real property for purposes of satisfying the gross income tests for a REIT only if several conditions are met:

The amount of rent must not be based in whole or in part on the income or profits of any person, although rents generally will not be excluded merely because they are based on a fixed percentage or percentages of receipts or sales.

Rents received from a tenant will not qualify as rents from real property if the REIT, or an owner of 10% or more of the REIT, also directly or constructively owns 10% or more of the tenant, unless the tenant is our taxable REIT subsidiary and certain other requirements are met with respect to the real property being rented.

If rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to such personal property will not qualify as rents from real property.

For rents to qualify as rents from real property, we generally must not furnish or render services to tenants, other than through a taxable REIT subsidiary or an independent contractor from whom we derive no income, except that we may directly provide services that are usually or customarily rendered in the geographic area in which the property is located in connection with the rental of real property for occupancy only, or are not otherwise considered rendered to the occupant for his convenience.

The REIT may lease qualified health care properties on an arm's-length basis to a taxable REIT subsidiary if the property is operated on behalf of such subsidiary by a person who qualifies as an independent contractor and who is, or is related to a person who is, actively engaged in the trade or business of operating health care facilities for any person unrelated to us or our taxable REIT subsidiary, an eligible independent contractor. Generally, the rent that the

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REIT receives from the taxable REIT subsidiary will be treated as rents from real property. A qualified health care property includes any real property and any personal property that is, or is necessary or incidental to the use of, a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients and which is operated by a provider of such services which is eligible for participation in the Medicare program with respect to such facility.

A REIT is permitted to render a de minimis amount of impermissible services to tenants and still treat amounts received with respect to that property as rent from real property. The amount received or accrued by the REIT during the taxable year for the impermissible services with respect to a property may not exceed 1% of all amounts received or accrued by the REIT directly or indirectly from the property. The amount received for any service or management operation for this purpose shall be deemed to be not less than 150% of the direct cost of the REIT in furnishing or rendering the service or providing the management or operation. Furthermore, impermissible services may be furnished to tenants by a taxable REIT subsidiary subject to certain conditions, and we may still treat rents received with respect to the property as rent from real property.

The term interest generally does not include any amount if the determination of the amount depends in whole or in part on the income or profits of any person, although an amount generally will not be excluded from the term interest solely by reason of being based on a fixed percentage of receipts or sales.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for such year if we are eligible for relief. These relief provisions generally will be available if (1) following our identification of the failure, we file a schedule for such taxable year describing each item of our gross income, and (2) the failure to meet such tests was due to reasonable cause and not due to willful neglect.

It is not now possible to determine the circumstances under which we may be entitled to the benefit of these relief provisions. If these relief provisions apply, a 100% tax is imposed on an amount equal to (a) the gross income attributable to (1) 75% of our gross income over the amount of qualifying gross income for purposes of the 75% income test and (2) 95% of our gross income over the amount of qualifying gross income for purposes of the 95% income test, multiplied by (b) a fraction intended to reflect our profitability.

The Secretary of the Treasury is given broad authority to determine whether particular items of income or gain qualify or not under the 75% and 95% gross income tests, or are to be excluded from the measure of gross income for such purposes.

*Asset Tests.* Within 30 days after the close of each quarter of our taxable year, we must also satisfy several tests relating to the nature and diversification of our assets determined in accordance with generally accepted accounting principles. At least 75% of the value of our total assets must be represented by real estate assets, cash, cash items (including receivables arising in the ordinary course of our operation), government securities and qualified temporary investments. Although the remaining 25% of our assets generally may be invested without restriction, we are



prohibited from owning securities representing more than 10% of either the vote (the 10% vote test ) or value (the 10% value test ) of the outstanding securities of any issuer other than a qualified REIT subsidiary, another REIT or a taxable REIT subsidiary. Further, no more than 25% of the total assets may be represented by securities of one or more taxable REIT subsidiaries (the 25% asset test ) and no more than 5% of the value of our total assets may be represented by securities of any non-governmental issuer other than a qualified REIT subsidiary (the 5% asset test ), another REIT or a taxable REIT subsidiary. Each of the 10% vote test, the 10% value test and the 25% and 5% asset tests must be satisfied at the end of each quarter. There are special rules

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which provide relief if the value related tests are not satisfied due to changes in the value of the assets of a REIT.

Certain items are excluded from the 10% value test, including: (1) straight debt securities of an issuer (including straight debt that provides certain contingent payments); (2) any loan to an individual or an estate; (3) any rental agreement described in Section 467 of the Internal Revenue Code, other than with a related person; (4) any obligation to pay rents from real property; (5) certain securities issued by a state or any subdivision thereof, the District of Columbia, a foreign government, or any political subdivision thereof, or the Commonwealth of Puerto Rico; (6) any security issued by a REIT; and (7) any other arrangement that, as determined by the Secretary of the Treasury, is excepted from the definition of security (excluded securities). Special rules apply to straight debt securities issued by corporations and entities taxable as partnerships for federal income tax purposes. If a REIT, or its taxable REIT subsidiary, holds (1) straight debt securities of a corporate or partnership issuer and (2) securities of such issuer that are not excluded securities and have an aggregate value greater than 1% of such issuer's outstanding securities, the straight debt securities will be included in the 10% value test.

A REIT's interest as a partner in a partnership is not treated as a security for purposes of applying the 10% value test to securities issued by the partnership. Further, any debt instrument issued by a partnership will not be a security for purposes of applying the 10% value test (1) to the extent of the REIT's interest as a partner in the partnership and (2) if at least 75% of the partnership's gross income (excluding gross income from prohibited transactions) would qualify for the 75% gross income test. For purposes of the 10% value test, a REIT's interest in a partnership's assets is determined by the REIT's proportionate interest in any securities issued by the partnership (other than the excluded securities described in the preceding paragraph).

If the REIT or its QBU uses a foreign currency as its functional currency, the term "cash" includes such foreign currency, but only to the extent such foreign currency is (i) held for use in the normal course of the activities of the REIT or QBU which give rise to items of income or gain that are included in the 95% and 75% gross income tests or are directly related to acquiring or holding assets qualifying under the 75% asset test, and (ii) not held in connection with dealing or engaging in substantial and regular trading in securities.

With respect to corrections of failures as to violations of the 10% vote test, the 10% value test or the 5% asset test, a REIT may avoid disqualification as a REIT by disposing of sufficient assets to cure a violation that does not exceed the lesser of 1% of the REIT's assets at the end of the relevant quarter or \$10,000,000, provided that the disposition occurs within six months following the last day of the quarter in which the REIT first identified the assets. For violations of any of the REIT asset tests due to reasonable cause and not willful neglect that exceed the thresholds described in the preceding sentence, a REIT can avoid disqualification as a REIT after the close of a taxable quarter by taking certain steps, including disposition of sufficient assets within the six month period described above to meet the applicable asset test, paying a tax equal to the greater of \$50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying assets during the period of time that the assets were held as non-qualifying assets and filing a schedule with the Internal Revenue Service that describes the non-qualifying assets.

*Investments in taxable REIT subsidiaries.* REITs may own more than 10% of the voting power and value of securities in taxable REIT subsidiaries. We and any taxable corporate entity in which we own an interest are allowed to jointly elect to treat such entity as a taxable REIT subsidiary.

*Certain of our subsidiaries may elect to be treated as a taxable REIT.* Taxable REIT subsidiaries are subject to full corporate level federal taxation on their earnings but are permitted to engage in certain types of activities that cannot be performed directly by REITs without jeopardizing their REIT status. Taxable REIT subsidiaries will attempt to minimize the amount of

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these taxes, but there can be no assurance whether or the extent to which measures taken to minimize taxes will be successful. To the extent taxable REIT subsidiaries are required to pay federal, state or local taxes, the cash available for distribution as dividends from the taxable REIT subsidiaries will be reduced.

The amount of interest on related-party debt that a taxable REIT subsidiary may deduct is limited. Further, a 100% tax applies to any interest payments by a taxable REIT subsidiary to its affiliated REIT to the extent the interest rate is not commercially reasonable. A taxable REIT subsidiary is permitted to deduct interest payments to unrelated parties without any of these restrictions.

The Internal Revenue Service may reallocate costs between a REIT and its taxable REIT subsidiary where there is a lack of arm's-length dealing between the parties. Any deductible expenses allocated away from a taxable REIT subsidiary would increase its tax liability. Further, any amount by which a REIT understates its deductions and overstates those of its taxable REIT subsidiary will, subject to certain exceptions, be subject to a 100% tax. Additional taxable REIT subsidiary elections may be made in the future for additional entities in which we own an interest.

*Annual distribution requirements.* In order to avoid being taxed as a regular corporation, we are required to make distributions (other than capital gain distributions) to our stockholders which qualify for the dividends paid deduction in an amount at least equal to (1) the sum of (i) 90% of our REIT taxable income (computed without regard to the dividends paid deduction and our net capital gain) and (ii) 90% of the after-tax net income, if any, from foreclosure property, minus (2) a portion of certain items of non-cash income. These distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for that year and if paid on or before the first regular distribution payment after such declaration. The amount distributed must not be preferential. This means that every stockholder of the class of stock to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated otherwise than in accordance with its dividend rights as a class. To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100%, of our REIT taxable income, as adjusted, we will be subject to tax on the undistributed amount at regular corporate tax rates. Finally, as discussed above, we may be subject to an excise tax if we fail to meet certain other distribution requirements. We intend to make timely distributions sufficient to satisfy these annual distribution requirements.

It is possible that, from time to time, we may not have sufficient cash or other liquid assets to meet the 90% distribution requirement, or to distribute such greater amount as may be necessary to avoid income and excise taxation, due to, among other things, (1) timing differences between (i) the actual receipt of income and actual payment of deductible expenses and (ii) the inclusion of income and deduction of expenses in arriving at our taxable income, or (2) the payment of severance benefits that may not be deductible to us. In the event that timing differences occur, we may find it necessary to arrange for borrowings or, if possible, pay dividends in the form of taxable stock dividends in order to meet the distribution requirement.

Under certain circumstances, in the event of a deficiency determined by the Internal Revenue Service, we may be able to rectify a resulting failure to meet the distribution requirement for a year by paying deficiency dividends to stockholders in a later year, which may be included in our deduction for distributions paid for the earlier year. Thus,

we may be able to avoid being taxed on amounts distributed as deficiency dividends; however, we will be required to pay applicable penalties and interest based upon the amount of any deduction taken for deficiency dividend distributions.

*Failure to Qualify as a REIT*

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If we fail to qualify for taxation as a REIT in any taxable year, we will be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify as a REIT will not be deductible nor will any particular amount of distributions be required to be made in any year. All distributions to stockholders will be taxable as ordinary income to the extent of current and accumulated earnings and profits allocable to these distributions and, subject to certain limitations, will be eligible for the dividends received deduction for corporate stockholders. Unless entitled to relief under specific statutory provisions, we also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances we would be entitled to statutory relief. Failure to qualify for even one year could result in our need to incur indebtedness or liquidate investments in order to pay potentially significant resulting tax liabilities.

In addition to the relief described above under *Income Tests* and *Asset Tests*, relief is available in the event that we violate a provision of the Internal Revenue Code that would result in our failure to qualify as a REIT if: (1) the violation is due to reasonable cause and not due to willful neglect; (2) we pay a penalty of \$50,000 for each failure to satisfy the provision; and (3) the violation does not include a violation described under *Income Tests* or *Asset Tests* above. It is not now possible to determine the circumstances under which we may be entitled to the benefit of these relief provisions.

#### *Federal Income Taxation of Holders of Our Stock*

*Treatment of taxable U.S. stockholders.* The following summary applies to you only if you are a U.S. stockholder. A U.S. stockholder is a holder of shares of stock who, for United States federal income tax purposes, is:

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a citizen or resident of the United States;

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a corporation, partnership or other entity classified as a corporation or partnership for these purposes, created or organized in or under the laws of the United States or of any political subdivision of the United States, including any state;

.  
an estate, the income of which is subject to United States federal income taxation regardless of its source; or

.  
a trust, if, in general, a U.S. court is able to exercise primary supervision over the trust's administration and one or more U.S. persons, within the meaning of the Internal Revenue Code, has the authority to control all of the trust's substantial decisions.

So long as we qualify for taxation as a REIT, distributions on shares of our stock made out of the current or accumulated earnings and profits allocable to these distributions (and not designated as capital gain dividends) will be includable as ordinary income for federal income tax purposes. None of these distributions will be eligible for the dividends received deduction for U.S. corporate stockholders.

Generally, for the taxable year ending December 31, 2012, the maximum marginal rate of tax payable by individuals on dividends received from corporations that are subject to a corporate level of tax is 15%. For the taxable year ending December 31, 2013, the maximum marginal rate of tax payable by individuals on dividends is 20%. Except in limited circumstances, this tax rate will not apply to dividends paid to you by us on our shares, because generally we are not subject to federal income tax on the portion of our REIT taxable income or capital gains distributed to our stockholders. The reduced maximum federal income tax rate will apply to that portion, if any, of dividends received by you with respect to our shares that are attributable to: (1) dividends received by us from non-REIT corporations or other taxable REIT subsidiaries; (2) income from the prior year with respect to which we were required to pay federal corporate income tax during the prior

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year (if, for example, we did not distribute 100% of our REIT taxable income for the prior year); or (3) the amount of any earnings and profits that were distributed by us and accumulated in a non-REIT year.

Distributions that are designated as capital gain dividends will be taxed as long-term capital gains (to the extent they do not exceed our actual net capital gain for the taxable year), without regard to the period for which you held our stock. However, if you are a corporation, you may be required to treat a portion of some capital gain dividends as ordinary income.

If we elect to retain and pay income tax on any net long-term capital gain, you would include in income, as long-term capital gain, your proportionate share of this net long-term capital gain. You would also receive a refundable tax credit for your proportionate share of the tax paid by us on such retained capital gains, and you would have an increase in the basis of your shares of our stock in an amount equal to your includable capital gains less your share of the tax deemed paid.

You may not include in your federal income tax return any of our net operating losses or capital losses. Federal income tax rules may also require that certain minimum tax adjustments and preferences be apportioned to you. In addition, any distribution declared by us in October, November or December of any year on a specified date in any such month shall be treated as both paid by us and received by you on December 31 of that year, provided that the distribution is actually paid by us no later than January 31 of the following year.

We will be treated as having sufficient earnings and profits to treat as a dividend any distribution up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed under General and Qualification as a REIT Annual Distribution Requirements above. As a result, you may be required to treat as taxable dividends certain distributions that would otherwise result in a tax-free return of capital. Moreover, any deficiency dividend will be treated as a dividend (an ordinary dividend or a capital gain dividend, as the case may be), regardless of our earnings and profits. Any other distributions in excess of current or accumulated earnings and profits will not be taxable to you to the extent these distributions do not exceed the adjusted tax basis of your shares of our stock. You will be required to reduce the tax basis of your shares of our stock by the amount of these distributions until the basis has been reduced to zero, after which these distributions will be taxable as capital gain, if the shares of our stock are held as capital assets. The tax basis as so reduced will be used in computing the capital gain or loss, if any, realized upon sale of the shares of our stock. Any loss upon a sale or exchange of shares of our stock which were held for six months or less (after application of certain holding period rules) will generally be treated as a long-term capital loss to the extent you previously received capital gain distributions with respect to these shares of our stock.

Upon the sale or exchange of any shares of our stock to or with a person other than us or a sale or exchange of all shares of our stock (whether actually or constructively owned) with us, you will generally recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange and your adjusted tax basis in these shares of our stock. This gain will be capital gain if you held these shares of our stock as a capital asset.



If we redeem any of your shares in us, the treatment can only be determined on the basis of particular facts at the time of redemption. In general, you will recognize gain or loss (as opposed to dividend income) equal to the difference between the amount received by you in the redemption and your adjusted tax basis in your shares redeemed if such redemption: (1) results in a complete termination of your interest in all classes of our equity securities; (2) is a substantially disproportionate redemption; or (3) is not essentially equivalent to a dividend with respect to you. In applying these tests, you must take into account your ownership of all classes of our equity securities (e.g., common stock, preferred stock, depositary shares and warrants). You also must take into account any equity securities that are considered to be constructively owned by you.

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If, as a result of a redemption by us of your shares, you no longer own (either actually or constructively) any of our equity securities or only own (actually and constructively) an insubstantial percentage of our equity securities, then it is probable that the redemption of your shares would be considered not essentially equivalent to a dividend and, thus, would result in gain or loss to you. However, whether a distribution is not essentially equivalent to a dividend depends on all of the facts and circumstances, and if you rely on any of these tests at the time of redemption, you should consult your tax advisor to determine their application to the particular situation.

Generally, if the redemption does not meet the tests described above, then the proceeds received by you from the redemption of your shares will be treated as a distribution taxable as a dividend to the extent of the allocable portion of current or accumulated earnings and profits. If the redemption is taxed as a dividend, your adjusted tax basis in the redeemed shares will be transferred to any other shareholdings in us that you own. If you own no other shareholdings in us, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

Gain from the sale or exchange of our shares held for more than one year is generally taxed at a maximum long-term capital gain rate. Pursuant to Internal Revenue Service guidance, we may classify portions of our capital gain dividends as gains eligible for the long-term capital gains rate or as gain taxable to individual stockholders at a maximum rate of 25%. Capital losses recognized by a stockholder upon the disposition of our shares held for more than one year at the time of disposition will be considered long term capital losses, and are generally available only to offset capital gain income of the stockholder but not ordinary income (except in the case of individuals, who may offset up to \$3,000 of ordinary income each year).

On March 30, 2010, the President signed into law the Health Care and Education Reconciliation Act of 2010, which requires U.S. stockholders who meet certain requirements and are individuals, estates or certain trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of stock for taxable years beginning after December 31, 2012. U.S. stockholders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of shares of our stock.

*Treatment of tax-exempt U.S. stockholders.* Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts ( Exempt Organizations ), generally are exempt from federal income taxation. However, they are subject to taxation on their unrelated business taxable income ( UBTI ). The Internal Revenue Service has issued a published revenue ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI, provided that the shares of the REIT are not otherwise used in an unrelated trade or business of the exempt employee pension trust. Based on this ruling, amounts distributed by us to Exempt Organizations generally should not constitute UBTI. However, if an Exempt Organization finances its acquisition of the shares of our stock with debt, a portion of its income from us will constitute UBTI pursuant to the debt financed property rules. Likewise, a portion of the Exempt Organization's income from us would constitute UBTI if we held a residual interest in a real estate mortgage investment conduit.

In addition, in certain circumstances, a pension trust that owns more than 10% of our stock is required to treat a percentage of our dividends as UBTI. This rule applies to a pension trust holding more than 10% of our stock only if: (1) the percentage of our income that is UBTI (determined as if we were a pension trust) is at least 5%; (2) we qualify as a REIT by reason of the modification of the Five or Fewer Requirement that allows beneficiaries of the pension trust to be treated as holding shares in proportion to their actuarial interests in the pension trust; and (3) either (i) one pension trust owns more than 25% of the value of our stock, or (ii) a group of pension trusts

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individually holding more than 10% of the value of our stock collectively own more than 50% of the value of our stock.

*Backup withholding and information reporting.* Under certain circumstances, you may be subject to backup withholding at applicable rates on payments made with respect to, or cash proceeds of a sale or exchange of, shares of our stock. Backup withholding will apply only if you: (1) fail to provide a correct taxpayer identification number, which if you are an individual, is ordinarily your social security number; (2) furnish an incorrect taxpayer identification number; (3) are notified by the Internal Revenue Service that you have failed to properly report payments of interest or dividends; or (4) fail to certify, under penalties of perjury, that you have furnished a correct taxpayer identification number and that the Internal Revenue Service has not notified you that you are subject to backup withholding.

Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and tax-exempt organizations. You should consult with a tax advisor regarding qualification for exemption from backup withholding, and the procedure for obtaining an exemption. Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a stockholder will be allowed as a credit against such stockholder's United States federal income tax liability and may entitle such stockholder to a refund, provided that the required information is provided to the Internal Revenue Service. In addition, withholding a portion of capital gain distributions made to stockholders may be required for stockholders who fail to certify their non-foreign status.

*Taxation of foreign stockholders.* The following summary applies to you only if you are a foreign person. The federal taxation of foreign persons is a highly complex matter that may be affected by many considerations.

Except as discussed below, distributions to you of cash generated by our real estate operations in the form of ordinary dividends, but not by the sale or exchange of our capital assets, generally will be subject to U.S. withholding tax at a rate of 30%, unless an applicable tax treaty reduces that tax and you file with us the required form evidencing the lower rate.

In general, you will be subject to United States federal income tax on a graduated rate basis rather than withholding with respect to your investment in our stock if such investment is effectively connected with your conduct of a trade or business in the United States. A corporate foreign stockholder that receives income that is, or is treated as, effectively connected with a United States trade or business may also be subject to the branch profits tax, which is payable in addition to regular United States corporate income tax. The following discussion will apply to foreign stockholders whose investment in us is not so effectively connected. We expect to withhold United States income tax, as described below, on the gross amount of any distributions paid to you unless (1) you file an Internal Revenue Service Form W-8ECI with us claiming that the distribution is effectively connected or (2) certain other exceptions apply.

Distributions by us that are attributable to gain from the sale or exchange of a United States real property interest will be taxed to you under the Foreign Investment in Real Property Tax Act of 1980 ( FIRPTA ) as if these distributions were gains effectively connected with a United States trade or business. Accordingly, you will be taxed at the normal capital gain rates applicable to a U.S. stockholder on these amounts, subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals. Distributions subject to FIRPTA may also be subject to a branch profits tax in the hands of a corporate foreign stockholder that is not entitled to treaty exemption.

We will be required to withhold from distributions subject to FIRPTA, and remit to the Internal Revenue Service, 35% of designated capital gain dividends, or, if greater, 35% of the amount of

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any distributions that could be designated as capital gain dividends. In addition, if we designate prior distributions as capital gain dividends, subsequent distributions, up to the amount of the prior distributions not withheld against, will be treated as capital gain dividends for purposes of withholding.

Any capital gain dividend with respect to any class of stock that is regularly traded on an established securities market will be treated as an ordinary dividend if the foreign stockholder did not own more than 5% of such class of stock at any time during the taxable year. Foreign stockholders generally will not be required to report distributions received from us on U.S. federal income tax returns and all distributions treated as dividends for U.S. federal income tax purposes (including any such capital gain dividends) will be subject to a 30% U.S. withholding tax (unless reduced under an applicable income tax treaty) as discussed above. In addition, the branch profits tax will not apply to such distributions.

Unless our shares constitute a United States real property interest within the meaning of FIRPTA or are effectively connected with a U.S. trade or business, a sale of our shares by you generally will not be subject to United States taxation. Our shares will not constitute a United States real property interest if we qualify as a domestically controlled REIT. We believe that we, and expect to continue to, qualify as a domestically controlled REIT. A domestically controlled REIT is a REIT in which at all times during a specified testing period less than 50% in value of its shares is held directly or indirectly by foreign stockholders. However, if you are a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and certain other conditions apply, you will be subject to a 30% tax on such capital gains. In any event, a purchaser of our shares from you will not be required under FIRPTA to withhold on the purchase price if the purchased shares are regularly traded on an established securities market or if we are a domestically controlled REIT. Otherwise, under FIRPTA, the purchaser may be required to withhold 10% of the purchase price and remit such amount to the Internal Revenue Service.

Backup withholding tax and information reporting will generally not apply to distributions paid to you outside the United States that are treated as: (1) dividends to which the 30% or lower treaty rate withholding tax discussed above applies; (2) capital gains dividends; or (3) distributions attributable to gain from the sale or exchange by us of U.S. real property interests. Payment of the proceeds of a sale of stock within the United States or conducted through certain U.S. related financial intermediaries is subject to both backup withholding and information reporting unless the beneficial owner certifies under penalties of perjury that he or she is not a U.S. person (and the payor does not have actual knowledge that the beneficial owner is a U.S. person) or otherwise established an exemption. You may obtain a refund of any amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service.

Recently enacted legislation will impose U.S. withholding tax at a rate of 30% after December 31, 2013 on dividends in respect of, and after December 31, 2014 on gross proceeds from the sale of, shares of our stock held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to shares in the institution held by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons, and to withhold on certain payments. Accordingly, the entity through which shares of stock is held will affect the determination of whether such withholding is required. Similarly, dividends in respect of, and gross proceeds from the sale of, shares of our stock held by an investor that is a non-financial non-U.S. entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any "substantial United States

owners" or (ii) provides certain information regarding the entity's "substantial United States owners," which we will in turn provide to the Secretary of the Treasury. If payment of withholding taxes is required, stockholders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding

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taxes with respect to such dividends and proceeds will be required to seek a refund from the Internal Revenue Service to obtain the benefit of such exemption or reduction. We will not pay any additional amounts to any stockholders in respect of any amounts withheld. Foreign persons are encouraged to consult with their tax advisors regarding the possible implications of the legislation on their investment in shares of our stock.

## **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 audited financial statements and notes included in our audited financial statements on Form 8-K/A filed on December 17, 2013 and the Company's annual report on Form 10-K for the year ended June 30, 2013 filed with the Securities and Exchange Commission.

### **Results of Operations Three Months Ended September 30, 2013**

The Company has recently completed a reverse acquisition with an inception date of March 13, 2013 and therefore there is no comparable data for the three months ended September 30, 2012.

Rental revenues for the three month period ended September 30, 2013 totaled \$140,000 from the lease of our one nursing home property.

General and administrative expenses were \$28,353 for the three month period ended September 30, 2013. This classification primarily consisted of legal, accounting and other professional fees.

Depreciation expense totaled \$48,584 for the three months ended September 30, 2013. Depreciation is provided using the straight-line method over the estimated useful lives of land improvements, buildings and improvements and furniture, fixtures and equipment.

Net interest expense totaled \$118,522 for the three months ended September 30, 2013 and primarily represents regularly schedule payments on notes payable and amortization of deferred loan costs.

### **Results of Operations March 13, 2013 (date of inception) through September 30, 2013**



The Company has recently completed a reverse acquisition with an inception date of March 13, 2013 and therefore there is no comparable data for the prior period ended September 30, 2012.

Rental revenues for the period from March 13, 2013 through September 30, 2013 totaled \$303,333 from the lease of our one nursing home property.

General and administrative expenses were \$112,337 for the period from March 13, 2013 through September 30, 2013. This classification also consisted of legal, accounting and other professional fees.

During the period from March 13, 2013 through September 30, 2013, bad debt expense of \$108,182 was recognized on an advance to an affiliate which was not considered collectible.

Depreciation expense totaled \$105,264 for the period from March 13, 2013 through September 30, 2013.

Depreciation is provided using the straight-line method over the estimated useful lives of land improvements, buildings and improvements and furniture, fixtures and equipment.

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Net interest expense totaled \$269,191 for the period from March 13, 2013 through September 30, 2013 and primarily represents regularly scheduled payments on notes payable and amortization of deferred loan costs.

### **Liquidity and Capital Resources**

At September 30, 2013, the Company had cash and cash equivalents of \$270,456 on hand. Our liquidity is expected to increase from potential equity offerings and decrease as net offering proceeds are expended in connection with the acquisition of properties and distributions are made in excess of cash available from operating cash flows.

Cash provided by operating activities was \$43,400 for the period from March 13, 2013 (date of inception) through September 30, 2013 which includes the net loss of \$(291,641) offset by depreciation of \$105,264 and bad debt expense of \$108,182.

Cash provided by investing activities was \$254,680 for the period from March 13, 2013 (date of inception) through September 30, 2013. We received \$254,780 of cash as a result of our reverse acquisition of WPF

Cash used in financing activities was \$(38,812) for the period from March 13, 2013 (date of inception) through September 30, 2013, and generally represents payments on our notes payable and net advances from/to related parties.

We entered into a note payable with Dodge Investors, LLC in the amount of \$1,100,000 which was used in conjunction with the loan from Colony Bank to acquire a nursing home property. The note bears interest at a rate of 13% and matures on July 1, 2014. At maturity, we expect to repay the note from potential equity offerings or conversion of the notes to common stock.

### *Off-Balance Sheet Arrangements*

We have a contingent liability for rental payments on a long-term lease related to the casino operations split-off and sold to Gemini Gaming, LLC. The total minimum rentals under this lease total \$76,806 for the three months ended December 31, 2013, \$304,344 for the year ended December 2014 and \$177,534 for the period from January 1, 2015 through termination of the lease agreement in July 2015. No payments on the contingency have been required to date.

### *Use of Estimates and Assumptions*

The preparation of the Company's financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the amounts of revenues and expenses recorded during the reporting periods. We base our estimates on historical experience, where applicable, and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

These significant accounting estimates and critical accounting policies include:

*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

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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. For the period ended September 30, 2013 we reviewed our long lived assets for impairment. Based on our review it was determined that no impairment of property plant or equipment was indicated. A long term note receivable from Gemini Gaming, LLC carries a stated interest rate of 4%. We impaired this note for the difference between the face value of the note and the net present value of the future cash flow from the note at an imputed interest rate of 8%.

### *Goodwill*

Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill resulting from acquisitions is not amortized, but is tested for impairment annually or whenever events change and circumstances indicate that it is more likely than not that an impairment loss has occurred. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. The second step, if necessary, measures the amount of impairment, if any. Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. We applied the above procedures to the balance of Goodwill as of September 30, 2013 and determined that no impairment we indicated as of that date.

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*Contractual Commitments*

The following summarizes our contractual commitments as of September 30, 2013 (including future interest payments):

Notes payable consisted of the following as of September 30, 2013:

Note payable to Colony Bank with interest at 6.25%, payable in equal monthly installments of \$26,386 with a final balloon payment of the remaining principal and interest totaling approximately \$4,064,400, on May 29, 2015. Collateral for this note is described below.

\$4,135,055

Note payable to Dodge Investors, LLC with interest at 13.00%.

1,100,000

Interest is payable monthly with principal due on July 1, 2014.

\$5,235,055

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

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our short-term money market investments. The Company does not have any financial instruments held for trading or other speculative purposes and does not invest in derivative financial instruments, interest rate swaps or other investments that alter interest rate exposure. The Company does not have any credit facilities with variable interest rates.

#### **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 our senior management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer have reviewed the effectiveness of our disclosure controls and procedures and have concluded that the disclosure controls and procedures were not effective as of the end of the period covered by this report. Due to the consummation of the split-off and acquisition of WPF, there was a change in the Company's officers and consultants in charge of financial reporting, which change resulted in inefficiencies that led to our inability to file this report in a timely manner. Now that the personnel in charge of disclosure controls and procedures are fully engaged and in place, we believe this deficiency has been remedied on a going forward basis.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **PART II OTHER INFORMATION**

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**Item 1.**

**Legal Proceedings**

None, except as previously disclosed .

**Item 1A.**

**Risk Factors**

*Risks Related to General Economic Conditions*

Current economic conditions in the global economy, including ongoing disruptions in the debt and equity capital markets, may adversely affect our business, our results of operations, and our ability to obtain financing.

The global economic environment is currently volatile and uncertain, and the future economic environment may continue to be less favorable than that of recent years. The retail industry has experienced and may continue to experience significant downturns in connection with, or in anticipation of, declines in general economic conditions. The current economic environment has been characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, leading to lowered demand for products and resulting in fewer customers visiting, and customers spending less, which could adversely affect our revenues. In addition, further declines in consumer and commercial spending may drive us and our competitors to reduce pricing, which would have a negative impact on our gross profit. We are unable to predict the timing, duration, and severity of any disruptions in debt and equity capital markets and adverse economic conditions in the United States and other countries, which could have an adverse effect on our business and results of operations, in part because we are dependent upon customer behavior and the impact on consumer spending that market disruptions may have.

The global stock and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective and outstanding debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings materially less attractive, and in certain cases have resulted in the unavailability of certain types of financing. This volatility and illiquidity has negatively affected a broad range of mortgage and asset-backed and other fixed income securities. As a result, the market for fixed income securities has experienced decreased liquidity, increased price volatility, credit downgrade events, and increased defaults. Global equity markets have also been experiencing heightened volatility and turmoil, with issuers exposed to the credit

markets particularly affected. These factors and the continuing market disruption have an adverse effect on us, in part because we, like many companies, from time to time may need to raise capital in debt and equity capital markets including in the asset-backed securities markets.

In addition, continued uncertainty in the stock and credit markets may negatively affect our ability to access additional short-term and long-term financing, including future securitization transactions, on reasonable terms or at all, which would negatively impact our liquidity and financial condition. In addition, if one or more of the financial institutions that support our future credit facilities fails, we may not be able to find a replacement, which would negatively impact our ability to borrow under the credit facilities. These disruptions in the financial markets also may adversely affect our credit rating and the market value of our common stock. If the current pressures on credit continue or worsen, we may not be able to refinance, if necessary, our outstanding debt when due, which could have a material adverse effect on our business. If our operating results worsen significantly and our cash flow or capital resources prove inadequate, or if interest rates increase significantly, we could face liquidity problems that could materially and adversely affect our results of operations and financial condition.

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A worsening of the United States economy could materially adversely affect our business.

*Risks Related to our Qualification as a REIT*

To qualify as a REIT and Pass-Through Status, we must comply with all the requirements imposed by the Internal Revenue Code.

To qualify as a REIT, we must comply with each of the following requirements:

- be structured as a corporation, business trust or similar association;
- be managed by a board of directors or trustees;
- offer fully transferable shares;
- have at least 100 shareholders;
- pay dividends of at least 90 percent of the REIT's taxable income;
- have no more than 50% of our shares held by five or fewer individuals during the last half of each taxable year;
- hold at least 75% of total investment assets in real estate;
- have no more than 20% of our assets consist of securities in taxable REIT subsidiaries; and
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derive at least 75% of gross income from rents or mortgage interest.

At least 95% of a REIT's gross income must come from financial investments. These include rents, dividends, interest and capital gains (the 95% income test). In addition, at least 75% of its income must come from certain real estate sources (the 75% income test) including rents from real property, gains from the sale or other disposition of real property, and income and gain derived from foreclosure of property.

Our Articles of Incorporation will be amended to limit the amount of shares that can be beneficially owned by any single shareholder.

In order to ensure that the Company does not inadvertently violate the REIT requirement that no more than 50% of our shares are owned by five or fewer individuals, our Articles of Incorporation will be amended to limit the shareholdings of any shareholder to no more than 9.8% of our issued and outstanding shares. If a shareholder violates this limitation, the Company is authorized to redeem the excess shares at market value. Until so redeemed, the excess shares cannot exercise voting rights, are not considered outstanding for purposes of determining a quorum at shareholder meetings, and distributions on excess shares are quarantined into an escrow account until the shareholder reduces their ownership to 9.8% or less.

*We might fail to qualify or remain qualified as a REIT.*

We intend to operate as a REIT under the Internal Revenue Code and believe we have and will continue to operate in such a manner. If we lose our status as a REIT, we will face serious income tax consequences that will substantially reduce the funds available for satisfying our obligations and for distribution to our stockholders because:

we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to U.S. federal income tax at regular corporate rates;

we could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

unless we are entitled to relief under statutory provisions, we could not elect to be subject to tax as a REIT for four taxable years following the year during which we were disqualified.

Since REIT qualification requires us to meet a number of complex requirements, it is possible that we may fail to fulfill them, and if we do, our earnings will be reduced by the amount of U.S. federal and other income taxes owed. A reduction in our earnings would affect the amount we could distribute to

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our stockholders. If we do not qualify as a REIT, we would not be required to make distributions to stockholders since a non-REIT is not required to pay dividends to stockholders in order to maintain REIT status or avoid an excise tax.

In addition, if we fail to qualify as a REIT, all distributions to stockholders would continue to be treated as dividends to the extent of our current and accumulated earnings and profits, although corporate stockholders may be eligible for the dividends received deduction, and individual stockholders may be eligible for taxation at the rates generally applicable to long-term capital gains (currently at a maximum rate of 15%) with respect to distributions.

As a result of all these factors, our failure to qualify as a REIT also could impair our ability to implement our business strategy and would adversely affect the value of our common stock.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to remain qualified as a REIT. Although we believe that we qualify as a REIT, we cannot assure you that we will continue to qualify or remain qualified as a REIT for U.S. federal income tax purposes.

The 90% annual distribution requirement will decrease our liquidity and may limit our ability to engage in otherwise beneficial transactions.

To comply with the 90% distribution requirement applicable to REITs and to avoid the nondeductible excise tax, we must make distributions to our stockholders. Although we anticipate that we generally will have sufficient cash or liquid assets to enable us to satisfy the REIT distribution requirement, it is possible that, from time to time, we may not have sufficient cash or other liquid assets to meet the 90% distribution requirement, or we may decide to retain cash or distribute such greater amount as may be necessary to avoid income and excise taxation. This may be due to timing differences between the actual receipt of income and actual payment of deductible expenses, on the one hand, and the inclusion of that income and deduction of those expenses in arriving at our taxable income, on the other hand. In addition, non-deductible expenses such as principal amortization or repayments or capital expenditures in excess of non-cash deductions may cause us to fail to have sufficient cash or liquid assets to enable us to satisfy the 90% distribution requirement. In the event that timing differences occur, or we deem it appropriate to retain cash, we may borrow funds, issue additional equity securities (although we cannot assure you that we will be able to do so), pay taxable stock dividends, if possible, distribute other property or securities or engage in another transaction intended to enable us to meet the REIT distribution requirements. This may require us to raise additional capital to meet our obligations.

The amount of additional indebtedness we may incur is limited by the terms of our senior notes. In addition, adverse economic conditions may impact the availability of additional funds or could cause the terms on which we are able to borrow additional funds to become unfavorable. In those circumstances, we may be required to raise additional equity in the capital markets. Our access to capital depends upon a number of factors over which we have little or no control,

including rising interest rates, inflation and other general market conditions and the market's perception of our growth potential and our current and potential future earnings and cash distributions and the market price of the shares of our capital stock. We cannot assure you that we will be able to raise the capital necessary to make future investments or to meet our obligations and commitments as they mature.

The lease of qualified health care properties to a taxable REIT subsidiary is subject to special requirements.

We may lease certain qualified health care properties we acquire to taxable REIT subsidiaries (or limited liability companies of which the taxable REIT subsidiaries are members), which lessees contract with managers (or related parties) to manage the health care operations at these properties. The rents from this taxable REIT subsidiary lessee structure are treated as qualifying rents from real property if (1) they are paid pursuant to an arms-length lease of a qualified health care property with a

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taxable REIT subsidiary and (2) the manager qualifies as an eligible independent contractor. If any of these conditions are not satisfied, then the rents will not be qualifying rents.

If certain sale-leaseback transactions are not characterized by the Internal Revenue Service as true leases, we may be subject to adverse tax consequences.

We may purchase certain properties and lease them back to the sellers of such properties. We intend for any such sale-leaseback transaction to be structured in such a manner that the lease will be characterized as a true lease, thereby allowing us to be treated as the owner of the property for U.S. federal income tax purposes. However, depending on the terms of any specific transaction, the Internal Revenue Service might take the position that the transaction is not a true lease but is more properly treated in some other manner. In the event any sale-leaseback transaction is challenged and successfully re-characterized by the Internal Revenue Service, we would not be entitled to claim the deductions for depreciation and cost recovery generally available to an owner of property. Furthermore, if a sale-leaseback transaction were so re-characterized, we might fail to satisfy the REIT asset tests or income tests and, consequently, could lose our REIT status effective with the year of re-characterization. Alternatively, the amount of our REIT taxable income could be recalculated, which may cause us to fail to meet the REIT annual distribution requirements for a taxable year.

## **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 previously disclosed.

## **Item 4. Mine Safety Disclosures**

Not Applicable

## **Item 5. Other Information**

None, except as previously disclosed.

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**Item 6. Exhibits**

31. Certification of Chief Executive Officer and Chief Financial Officer pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e)) and 13a-15(f) and 15d-15(f)) \*

32. Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*

101.INS	XBRL Instance Document**
101.SCH	XBRL Schema Document**
101.CAL	XBRL Calculation Linkbase Document**
101.LAB	XBRL Label Linkbase Document**
101.PRE	XBRL Presentation Linkbase Document**
101.DEF	XBRL Definition Linkbase Document**

\*

filed herewith

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furnished, not filed.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, 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: December 30, 2013

By /s/ Christopher Brogdon  
Christopher Brogdon

President

Date: December 30, 2013

By: / s/ Philip S. Scarborough  
Philip S. Scarborough,

Chief Financial Officer