UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)
☐ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 000-52566

SUMMIT HEALTHCARE REIT, INC.
(Exact name of registrant as specified in its charter)

Maryland	**73-1721791**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1920 Main Street, Suite 400, Irvine, California 92614
(Address of Principal Executive Offices)

949-852-1007
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class:
None

Securities registered pursuant to Section 12(g) of the Act:
Title of Each Class:
Common Stock, $0.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 has submitted electronically and posted on its corporate Web site, 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 ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 the definitions 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	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒

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

As of June 30, 2013 (the last business day of the registrant's second fiscal quarter), there were 23,028,285 shares of common stock held by non-affiliates of the registrant. While there is no established trading market for the Registrant's shares of common stock, the last price paid to acquire a share in the Registrant's primary public offering, which was terminated on November 23, 2010, was $8.00.

As of March 31, 2014, there were 23,028,285 shares of common stock of Summit Healthcare REIT, Inc. outstanding. The Registrant incorporates by reference portions of its Definitive Proxy Statement for the 2014 Annual Meeting of Stockholders, which is expected to be filed no later than April 30, 2014, into Part III of this Form 10-K to the extent stated herein.

CORNERSTONE CORE PROPERTIES REIT, INC.
(A Maryland Corporation)

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PART I

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" in Item 1A of this report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, there can be no assurance that our expectations will be realized.

As used in this report, "we," "us," "our" and the "Company" refer to Summit Healthcare REIT, Inc. and its consolidated subsidiaries except where the context otherwise requires.

ITEM 1. BUSINESS

Our Company

Summit Healthcare REIT, Inc., (formerly Cornerstone Core Properties REIT, Inc.), a Maryland corporation, was formed on October 22, 2004 for the purpose of engaging in the business of investing in and owning commercial real estate. We have qualified, and intend to continue to qualify, as a real estate investment trust ("REIT") for federal tax purposes. We are structured as an umbrella partnership REIT, referred to as an "UPREIT," under which substantially all of our current and future business is, and will be, conducted through a majority owned subsidiary, Cornerstone Operating Partnership, L.P. the ("Operating Partnership"), a Delaware limited partnership, formed on November 30, 2004. We are the sole general partner of the Operating Partnership and have control over its affairs.

Our advisor is Cornerstone Realty Advisors, LLC (the "Advisor"), a Delaware limited liability company. Our Advisor has contractual and fiduciary responsibilities to us and our stockholders. Under the terms of our advisory agreement (the "Advisory Agreement"), our Advisor will use commercially reasonable efforts to present to us investment opportunities and to provide a continuing and suitable investment program consistent with the investment policies and objectives adopted by our board of directors. Our Advisor is responsible for managing our affairs on a day-to-day basis and for identifying and making property acquisitions on our behalf. Currently, there are no employees of Summit Healthcare REIT, Inc. or its subsidiaries. All management and administrative personnel responsible for conducting our business are currently employed by affiliates of our Advisor. On March 17, 2014, we terminated the Advisory Agreement with our Advisor effective May 16, 2014 (see Note 18).

From our formation through the end of the year ended December 31, 2005, our activities consisted solely of organizational activities including preparing for and launching our initial public offering. On January 6, 2006, we commenced an initial public offering of up to 55,400,000 shares of our common stock, consisting of 44,400,000 shares for sale pursuant to a primary offering and 11,000,000 shares for sale pursuant to our distribution reinvestment plan. On November 25, 2008, we filed a registration statement on Form S-11 with the U.S. Securities and Exchange Commission (the "SEC") to register a follow-on public offering. Pursuant to the registration statement, as amended, we registered up to 56,250,000 shares of common stock in a primary offering for $8.00 per share, with discounts available to certain categories of purchasers. As of December 31, 2013, approximately 20.9 million shares of our common stock had been sold in our initial and follow-on public offerings for aggregate gross proceeds of $167.1 million. This excludes shares issued under our distribution reinvestment plan.

We also registered approximately 21,100,000 shares pursuant to our dividend reinvestment plan at a purchase price equal to $7.60 per share. We stopped soliciting and accepting offers under our initial public offering on June 1, 2009 upon raising gross offering proceeds of $172.7 million from the sale of approximately 21.7 million shares, including shares sold under the distribution reinvestment plan. On June 10, 2009, the SEC declared our follow-on offering effective. The initial public offering and follow-on offering are collectively referred to herein as the "offerings". We retained Pacific Cornerstone Capital, Inc. ("PCC"), an affiliate of our Advisor, to serve as the dealer manager for the offerings. PCC was responsible for marketing our shares being offered pursuant to the offerings. The dealer manager agreement with PCC terminated on November 23, 2010.

On November 23, 2010, we stopped soliciting and accepting offers to purchase shares of our stock under our Follow-on Offering. On June 10, 2012, that offering expired.

Suspension of Distribution Reinvestment Plan - Effective December 14, 2010, we suspended our distribution reinvestment plan and any distributions paid subsequent to December 14, 2010 have been in cash. No distributions have been declared or paid for periods subsequent to June 30, 2012.

Distributions - Effective June 2011, our board of directors determined, based on our financial position, to suspend the declaration of any further cash distributions. No distributions have been declared or paid for periods subsequent to June 30, 2011. The rate and frequency of distributions is subject to the discretion of our board of directors and may change from time to time based on our operating results, cash flow and business plan. We can make no assurances when and if distributions will recommence.

Stock Repurchase Program - Effective December 31, 2010, our board of directors suspended redemptions under the program. We can make no assurances as to when and on what terms redemptions will resume. The share redemption program may be amended, resumed, suspended again, or terminated at any time based upon numerous factors, including our cash and debt positions.

Strategic Repositioning – In mid-2011, we began evaluating alternative strategic options, including the repositioning of our assets, that we believed could enhance stockholder value. The repositioning strategy began with the sale of certain industrial properties in 2011, the use of the proceeds from those sales to de-lever our balance sheet by paying down and/or paying off short term higher interest rate debt, and the renegotiation of existing debt to lower interest rates and extend maturity dates enabling us to begin acquiring healthcare real estate properties.

Investing in healthcare real estate assets, more specifically senior housing facilities, is believed to be accretive to earnings and potentially stockholder value. Senior housing facilities include independent living facilities, skilled-nursing facilities (“SNF”), assisted living facilities and memory and other continuing care retirement communities. Each of these caters to different segments of the elderly population. The Company’s repositioning strategy includes purchasing SNF’s, assisted living facilities, and memory care facilities.

In the second quarter of 2012, we formed Cornerstone Healthcare Partners LLC (“CHP LLC”) with Cornerstone Healthcare Real Estate Fund, Inc. (“CHREF”), an affiliate of our Advisor. We own 95% of CHP LLC, with the remaining 5% owned by CHREF. During 2012, we acquired the Sheridan Care Center, Fern Hill Care Center, Farmington Square, Friendship Haven Healthcare and Rehabilitation Center and Pacific Health and Rehabilitation Center healthcare properties (collectively, the “JV Properties”) through CHP LLC. In the third quarter of 2013, as part of our strategy to raise new property level joint venture equity capital to support growth and diversify operator, geographic and other risks, we caused CHP LLC to sell a portion of its interests in the JV Properties to third party investors. Proceeds from the sale of interests in these JV Properties were $0.6 million as of December 31, 2013, of which we received $0.6 million and CHREF received $31,000. At December 31, 2013, we owned a 90.9% interest in the JV Properties, CHREF, an affiliate of the Advisor, owned a 4.8% interest and third party investors owned 4.3%. CHP LLC may sell up to an aggregate 46% interest in these JV Properties, leaving us and CHREF with a combined 54%. As outside investors acquire additional interests in the JV Properties, our interest in the JV Properties, and that of CHREF, will be reduced proportionately. We’ll retain control over the JV Properties, and also retain an ongoing right to repurchase these third party interests in the future.

During the second half of 2012 and all of 2013, CHP LLC acquired, through wholly-owned subsidiaries, eleven senior-housing facilities (which include the JV Properties). We obtained interim financing to purchase our healthcare facilities and intend to refinance the interim borrowings with long term financing (See Note 14 to the accompanying Notes to the Consolidated Financial Statements).

We lease our assisted living facilities and SNF’s to single-tenant operators under triple net lease structures. Services provided by operators of assisted living facilities are primarily paid for by the facility residents directly or through private insurance and are less reliant on government reimbursement programs such as Medicaid and Medicare. Assisted living facilities offer residents a place to reside that offers medical monitoring and some medical care while still offering personal privacy and freedom. SNF operators are typically more dependent on government reimbursement programs. SNFs are a healthcare option for seniors that are in need of constant medical attention or recovery and therapy after a hospital visit but do not require the more extensive and sophisticated treatment available at hospitals. Sub-acute care services are provided to residents beyond room and board. Certain SNF’s provide some services on an outpatient basis. Skilled nursing services are primarily paid for either by private sources, insurance, or through the Medicare and Medicaid programs.

To further our repositioning of our asset base, we sold all our remaining industrial assets (See Note 16 Discontinued Operations) in 2013. Accordingly, our industrial assets are classified as held for sale on the accompanying December 31, 2012 Consolidated Balance Sheet and presented as discontinued operations on our Consolidated Statements of Operations for all periods presented. We used the proceeds from the industrial asset dispositions to pay off the debt related to the industrial assets and reinvested a portion of the net proceeds into additional healthcare assets.

Our Advisor believes the Company's outlook for raising additional third party equity capital to support its growth and further diversify both operator and healthcare property sector risk is currently favorable. Based in part on this advice, the board of directors continues to advance the repositioning strategy while pursuing other growth initiatives that lower capital costs and enable us to reduce or improve our ability to cover our general and administrative costs over a broader base of assets.

For 2014, the board of directors has requested that the Advisor raise new joint venture equity and attract new capital partners, including international and/or institutional partners, while management continues to evaluate opportunities for growth and secures long term debt for recent and future acquisitions and/or development opportunities. Selling portions of the properties we own through joint venture partners, and using the proceeds for acquisitions of additional healthcare assets, allows us to diversify our property holdings (as to the number of operators, geographic location, level of care acuity, and age of property) and, therefore lower the overall risk profile of our healthcare portfolio.

Investment Strategy

Our board of directors periodically reviews our investment policies to determine whether these policies continue to be in the best interest of our stockholders. We may change our investment policies without stockholder approval. Our Advisor recommends property acquisitions to our investment committee, which approves or rejects proposed acquisitions.

Initially we focused on industrial real estate, but as cash flow and values declined in industrial real estate from 2009 to 2011, we committed to selling our industrial properties and re-invested the proceeds into healthcare real estate. Healthcare real estate includes senior housing facilities, which include skilled-nursing, assisted living, memory care, continuing-care retirement communities and independent-living facilities. Each type of senior-housing facility caters to different segments of the elderly population. According to The National Coalition on Healthcare, by 2016 nearly 20% in every dollar in the United States ("U.S.") will be spent on healthcare, and the aging U.S. population is expected to continue to fuel the need for healthcare services. The over age 65 population of the U.S. is projected to grow 36% between 2010 and 2020, compared with 9% for the general population, according to the U.S. Census Bureau. Presently, the healthcare real estate market is fragmented, with a local or regional focus, offering opportunities for consolidation and market dominance.

Our Advisor believes that investment opportunities in senior housing properties are ordinarily not readily available to investors other than large institutional investors and experienced real estate operators with specialized knowledge, experience in specific geographic areas, industry expertise and established relationships with operators of these property types.

Although we intend to focus on acquiring and developing a portfolio of healthcare real estate investments, we may also invest in other real estate-related assets that we believe may assist us in meeting our investment objectives. Our charter does not allow investments in mortgage loans on unimproved real property, but we are not otherwise restricted in the allocation to any specific type of property.

Acquisition Policies

Primary Investment Focus

Our Advisor makes recommendations to our board of directors, which approves or rejects all proposed property acquisitions. Our independent directors review our investment policies at least annually to determine whether these policies continue to be in the best interests of our stockholders.
As a result of our strategic repositioning, we are generally seeking to acquire healthcare-related assets that are:

- stabilized based on past twelve trailing months operations;
- operated by high-quality and experienced operators;
- of high-quality and currently producing income;
- acquired on a fee simple basis; and
- stabilized operations with a positive trend.

Among the most important criterion we expect to use in evaluating the markets in which we purchase properties are population and competitive product landscape that can support the facility.

The properties in which we invest may not meet all of these criteria and the relative importance that we assign to any one or more of these criteria may differ from asset to asset change as general economic and real estate market conditions evolve. We may also consider additional important criteria in the future.

Joint Ventures and Other Potential Investments

As we reposition ourselves into healthcare properties, we have the ability to invest in any type of real estate investment that we believe to be in the best interests of our stockholders, including other real estate funds or REITs, mortgage funds, mortgage loans and sale leasebacks. Furthermore, there are no restrictions on the number or size of properties we may purchase or on the amount that we may invest in a single property. Although we can invest in any type of real estate investment, our charter restricts certain types of investments. We do not intend to underwrite securities of other issuers or to engage in the purchase and sale of any types of investments other than real estate investments.

As of December 31, 2013, we owned six healthcare properties through a joint venture and 100% of five additional properties. We may acquire additional properties through joint venture investments in the future, including ventures with affiliates of our Advisor. See “Conflicts of Interest.” We anticipate acquiring properties through joint ventures in order to diversify our portfolio of properties in terms of geographic region, property type and tenant industry group, among other reasons. Joint ventures typically also allow us to acquire an interest in a property without requiring that we fund the entire purchase price. In addition, certain properties may be available to us only through joint ventures. In determining whether to recommend a particular joint venture, the Advisor will evaluate the structure of the joint venture, the real property that such joint venture owns or is being formed to own under the same criteria. These entities may employ debt financing consistent with our borrowing policies. See “Borrowing Policies” below. Our joint ventures may take the form of equity joint ventures with one or more large institutional partners. They may also include ventures with developers who contribute land, development services and expertise rather than cash.

We may enter into joint ventures with affiliates of our Advisor for the acquisition of properties, but only if the independent directors committee (by majority vote) approves the transaction as being fair and reasonable to us and on substantially the same terms and conditions as those received by the affiliated equity joint venturers. If such a joint venture also involves a third party that negotiated the terms of its participation on an arms-length basis, then our investment must be either on terms and conditions no worse than those received by the affiliate or on terms and conditions no worse than those received by a third-party equity joint venturer that negotiated the terms of its participation on an arms-length basis.

Leases and Tenant Improvements

Healthcare-related properties include a wide variety of lease structures. Our focus is on senior housing facilities leased to an operator on a net lease basis where the tenant pays or reimburses the owner for all or substantially all property operating expenses.

Borrowing Policies

As we transition into healthcare properties, we may acquire properties initially with temporary financing or permanent long-term debt financing with the objective of increasing income and increasing the amount of capital available to us so that we achieve greater property diversification.

We may incur indebtedness for working capital requirements, tenant improvements, capital improvements, and leasing commissions and to make distributions, including but not limited to those necessary in order to maintain our qualification as a REIT for federal income tax purposes. We will endeavor to borrow funds on an unsecured basis but we may secure indebtedness with some or all of our properties if a majority of our independent directors determine that it is in the best interests of us and our stockholders. We may also acquire properties encumbered with existing financing which cannot be immediately repaid.

We may invest in joint venture entities that borrow funds or issue senior equity securities to acquire properties, in which case our equity interest in the joint venture would be junior to the rights of the lender or preferred stockholders. In some cases, our Advisor may control the joint venture.

Our charter limits our borrowings to the equivalent of 75% of our cost, before deducting depreciation or other non-cash reserves, of all our assets unless any excess borrowing is approved by a majority of our independent directors and is disclosed to our stockholders in our next quarterly report with an explanation from our independent directors of the justification for the excess borrowing.

Competition

We compete with a considerable number of other real estate companies, most of which may have greater marketing and financial resources than we do. Principal factors of competition in our business are the quality of properties (including the design and condition of improvements), leasing terms (including rent and other charges and allowances for tenant improvements), attractiveness and convenience of location, the quality and breadth of tenant services provided and reputation as an owner and operator of quality properties in the relevant market. Our ability to compete also depends on, among other factors, trends in the national and local economies, financial condition and operating results of current and prospective tenants, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

We may hold interests in properties located in the same geographic locations as other entities managed by our Advisor or our Advisor’s affiliates. Our properties may face competition in these geographic regions from such other properties owned, operated or managed by other entities managed by our Advisor or our Advisor’s affiliates. Our Advisor or its affiliates have interests that may vary from those we may have in such geographic markets.

Government Regulations

Health Law Matters — Generally
The healthcare-providing tenants in our portfolio are subject to extensive federal, state, and local licensure, registration, certification, and inspection laws, regulations, and industry standards. Our tenants’ failure to comply with any of these, and other, laws could result in loss of accreditation; denial of reimbursement; imposition of fines; suspension, decertification, or exclusion from federal and state health care programs; loss of license; or closure of the facility.

Licensing and Certification
The primary regulations that affect seniors housing facilities with assisted living are state licensing and registration laws. In granting and renewing these licenses, the state regulatory agencies consider numerous factors relating to a property’s physical plant and operations, including, but not limited to, admission and discharge standards, staffing, and training. A decision to grant or renew a license is also affected by a property owner’s record with respect to patient and consumer rights, medication guidelines, and rules.

With respect to licensure, generally our skilled nursing facilities are required to be licensed and certified for participation in Medicare, Medicaid, and other federal health care programs. This generally requires license renewals and compliance surveys on an annual or bi-annual basis. The failure of our operators to maintain or renew any required license or regulatory approval as well as the failure of our operators to correct serious deficiencies identified in a compliance survey could require those operators to discontinue operations at a property. In addition, if a property is found to be out of compliance with Medicare, Medicaid, or other health care program conditions of participation, the property operator may be excluded from participating in those government health care programs. Any such occurrence may impair an operator's ability to meet their financial obligations to us. If we have to replace an excluded-property operator, our ability to replace the operator may be affected by federal and state laws, regulations, and applicable guidance governing changes in provider control. This may result in payment delays, an inability to find a replacement operator, a significant working capital commitment from us to a new operator or other difficulties.

Certain health care facilities are subject to a variety of licensure and certificate of need ("CON") laws and regulations. Where applicable, CON laws generally require, among other requirements, that a facility demonstrate the need for (1) constructing a new facility, (2) adding beds or expanding an existing facility, (3) investing in major capital equipment or adding new services, (4) changing the ownership or control of an existing licensed facility, or (5) terminating services that have been previously approved through the CON process. Certain state CON laws and regulations may restrict the ability of operators to add new properties or expand an existing facility's size or services. In addition, CON laws may constrain the ability of an operator to transfer responsibility for operating a particular facility to a new operator. If we have to replace a property operator who is excluded from participating in a federal or state health care program, our ability to replace the operator may be affected by a particular state's CON laws, regulations, and applicable guidance governing changes in provider control.

Reimbursement

As a part of the Omnibus Budget Reconciliation Act ("OBRA") of 1981, Congress established a waiver program enabling some states to offer Medicaid reimbursement to assisted living providers as an alternative to institutional long-term care services. The provisions of OBRA and the subsequent OBRA Acts of 1987 and 1990 permit states to seek a waiver from typical Medicaid requirements to develop cost-effective alternatives to long-term care, including Medicaid payments for assisted living and home health.

Skilled nursing facilities typically receive most of their revenues from the Medicare and Medicaid programs, with the balance representing reimbursement payments from private payors, including private insurers. Consequently, changes in federal or state reimbursement policies may also adversely affect an operator's ability to cover its expenses, including our rent or debt service. Skilled nursing facilities are subject to periodic pre- and post-payment reviews, and other audits by federal and state authorities. A review or audit of a property operator's claims could result in recoupments, denials, or delay of payments in the future, which could have a material adverse effect on the operator's ability to meet its financial obligations to us. Due to the significant judgments and estimates inherent in payor settlement accounting, no assurance can be given as to the adequacy of any reserves maintained by our property operators to cover potential adjustments to reimbursements, or to cover settlements made to payors. Recent attention on skilled nursing billing practices and payments or ongoing government pressure to reduce spending by government health care programs, could result in lower payments to skilled nursing facilities and, as a result, may impair an operator's ability to meet its financial obligations to us.

Skilled nursing facilities are reimbursed under the Medicare Skilled Nursing Facility Prospective Payment System ("SNF PPS"). There is a risk that some skilled nursing facilities' costs will exceed the fixed payments under the SNF PPS, and there is also a risk that payments under the SNF PPS may be set below the costs to provide certain items and services, which could result in immediate financial difficulties for skilled nursing facilities, and could cause operators to seek bankruptcy protection.

The reimbursement methodologies applied to health care facilities continue to evolve. Federal and state authorities have considered and may seek to implement new or modified reimbursement methodologies that may negatively impact health care property operations. The impact of any such changes, if implemented, may result in a material adverse effect on our skilled nursing property operations. No assurance can be given that current revenue sources or levels will be maintained. Accordingly, there can be no assurance that payments under a government health care program are currently, or will be in the future, sufficient to fully reimburse the property operators for their operating and capital expenses. As a result, an operator's ability to meet its financial obligations to us could be adversely impacted.

Finally, the Patient Protection and Affordable Care Act of 2010 ("PPACA") and the Health Care and Education Reconciliation Act of 2010, which amends the PPACA (collectively, the "Health Reform Laws") may have a significant impact on Medicare, Medicaid, other federal health care programs, and private insurers, which impact the reimbursement amounts received by skilled nursing facilities and other health care providers. The Health Reform Laws could have a substantial and material adverse effect on all parties directly or indirectly involved in the health care system.

Other Related Laws
Skilled nursing facilities (and seniors housing facilities that receive Medicaid payments) are subject to federal, state, and local laws, regulations, and applicable guidance that govern the operations and financial and other arrangements that may be entered into by health care providers. Certain of these laws prohibit direct or indirect payments of any kind for the purpose of inducing or encouraging the referral of patients for medical products or services reimbursable by government health care programs. Other laws require providers to furnish only medically necessary services and submit to the government valid and accurate statements for each service. Still, other laws require providers to comply with a variety of safety, health and other requirements relating to the condition of the licensed property and the quality of care provided. Sanctions for violations of these laws, regulations, and other applicable guidance may include, but are not limited to, criminal and/or civil penalties and fines, loss of licensure, immediate termination of government payments, and exclusion from any government health care program. In certain circumstances, violation of these rules (such as those prohibiting abusive and fraudulent behavior) with respect to one property may subject other facilities under common control or ownership to sanctions, including exclusion from participation in the Medicare and Medicaid programs, as well as other government health care programs. In the ordinary course of its business, a property operator is regularly subjected to inquiries, investigations, and audits by the federal and state agencies that oversee these laws and regulations.

Our properties may be affected by our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground and above-ground storage tanks, or activities of unrelated third parties. The presence of hazardous substances, or the failure to properly remediate these substances, may make it difficult or impossible to sell or rent such property.

We obtain satisfactory Phase I environmental assessments on each property we purchase. A Phase I assessment is an inspection and review of the property, its existing and prior uses, aerial maps and records of government agencies for the purpose of determining the likelihood of environmental contamination. A Phase I assessment includes only non-invasive testing. It is possible that all environmental liabilities were not identified in the Phase I assessments we obtained or that a prior owner, operator or current occupant has created an environmental condition which we do not know about. There can be no assurance that future law, ordinances or regulations will not impose material environmental liability on us or that the current environmental condition of our properties will not be affected by our tenants, or by the condition of land or operations in the vicinity of our properties such as the presence of underground and above-ground storage tanks or groundwater contamination.

Acquisition Activity

As of December 31, 2013, we owned eleven healthcare properties which were acquired from August 2012 to December 31, 2013. All of these properties are included in our accompanying consolidated financial statements and in the properties summary as provided under "Item 2. Properties" referenced below. All of our industrial properties have been sold as of December 31, 2013. We have acquired our healthcare properties using the proceeds of debt incurred upon acquisition of the property and the net proceeds from our industrial property dispositions.

Employees

We have no employees and our executive officers, with the exception of our Chief Financial Officer, are all employees of our Advisor's affiliates. Substantially all of our work is performed by employees of our Advisor's affiliates. Our Chief Financial Officer is contracted directly with the Company and reports to our audit committee. We are dependent on our Advisor for certain services that are essential to us, including the sale of certain joint venture equity offerings; the identification, evaluation, negotiation, purchase and disposition of properties; the management of the daily operations of our real estate portfolio; and other general and administrative responsibilities. In the event that these companies are unable to provide the respective services, we will be required to obtain such services from other sources.

Available Information

Information about us is available on our website (http://www.crefunds.com). We make available, free of charge, on our Internet website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with the SEC. These materials are also available at no cost in print to any person who requests it by contacting our Investor Services Department at 1920 Main Street, Suite 400, Irvine, California 92614; telephone (877) 805-3333. Our filings with the SEC are available to the public over the Internet at the SEC's website at http://www.sec.gov. You may read and copy any filed document at the SEC's public reference room in Washington, D.C. at 100 F Street, N.E., Room 1580 Washington, D.C. Please call the SEC at (800) SEC-0330 for further information about the public reference rooms.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below can adversely affect our business, operating results, prospects and financial condition. These risks and uncertainties could cause our actual results to differ materially from those presented in our forward-looking statements.

General

Any adverse changes in the financial health of our Advisor or its affiliates or our relationship with them could hinder our operating performance and the return on your investment. We may have difficulty finding a suitable replacement and/or finding a qualified successor advisor, and any successor advisor may not be as well suited to manage us. These potential changes could result in a significant disruption of our business and may adversely affect the value of your investment in us.

We are dependent on our Advisor to manage our operations and our portfolio of real estate assets. Our Advisor depends upon the fees and other compensation that it receives from us in connection with the purchase, financing, leasing and management and sale of our properties to conduct its operations. To date, the fees we pay to our Advisor have been inadequate to cover its operating expenses. Based in part on recent activities, we believe that our Advisor is suffering severe financial difficulties. Further, to cover its operational shortfalls, our Advisor has relied on cash raised in private securities offerings of its sole member. If our Advisor is unable to meet its obligations, we might be required to find alternative service providers, which could result in a significant disruption of our business and may adversely affect the value of your investment in us. In the event that the Company decides to find a replacement advisor, we may not be able to find a suitable replacement advisor and may need to make alternative arrangements, which may be more costly or less effective than our current arrangement. Also, as our Advisor struggles to meet its obligations, these distractions may adversely impact our operations and harm your investment (see Note 18 to the accompanying Consolidated Financial Statements).

We have paid, and may in the future, pay distributions from sources other than cash provided from operations which may reduce cash flow available for investments.

Until our investments in real estate generate operating cash flow sufficient to make distributions to stockholders, we may pay a substantial portion of our distributions from the proceeds of future offerings or from borrowings in anticipation of future cash flow. To the extent that we use offering proceeds or proceeds from property sales to fund distributions to stockholders, the amount of cash available for investment in properties will be reduced. Additionally, if we are unable to raise additional capital at acceptable terms, our ability to invest in real estate and to pay distributions will be negatively impacted. We have not paid any distributions since December 31, 2011 and may not pay any for the foreseeable future.

Our stockholders have limited control over changes in our policies and operations, which increases the uncertainty and risks our stockholders face.

Our board of directors determines our major policies, including our policies regarding investment, financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors has recently undertaken a process of evaluating strategic alternatives, concluding that a repositioning of our assets into healthcare properties will likely maximize value for our stockholders. As a result of this process, or otherwise, our board of directors may determine that it is in our best interest to amend or revise certain of our major policies. Our board of directors may amend or revise these policies without a vote of the stockholders. Under Maryland General Corporation Law and our charter, our stockholders have a right to vote only on limited matters. Our board of director’s broad discretion in setting policies and our stockholders’ inability to exert control over those policies increases the uncertainty and risks our stockholders face.

We may not be able to execute on our repositioning strategy.

In connection with the continued implementation of our repositioning strategy, we face a number of risks and uncertainties, including:

- Ability to raise additional debt and equity capital on favorable terms to us;
- Availability to acquire sufficient health care properties on favorable terms to us;
- Completion of sufficient due diligence in connection with the additional proposed healthcare investments and negotiation of favorable lease and/or operating arrangements with the operators of such facilities;

- Availability of financing on satisfactory terms and conditions to replace our maturing loan obligations and to partially fund new real estate investments;
- Regulatory environment uncertainty due to the phased implementation of the Patient Protection and Affordable Care Act and its impact upon healthcare facility operator reimbursement, including the impact of such regulations on reimbursement rates, or any other regulatory action, including on a state level, that serves to reduce reimbursement rates for services provided by our tenants; and
- Success of the operators of the facilities we may acquire as we are dependent on their performance.

Should the execution of the next phase of our repositioning strategy not be successful or take longer or be more expensive to execute than anticipated, then our results of operations will be harmed and our Advisor may not be able to reimburse us for any excess operating and organization costs and expenses incurred on our behalf and our organizational costs and to otherwise provide sponsor services to us. Also, any such failure or delays in implementation or disruption to our business will further delay or prevent the restoration of distributions to common stockholders and the stock repurchase program. If we are not successful with our repositioning strategy, we may be forced to pursue an alternative strategy including liquidating our real estate portfolio or merging with another company.

Our limited operating history as a healthcare REIT makes it difficult for you to evaluate us. In addition we have incurred losses in the past and may continue to incur losses.

We have a limited operating history as a healthcare REIT. We cannot assure our stockholders that we will be able to operate our business successfully or implement our operating policies and strategies. Our stockholders should not assume that our performance will be similar to the past performance of other real estate investment programs sponsored by affiliates of our Advisor. As a consequence, our past performance and the past performance of other real estate investment programs sponsored by affiliates of our Advisor may not be indicative of the performance we will achieve. We have eleven healthcare properties as of the date of this report. We have sold all of our industrial properties. Historically, we have generated limited income, cash flow, funds from operations or funds from which to make distributions to our stockholders. In addition, we have incurred substantial losses since our inception and we may continue to incur losses.

Because there is no public trading market for our stock, it will be difficult for stockholders to sell their stock. Further, we do not expect to have funds available for redemptions during 2014 and are uncertain when and on what terms we will be able to resume ordinary redemptions. If stockholders are able to sell their stock, they will likely sell it at a substantial discount.

There is no current public market for our stock and there is no assurance that a public market will ever develop for our stock. Our charter contains restrictions on the ownership and transfer of our stock, and these restrictions may inhibit our stockholders' ability to sell their stock. Our charter prevents any one person from owning more than 9.8% in number of shares or value, whichever is more restrictive, of the outstanding shares of any class or series of our stock unless exempted by our board of directors. Our charter also limits our stockholders' ability to transfer their stock to prospective stockholders unless (i) they meet suitability standards regarding income or net worth, and (ii) the transfer complies with minimum purchase requirements. Our stock repurchase program has been suspended since December 31, 2010. If and when redemptions resume under our stock repurchase program, it is limited in terms of the number of shares of stock which may be redeemed annually and may also be limited, suspended or terminated at any time. We have no obligations to purchase our stockholders' stock if redemption would violate restrictions on cash distributions under Maryland law.

We believe the value of our stock owned by our stockholders has declined substantially from the issue price. It may be difficult for our stockholders to sell their stock promptly or at all. If our stockholders are able to sell shares of stock, they may only be able to sell them at a substantial discount from the price they paid. This may be the result, in part, because the amount of funds available for investment was reduced by sales commissions, dealer manager fees, organization and offering expenses, and acquisition fees and expenses. As of December 31, 2013, our estimated per-share value of our common stock was $2.09 per share. Unless our aggregate investments increase in value to compensate for upfront fees and expenses and prior declines in value, it is unlikely that our stockholders will be able to sell their stock, whether pursuant to our stock repurchase program or otherwise, without incurring a substantial loss. We cannot assure our stockholders that their stock will ever appreciate in value to equal the price they paid for their stock. It is also likely that their stock would not be accepted as the primary collateral for a loan. Stockholders should consider their stock as an illiquid investment, and they must be prepared to hold their stock for an indefinite period of time.

Stockholders cannot currently, and may not in the future, be able to sell their stock under our stock repurchase program.

Effective December 31, 2010, our board of directors suspended redemptions under the stock repurchase program. Effective December 14, 2010, we suspended our distribution reinvestment plan. Our board of directors may amend our stock repurchase program to resume or suspend repurchases or amend other terms without stockholder approval. Our board is also free to terminate the program at any time upon 30 days written notice to our stockholders. In addition, the stock repurchase program includes numerous restrictions that would limit our stockholders' ability to sell stock.

We have limited liquidity and we may be required to pursue certain measures in order to maintain or enhance our liquidity.

Liquidity is essential to our business and our ability to operate and to fund our existing obligations. A primary source of liquidity for us has been the issuance of common stock in our public offerings. However, we terminated our follow-on public offering on November 23, 2010. As a result, we are dependent on external debt financing and joint venture opportunities to fund our ongoing operations. We may not find suitable joint venture partners willing to provide capital at terms acceptable us or at all. Our access to debt financing depends on the willingness of third parties to provide us with corporate- or asset-level debt. It also depends on conditions in the capital markets generally. Companies in the real estate industry have at times historically experienced limited availability of capital, and new capital sources may not be available on acceptable terms, if at all. We cannot be certain that sufficient funding will be available to us in the future on terms that are acceptable to us, if at all. If we cannot obtain sufficient funding on acceptable terms, or at all, we will not be able to operate and/or grow our business, which would likely have a negative impact on the value of our common stock and our ability to make distributions to our stockholders. In such an instance, a lack of sufficient liquidity would have a material adverse impact on our operations, cash flow, financial condition and our ability to continue as a going concern. We may be required to pursue certain measures in order to maintain or enhance our liquidity, including seeking the extension or replacement of our debt facilities, potentially selling assets at unfavorable prices and/or reducing our operating expenses. We cannot assure you that we will be successful in managing our liquidity.

The inability of our Advisor to retain or obtain key personnel and senior housing operators could have a material negative impact on the continuation of the implementation of our repositioning strategy, which could impair our ability to make distributions.

Our success depends to a significant degree upon the contributions of our Advisor. If key personnel were to cease their affiliation with our Advisor, our Advisor may be unable to find suitable replacements, and our operating results could suffer. We believe that our future success depends, in large part, upon our Advisor’s ability to hire and retain highly-skilled managerial, operational and marketing personnel. Competition for highly-skilled personnel is intense, and our Advisor and our senior housing operators may be unsuccessful in attracting and retaining such skilled personnel. If we lose or are unable to obtain the services of highly-skilled personnel and operators, our ability to implement our investment strategies could be delayed or hindered and the value of our stockholders’ investments in us may decline.

If we are unable to find or experience delays in finding suitable investments, funds available for distributions to our stockholders will be reduced.

Our ability to achieve our investment objectives and to make distributions depends upon the performance of our Advisor in the acquisition and operation of our investments. We may be delayed in making investments in properties due to delays in raising joint venture capital, negotiating or obtaining the necessary purchase documentation for properties, locating suitable investments or other factors. We cannot be sure that our Advisor will be successful in obtaining suitable investments on financially attractive terms or that our investment objectives will be achieved. We may also make other real estate investments such as investments in publicly traded REITs, mortgage funds and other entities which make real estate investments. Until we make real estate investments, we will hold cash proceeds from sales of assets and other sources in an interest-bearing account or invest the proceeds in short-term, investment-grade securities. We expect the rates of return on these short-term investments to be substantially less than the returns we make on real estate investments. If we are unable to invest available cash in properties or other real estate investments for an extended period of time, distributions to our stockholders may continue to be suspended and the value of our stock could be reduced.

We have not generated sufficient cash for distributions and have ceased distributions. Cash distributions to our stockholders may not resume.

If the rental revenues from the properties we own do not exceed our operational expenses, we may be unable to pay distributions to our stockholders. No distributions have been declared or made for periods after June 30, 2011. All expenses we incur in our operations, including payment of interest to finance property acquisitions, are deducted from cash funds generated by operations prior to computing the amount of cash available to be paid as distributions to our stockholders. Our directors will determine the amount and timing of distributions. Our directors will consider all relevant factors, including the amount of cash available for distribution, capital expenditure and reserve requirements and general operational requirements. We cannot determine with certainty how long it may take to generate sufficient available cash flow to support distributions to our stockholders. We may borrow funds, return capital or sell assets to make distributions. In the past, we have paid distributions from the proceeds of our offerings.

If we are unable to sell our shares in an offering, otherwise raise capital or resume the reinvestment of distributions under the distribution reinvestment plan, we will have less funds available to make distributions to our stockholders, which will continue until we generate operating cash flow sufficient to support distributions to stockholders. As a result, we may not resume cash distributions to stockholders. With limited prior operations, we cannot predict the amount of distributions our stockholders may receive, if any. We may be unable to resume cash distributions or increase distributions over time and may need to cease cash distributions again.

Because our distribution reinvestment plan is currently suspended, we will use a greater proportion of our cash flow from operations to meet our general cash requirements, which will reduce cash available for distributions.

Historically, we have used a portion of the proceeds from our distribution reinvestment plan to offset the cash required to fund distributions to our stockholders, which has left more cash flow from operations available for general corporate purposes, including capital expenditures on our real estate investments, tenant improvement costs and leasing costs related to our real estate investments; reserves required by financings of our real estate investments; and the repayment of debt. Because our distribution reinvestment plan was suspended on December 14, 2010 and currently remains suspended, we may have to use a greater proportion of our cash flow from operations to meet our general cash requirements, which would reduce cash available for distributions. As a consequence, we may not have sufficient cash available to declare distributions.

To the extent proceeds from our offerings have been used to pay fees to our Advisor, or to fund distributions, our investors have realized dilution and future investors, if any, may also realize a lower rate of return than investors who invested earlier in one of our offerings.

Our Advisor and its affiliates provide services for us in connection with, among other things, the selection and acquisition of our investments, the management and leasing of our properties, and the disposition of our assets. We pay them substantial upfront fees for some of these services, which reduce the amount of cash available for investment in real estate or distribution to you. In addition, we have used offering proceeds to fund distributions, and investors who did not receive those distributions have therefore experienced additional immediate dilution of their investment. Also, to the extent we incurred debt to fund distributions earlier in our public offerings, the amount of cash available for distributions in future periods will be decreased by the repayment of such debt.

The use of offering proceeds to pay fees to our Advisor and its affiliates or to fund distributions increases the risk that the amount available for distribution to stockholders upon a liquidation of our portfolio would be less than the purchase price of the shares in our offering. As of December 31, 2013, our estimated per-share value of our common stock was $2.09 per share.

A limit on the percentage of our securities a person may own may discourage a takeover or business combination, which could prevent our stockholders from realizing a premium price for their stock.

In order for us to qualify as a REIT, no more than 50% of our outstanding stock may be beneficially owned, directly or indirectly, by five or fewer individuals (including certain types of entities) at any time during the last half of each taxable year. To assure that we do not fail to qualify as a REIT under this test, our charter restricts direct or indirect ownership by one person or entity to no more than 9.8% in number of shares or value, whichever is more restrictive, of the outstanding shares of any class or series of our stock unless exempted by our board of directors. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to our stockholders.

Our charter permits our board of directors to issue stock with terms that may subordinate the rights of our common stockholders or discourage a third party from acquiring us in a manner that could result in a premium price to our stockholders.

Our board of directors may increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of any such stock. Our board of directors could authorize the issuance of preferred stock with terms and conditions that could have priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our common stock.

We may change our targeted investments without stockholder consent.

We have made adjustments to our target portfolio based on real estate market conditions and investment opportunities, and we may change our targeted investments and investment guidelines at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this filing. A change in our targeted investments or investment guidelines may increase our exposure to interest rate risk, default risk and real estate market fluctuations, all of which could adversely affect the value of our common stock and our ability to make distributions to our stockholders.

A stockholder's interest in us may be diluted if we issue additional stock.

Our stockholders do not have preemptive rights to any stock we issue in the future. Therefore, in the event that we (1) sell stock in the future, including stock issued pursuant to our distribution reinvestment plan, (2) sell securities that are convertible into stock, (3) issue stock in a private offering, (4) issue stock upon the exercise of the options granted to our independent directors, employees of our Advisor or others, or (5) issue stock to sellers of properties acquired by us in connection with an exchange of limited partnership interests in our Operating Partnership, investors purchasing stock in our offerings will experience dilution of their percentage ownership in us. Depending on the terms of such transactions, most notably the price per share, which may be less than the price paid per share in our offerings, and the value of our properties, investors in our offerings might also experience a dilution in the book value per share of their stock.

A stockholder's interest in us may be diluted if we acquire properties for units in our Operating Partnership.

Holders of units of our Operating Partnership will receive distributions per unit in the same amount as the distributions we pay per share to our stockholders and will generally have the right to exchange their units of our Operating Partnership for cash or shares of our stock (at our option). In the event we issue units in our Operating Partnership in exchange for properties, investors purchasing stock in our offerings will experience potential dilution in their percentage ownership interest in us. Depending on the terms of such transactions, most notably the price per unit, which may be less than the price paid per share in our offerings, the value of our properties and the value of the properties we acquire through the issuance of units of limited partnership interests in our Operating Partnership, investors in our offerings might also experience a dilution in the book value per share of their stock.

The payment of the subordinated performance fee due upon termination, and the purchase of interests in our Operating Partnership held by our Advisor and its affiliates as required in our Advisory Agreement, may discourage a takeover attempt that could have resulted in a premium price to our stockholders.

In the event of a merger in which we are not the surviving entity, and pursuant to which our Advisory Agreement is terminated, our Advisor and its affiliates may require that we pay the subordinated performance fee due upon termination, and that we purchase all or a portion of the Operating Partnership units they hold at any time thereafter for cash, or our stock, as determined by the seller. The subordinated performance fee due upon termination ranges from a low of 5% if the sum of the appraised value of our assets minus our liabilities on the date the Advisory Agreement is terminated plus total distributions (other than stock distributions) paid prior to termination of the Advisory Agreement exceeds the amount of invested capital plus annualized returns of 6%, to a high of 15% if the sum of the appraised value of our assets minus our liabilities plus all prior distributions (other than stock distributions) exceeds the amount of invested capital plus annualized returns of 10% or more. This deterrence may limit the opportunity for stockholders to receive a premium for their stock that might otherwise exist if an investor attempted to acquire us through a merger.

Although we are not currently afforded the protection of the Maryland General Corporation Law relating to business combinations, our board of directors could opt into these provisions of Maryland law in the future, which may discourage others from trying to acquire control of us and may prevent our stockholders from receiving a premium price for their stock in connection with a business combination.

Under Maryland law, "business combinations" between a Maryland corporation and certain interested stockholders or affiliates of interested stockholders are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. Also under Maryland law, control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer, by officers or by directors who are employees of the corporation are not entitled to vote on the matter. Should our board opt into these provisions of Maryland law, it may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. Similarly, provisions of the Maryland Unsolicited Takeover Statute could provide similar anti-takeover protection.

Our stockholders' and our rights to recover claims against our independent directors are limited, which could reduce our stockholders' and our recovery against our independent directors if they negligently cause us to incur losses.

Our charter provides that no independent director shall be liable to us or our stockholders for monetary damages and that we will generally indemnify them for losses unless they are grossly negligent or engage in willful misconduct. As a result, our stockholders and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce our stockholders' and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our independent directors (as well as by our other directors, officers, employees and agents) in some cases, which would decrease the cash otherwise available for distributions to our stockholders.

If we are unable to obtain funding for future capital needs, cash distributions to our stockholders could be reduced and the value of our investments could decline.

If we need additional capital in the future to improve or maintain our properties or for any other reason, we will have to obtain financing from other sources, such as cash flow from operations, borrowings, property sales, future equity offerings or from syndicated sales of existing investments. These sources of funding may not be available on attractive terms or at all. If we cannot procure additional funding for capital improvements, our investments may generate lower cash flows or decline in value, or both.

Our Advisor does not have as strong an economic incentive to avoid losses as do advisors who have made significant equity investments in the companies they sponsor.

Our Advisor and its affiliates have only invested $200,000 in our Operating Partnership. Without significant equity exposure for our Advisor, our investors may be at a greater risk of loss because our Advisor and its affiliates do not have as much to lose from a decrease in the value of our stock as do those sponsors who make more significant equity investments in the companies they sponsor.

If we do not successfully implement a long-term liquidity strategy, our stockholders may have to hold their investment for an indefinite period.

If our board of directors determines to pursue a liquidity transaction in the future, we would be under no obligation to conclude the process within a set time. The timing of the sale of assets will depend on real estate and financial markets, economic conditions in the areas in which properties are located, and federal income tax effects on stockholders, that may prevail in the future. We cannot guarantee that we will be able to liquidate all assets. After we adopt a plan of liquidation, we would remain in existence until all properties and assets are liquidated. If we do not pursue a liquidity event, or delay such an event due to market conditions, our stockholders' shares may continue to be illiquid and they may, for an indefinite period of time, be unable to convert their investment to cash easily and could suffer losses on their investment. If we were to pursue a liquidation currently, our stockholders would likely not receive the amount of their investment.

If we internalize our management functions, your interest in us could be diluted, and we could incur other significant costs associated with being self-managed.

As currently organized, we do not directly employ any employees. We may decide to bring our management functions in house rather than relying on our Advisor and, should we do so, may elect to negotiate to acquire our Advisor's assets and/or personnel. At this time, we cannot be sure of the form or amount of consideration, if any, or other terms relating to any such acquisition. Such consideration could take many forms, including cash payments, promissory notes and shares of our stock. The payment of such consideration could result in dilution of your interests as a stockholder and could reduce the net income per share and funds from operations per share attributable to your investment. In addition, we may incur costs defending against stockholder lawsuits initiated against us in response to our decision to internalize our management functions. Such lawsuits could result in awards of damages, payment of attorneys' fees and substantial litigation costs, which would reduce the amount of cash available for investments and stockholder distributions.

In addition, while we would no longer bear the costs of the various fees and expenses we expect to pay to our Advisor under the Advisory Agreement if we internalize or become self-managed, our direct expenses would include general and administrative costs, including legal, accounting and other expenses related to corporate governance and SEC reporting and compliance. We would also incur the compensation and benefits costs of our officers and other employees and consultants that we now expect will be paid by our Advisor or its affiliates. In addition, we may issue equity awards to officers, employees and consultants, which awards would decrease net income and funds from operations and may further dilute your investment. We cannot reasonably estimate the amount of fees to our Advisor we would save and the costs we would incur if we became self-managed. If the expenses we assume as a result of internalization/self-management are higher than the expenses we avoid paying to our Advisor, our net income per share and funds from operations per share would be lower as a result of internalization/self-management than it otherwise would have been, decreasing the amount of funds available to distribute to our stockholders and the value of our shares.

If we internalize/self-manage our management functions, we could have difficulty integrating these functions as a stand-alone entity. Certain personnel of our Advisor and its affiliates perform asset management and general and administrative functions, including accounting and financial reporting, for multiple entities. We could fail to properly identify the appropriate mix of personnel and capital needs to operate as a stand-alone entity. An inability to manage such a transition effectively could thus result in our incurring excess costs and/or suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. Such deficiencies could cause us to incur additional costs, and our management's attention could be diverted from effectively managing our portfolio of investments. Nothing in our charter prohibits us from entering into the transaction described above (see Note 18 to the accompanying Consolidated Financial Statements).

Risks Related to Conflicts of Interest

Our Advisor and its affiliates, including our officers, will face conflicts of interest caused by compensation arrangements with us and other Cornerstone-sponsored programs, which could result in actions that are not in the long-term best interests of our stockholders.

Our Advisor and its affiliates will receive substantial fees from us that are partially tied to the performance of our investments. These fees could influence our Advisor's advice to us, as well as the judgment of the affiliates of our Advisor who serve as our officers or directors. Among other matters, the compensation arrangements could affect their judgment with respect to:

- the continuation, renewal or enforcement of our agreements with the Advisor and its affiliates, including the Advisory Agreement;
- public offerings of equity by us, which would likely entitle the Advisor to increased acquisition and asset management fees;
- sales of properties and other investments (including, subject to the approval of our board of directors, sales to affiliates), which entitle the Advisor to disposition fees;
- acquisitions of properties and other investments, which entitle the Advisor to acquisition and asset management fees, and, in the case of acquisitions of investments from other Advisor-sponsored programs, might entitle affiliates of the Advisor to disposition fees and possible subordinated incentive fees in connection with its services for the seller;

- borrowings to acquire properties and other investments, which borrowings will increase the acquisition and asset management fees payable to the Advisor;
- whether and when we seek to list our common stock on a national securities exchange, which listing could entitle our Advisor to a success-based listing fee but could also adversely affect its sales efforts for other programs if the price at which our stock trades is lower than the price at which we offered stock to the public; and
- whether and when we seek to sell the company or its assets, which sale could entitle our Advisor to success-based fees but could also adversely affect its sales efforts for other programs if the sales price for the company or its assets resulted in proceeds less than the amount needed to preserve our stockholders' capital.

Considerations relating to Advisor compensation from other programs could result in decisions that are not in the best interests of our stockholders, which could hurt our ability to make distributions to our stockholders or result in a decline in the value of our stockholders' investments in us.

Our Advisor will face conflicts of interest relating to the purchase and leasing of properties, and such conflicts may not be resolved in our favor, which could limit our investment opportunities and impair our ability to make distributions and could reduce the value of our stockholders' investments in us.

We rely on our Advisor to identify suitable investment opportunities. We may be buying properties at the same time as other entities that are affiliated with or sponsored by our Advisor. Other programs sponsored by our Advisor or its affiliates also rely on our Advisor for investment opportunities. Many investment opportunities would be suitable for us as well as other programs. Our Advisor could direct attractive investment opportunities or tenants to other entities. Such events could result in our investing in properties that provide less attractive returns, thus reducing the value of our stock.

If we acquire properties from affiliates of our Advisor, the price may be higher than we would pay if the transaction was the result of arm's-length negotiations.

The prices we pay to affiliates of our Advisor for our properties will be equal to the prices paid by them, plus the costs incurred by them relating to the acquisition and financing of the properties or if the price to us is in excess of such cost, substantial justification for such excess will exist and such excess will be reasonable and consistent with current market conditions as determined by a majority of our independent directors. Substantial justification for a higher price could result from improvements to a property by the affiliate of our Advisor or increases in market value of the property during the period of time the property is owned by the affiliates of our Advisor as evidenced by an appraisal of the property. These prices will not be the subject of arm's-length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated in an arm's-length transaction. Even though we will use an independent third party appraiser to determine fair market value when acquiring properties from our Advisor and its affiliates, we may pay more for particular properties than we would have in an arm's-length transaction, which would reduce our cash available for investment in other properties or distribution to our stockholders.

We may purchase properties from persons with whom our Advisor or its affiliates have prior business relationships and our Advisor's interest in preserving its relationship with these persons could result in us paying a higher price for the properties than we would otherwise pay.

We may have the opportunity to purchase properties from third parties including affiliates of our independent directors who have prior business relationships with our Advisor or its affiliates. If we purchase properties from such third parties, our Advisor may experience a conflict between our interests and its interest in preserving any ongoing business relationship with these sellers.

Our Advisor will face conflicts of interest relating to joint ventures that we may form with affiliates of our Advisor, which conflicts could result in a disproportionate benefit to the other venture partners at our expense.

We may enter into joint venture agreements with third parties (including entities that are affiliated with our Advisor or our independent directors) for the acquisition or improvement of properties. Our Advisor may have conflicts of interest in determining which program should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals that are or may become inconsistent with our business interests or goals. In addition, our Advisor may face a conflict in structuring the terms of the relationship between our interests and the interest of the affiliated co-venturer and in managing the joint venture. Since our Advisor and its affiliates will control both the affiliated co-venturer and, to a certain extent, us, agreements and transactions between the co-venturers with respect to any such joint venture will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers. Co-venturers may thus benefit to our and our stockholders' detriment.

If the competing demands for the time of our Advisor, its affiliates and our officers result in them spending insufficient time on our business, we may miss investment opportunities or have less efficient operations which could reduce our profitability and result in lower distributions to stockholders.

We do not have any employees. We rely on the employees of our Advisor and its affiliates for the day-to-day operation of our business. We estimate that over the life of the company, our Advisor and its affiliates will dedicate, on average, less than half of their time to our operations. The amount of time that our Advisor and its affiliates spend on our business will vary from time to time. Our Advisor and its affiliates, including our officers, have interests in other programs and engage in other business activities. As a result, they will have conflicts of interest in allocating their time between us and other programs and activities in which they are involved. Because these persons have competing interests on their time and resources, they may have conflicts of interest in allocating their time between our business and these other activities. During times of intense activity in other programs and ventures, they may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. There is no assurance that our Advisor will devote adequate time to our business. If our Advisor suffers or is distracted by adverse financial or operational problems in connection with its operations unrelated to us, it may allocate less time and resources to our operations. If any of these things occur, the returns on our investments, our ability to make distributions to stockholders and the value of their investments in us may suffer (see Note 18 to the accompanying Consolidated Financial Statements).

General Risks Related to Investments in Real Estate and Real Estate-Related Investments

Economic and regulatory changes that impact the real estate market may reduce our net income and the value of our properties.

We are subject to risks related to the ownership and operation of real estate, including but not limited to:

- worsening general or local economic conditions and financial markets could cause lower demand, tenant defaults, and reduced occupancy and rental rates, some or all of which would cause an overall decrease in revenue from rents;
- increases in competing properties in an area which could require increased concessions to tenants and reduced rental rates;
- increases in interest rates or unavailability of permanent mortgage funds which may render the sale of a property difficult or unattractive; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

Some or all of the foregoing factors may affect our properties, which would reduce our net income, and our ability to make distributions to our stockholders.

Lease terminations could reduce our revenues from rents and our distributions to our stockholders and cause the value of our stockholders' investment in us to decline.

The success of our investments depends upon the occupancy levels, rental income and operating expenses of our properties and our Company. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as landlord and may incur costs in protecting our investment and re-leasing our property. In the event of tenant default or bankruptcy, or lease terminations or expiration, we may be unable to re-lease the property for the rent previously received. We may be unable to sell a property without incurring a loss. These events and others could cause the value of our stockholders' investment in us to decline.

Competition with third parties for properties and other investments may result in our paying higher prices for properties which could reduce our profitability and the return on your investment.

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, banks, insurance companies, other REITs, real estate limited partnerships, affiliates of the advisor and other entities engaged in real estate investment activities, many of which have greater resources than we do. Some of these investors may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investments may increase. Any such increase would result in increased demand for these assets and increased prices. If competitive pressures cause us to pay higher prices for properties, our ultimate profitability may be reduced and the value of our properties may not appreciate or may decrease significantly below the amount paid for such properties. At the time we elect to dispose of one or more of our properties, we will be in competition with sellers of similar properties to locate suitable purchasers, which may result in us receiving lower proceeds from the disposal or result in us not being able to dispose of the property due to the lack of an acceptable return. This may cause our stockholders to experience a lower return on their investment.

Newly developed and acquired properties may not produce the cash flow that we expect, which could adversely affect our overall financial performance.

We intend to acquire and develop real estate properties. In deciding whether to acquire or develop a particular property, we make assumptions regarding the expected future performance of that property. If our estimated return on investment proves to be inaccurate, it may fail to perform as we expected. With certain properties we may acquire, our business plan may contemplate repositioning or redeveloping that property with the goal of increasing its cash flow, value or both. Our estimate of the costs of repositioning or redeveloping an acquired property may prove to be inaccurate, which may result in our failure to meet our profitability goals. If one or more of these new properties do not perform as expected, our financial performance and our ability to make distributions may be adversely affected.

Costs incurred in complying with governmental laws and regulations may reduce our net income and the cash available for distributions.

Our Company and the properties we own are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Federal laws such as the National Environmental Policy Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Resource Conservation and Recovery Act, the Federal Water Pollution Control Act, the Federal Clean Air Act, the Toxic Substances Control Act, the Emergency Planning and Community Right to Know Act and the Hazard Communication Act govern such matters as wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials and the remediation of contamination associated with disposals. The properties we own and those we expect to acquire are subject to the Americans with Disabilities Act of 1990 which generally requires that certain types of buildings and services be made accessible and available to people with disabilities. These laws may require us to make modifications to our properties. Some of these laws and regulations impose joint and several liability on tenants, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. Compliance with these laws and any new or more stringent laws or regulations may require us to incur material expenditures. Future laws, ordinances or regulations may impose material environmental liability. In addition, there are various federal, state and local fire, health, life-safety and similar regulations with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. Our properties may be affected by our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground and above-ground storage tanks, or activities of unrelated third parties. The presence of hazardous substances, or the failure to properly remediate these substances, may make it difficult or impossible to sell or rent such property. Any material expenditures, fines, or damages we must pay will reduce our ability to make distributions and may reduce the value of our stockholders' investment in us.

Discovery of environmentally hazardous conditions may reduce our cash available for distribution to our stockholders.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous real property owner or operator may be liable for the cost to remove or remediate hazardous or toxic substances on, under or in such property. These costs could be substantial. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which a property may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants that may be impacted by such laws. Environmental laws provide for sanctions for noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials into the air. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could be substantial and reduce our ability to make distributions and the value of our stockholders' investments in us.

Any uninsured losses or high insurance premiums will reduce our net income and the amount of our cash distributions to stockholders.

Our Advisor will attempt to obtain adequate insurance to cover significant areas of risk to us as a company and to our properties. However, there are types of losses at the property level, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, which are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. We may not have adequate coverage for such losses. If any of our properties incurs a casualty loss that is not fully insured, the value of our assets will be reduced by any such uninsured loss. In addition, other than any working capital reserve or other reserves we may establish, we have no source of funding to repair or reconstruct any uninsured damaged property. Also, to the extent we must pay unexpectedly large amounts for insurance, we could suffer reduced earnings that would result in lower distributions to stockholders.

We may have difficulty selling real estate investments, and our ability to distribute all or a portion of the net proceeds from such sale to our stockholders may be limited.

Equity real estate investments are relatively illiquid. Therefore, we will have a limited ability to vary our portfolio in response to changes in economic or other conditions. We may also have a limited ability to sell assets in order to fund working capital and similar capital needs. When we sell any of our properties, we may not realize a gain on such sale. We may elect not to distribute any proceeds from the sale of properties to our stockholders; for example, we may use such proceeds to:

- purchase additional properties,;
- repay debt, if any;
- buy out interests of any co-venturers or other partners in any joint venture in which we are a party;
- create working capital reserves; or
- make repairs, maintenance, tenant improvements or other capital improvements or expenditures to our remaining properties.

Our ability to sell our properties may also be limited by our need to avoid a 100% penalty tax that is imposed on gain recognized by a REIT from the sale of property characterized as dealer property. In order to ensure that we avoid such characterization, we may be required to hold our properties for a minimum period of time, generally two years, and comply with certain other requirements in the Internal Revenue Code.

Real estate market conditions at the time we decide to dispose of a property may be unfavorable which could reduce the price we receive for a property and lower the return on our stockholders' investment in us.

We intend to hold the properties in which we invest until we determine that selling or otherwise disposing of properties would help us to achieve our investment objectives. General economic conditions, availability of financing, interest rates and other factors, including supply and demand, all of which are beyond our control, affect the real estate market. We may be unable to sell a property for the price, on the terms, or within the time frame we want. Accordingly, the gain or loss on our stockholders' investment in us could be affected by fluctuating market conditions.

As part of otherwise attractive portfolios of properties, we may acquire some properties with existing lock-out provisions which may inhibit us from selling a property, or may require us to maintain specified debt levels for a period of years on some properties.

Loan provisions could materially restrict us from selling or otherwise disposing of or refinancing properties. These provisions would affect our ability to turn our investments into cash and thus affect cash available for distributions to our stockholders. Loan provisions may prohibit us from reducing the outstanding indebtedness with respect to properties, refinancing such indebtedness on a non-recourse basis at maturity, or increasing the amount of indebtedness with respect to such properties.

Loan provisions could impair our ability to take actions that would otherwise be in the best interests of our stockholders, and therefore, may have an adverse impact on the value of our stock, relative to the value that would result if the loan provisions did not exist. In particular, loan provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders.

Our debt agreements typically contain provisions charging us prepayment penalties for certain periods of time and in certain circumstances which may make it cost prohibitive to prepay the principal balances of our loans prior to the expiration of any lock-out periods.

If we sell properties by providing financing to purchasers of our properties, distribution of net sales proceeds to our stockholders would be delayed and defaults by the purchasers could reduce our cash available for distribution to stockholders.

If we provide financing to purchasers, we will bear the risk that the purchaser may default. Purchaser defaults could reduce our cash distributions to our stockholders. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of or completion of foreclosure proceedings.

Actions of our joint venture partners could subject us to liabilities in excess of those contemplated or prevent us from taking actions that are in the best interests of our stockholders which could result in lower investment returns to our stockholders.

We have and are likely to continue to enter into joint ventures with affiliates and other third parties to acquire or improve properties. We may also purchase properties in partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present when acquiring real estate directly, including, for example:

- joint venturers may share certain approval rights over major decisions;
- that such co-venturer, co-owner or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint venture or the timing of termination or liquidation of the joint venture;
- the possibility that our co-venturer, co-owner or partner in an investment might become insolvent or bankrupt;
- the possibility that we may incur liabilities as a result of an action taken by our co-venturer, co-owner or partner;
- that such co-venturer, co-owner or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT;
- disputes between us and our joint venturers may result in litigation or arbitration that would increase our expenses and prevent its officers and directors from focusing their time and effort on our business and result in subjecting the properties owned by the applicable joint venture to additional risk; or
- that under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached which might have a negative influence on the joint venture.

These events might subject us to liabilities in excess of those contemplated and thus reduce our stockholders' investment returns. If we have a right of first refusal or buy/sell right to buy out a co-venturer, co-owner or partner, we may be unable to finance such a buy-out if it becomes exercisable or we may be required to purchase such interest at a time when it would not otherwise be in our best interest to do so. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to elect to purchase an interest of a co-venturer subject to the buy/sell right, in which case we may be forced to sell our interest as the result of the exercise of such right when we would otherwise prefer to keep our interest. Finally, we may not be able to sell our interest in a joint venture if we desire to exit the venture.

If we make or invest in mortgage loans, our mortgage loans may be affected by unfavorable real estate market conditions, including interest rate fluctuations, which could decrease the value of those loans and the return on our stockholders' investments in us.

If we make or invest in mortgage loans, we will be at risk of defaults by the borrowers on those mortgage loans as well as interest rate risks. To the extent we incur delays in liquidating such defaulted mortgage loans; we may not be able to obtain sufficient proceeds to repay all amounts due to us under the mortgage loan. Further, we will not know whether the values of the properties securing the mortgage loans will remain at the levels existing on the dates of origination of those mortgage loans. If the values of the underlying properties fall, our risk will increase because of the lower value of the security associated with such loans. In addition, interest rate fluctuations could reduce our returns as compared to market interest rates and reduce the value of the mortgage loans in the event we sell them.

Our stockholders' investment return may be reduced if we are required to register as an investment company under the Investment Company Act; if we or our subsidiaries become an unregistered investment company, we could not continue our business.

Neither we nor any of our subsidiaries intend to register as investment companies under the Investment Company Act. If we or our subsidiaries were obligated to register as investment companies, we would have to comply with a variety of substantive requirements under the Investment Company Act that impose, among other things:

- limitations on capital structure;
- restrictions on specified investments;
- prohibitions on transactions with affiliates; and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

Under the relevant provisions of Section 3(a)(1) of the Investment Company Act, an investment company is any issuer that:

- is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities (the "primarily engaged test"); or
- is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" having a value exceeding 40% of the value of such issuer's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis (the "40% test"). "Investment securities" excludes U.S. government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) (relating to private investment companies).

Depending on the nature of our portfolio, we believe that we and our Operating Partnership may be able to satisfy both tests above. With respect to the 40% test, we expect that most of the entities through which we and our Operating Partnership own our assets will be majority-owned subsidiaries that are not themselves investment companies and are not relying on the exceptions from the definition of investment company under Section 3(c)(1) or Section 3(c)(7).

With respect to the primarily engaged test, we and our Operating Partnership are holding companies and do not intend to invest or trade in securities ourselves. Rather, through the majority-owned subsidiaries of our Operating Partnership, we and our Operating Partnership will be primarily engaged in the non-investment company businesses of these subsidiaries.

We expect that most of the subsidiaries of our Operating Partnership will be able to rely on Section 3(c)(5)(C) of the Investment Company Act for an exception from the definition of an investment company. (Any other subsidiaries of our Operating Partnership should be able to rely on the exceptions for private investment companies pursuant to Section 3(c)(1) and Section 3(c)(7) of the Investment Company Act.) As reflected in no-action letters, the SEC staff's position on Section 3(c)(5)(C) generally requires that an issuer maintain at least 55% of its assets in “mortgages and other liens on and interests in real estate,” or qualifying assets; at least 80% of its assets in qualifying assets plus real estate-related assets; and no more than 20% of the value of its assets in other than qualifying assets and real estate-related assets, which we refer to as miscellaneous assets. To constitute a qualifying asset under this 55% requirement, a real estate interest must meet various criteria based on no-action letters.

If, however, the value of the subsidiaries of our Operating Partnership that must rely on Section 3(c)(1) or Section 3(c)(7) is greater than 40% of the value of the assets of our Operating Partnership, then we and our Operating Partnership may seek to rely on the exception from registration under Section 3(c)(6) if we and our Operating Partnership are “primarily engaged,” through majority-owned subsidiaries, in the business of purchasing or otherwise acquiring mortgages and other interests in real estate. The SEC staff has issued little interpretive guidance with respect to Section 3(c)(6); however, it is our view that we and our Operating Partnership may rely on Section 3(c)(6) if 55% of the assets of our Operating Partnership consist of, and at least 55% of the income of our Operating Partnership is derived from, majority-owned subsidiaries that rely on Section 3(c)(5)(C).

To maintain compliance with the Investment Company Act, our subsidiaries may be unable to sell assets we would otherwise want them to sell and may need to sell assets we would otherwise wish them to retain. In addition, our subsidiaries may have to acquire additional assets that they might not otherwise have acquired or may have to forego opportunities to make investments that we would otherwise want them to make and would be important to our investment strategy. Moreover, the SEC may issue interpretations with respect to various types of assets that are contrary to our views and current SEC staff interpretations are subject to change, which increases the risk of non-compliance and the risk that we may be forced to make adverse changes to our portfolio. If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement and a court could appoint a receiver to take control of us and liquidate our business.

Rapid changes in the values of our assets may make it more difficult for us to maintain our qualification as a REIT or our exception from the definition of an investment company under the Investment Company Act.

If the market value or income potential of our qualifying real estate assets changes as compared to the market value or income potential of our non-qualifying assets, or if the market value or income potential of our assets that are considered “real estate-related assets” under the Investment Company Act or REIT qualification tests changes as compared to the market value or income potential of our assets that are not considered “real estate-related assets” under the Investment Company Act or REIT qualification tests, whether as a result of increased interest rates, prepayment rates or other factors, we may need to modify our investment portfolio in order to maintain our REIT qualification or exception from the definition of an investment company. If the decline in asset values or income occurs quickly, this may be especially difficult, if not impossible, to accomplish. This difficulty may be exacerbated by the illiquid nature of many of the assets that we may own. We may have to make investment decisions that we otherwise would not make absent REIT and Investment Company Act considerations.

Risks Related to Investments in Healthcare-Related Real Estate

Failure to succeed in the healthcare sector may have adverse consequences on our performance.

Other than our President and certain of our Advisor’s acquisitions and asset management personnel, we do not have experience in owning or operating healthcare properties. The experience of the management of our Advisor in other sectors, such as the multi-tenant industrial sector, does not ensure that we will be able to operate successfully in the healthcare sector. Our success in the healthcare sector will be dependent, in part, upon our ability to evaluate local healthcare sector conditions, identify appropriate acquisition opportunities, and find qualified tenants or, where properties are acquired through a taxable REIT subsidiary, to engage and retain qualified independent managers to operate these properties. In addition, due to our inexperience in acquiring healthcare properties, we may abandon opportunities to enter a local market or acquire a property that we have begun to explore for any reason and may, as a result, fail to recover expenses already incurred. Furthermore, we will be competing with many other entities engaged in real estate investment activities for acquisitions of healthcare properties, including healthcare REITs, national, regional and local operators, acquirers and developers. The competition for healthcare properties may significantly increase the price we must pay for properties we seek to acquire and our competitors may succeed in acquiring those properties themselves. Our potential acquisition targets may find our competitors to be more attractive because they may have greater resources and/or a lower cost of capital, may be willing to pay more for the properties or may have a more compatible operating philosophy. If we are unable to succeed in the healthcare sector as a result of any of the factors described above, our business, financial condition and results of operations and our ability to make distributions to our stockholders may be materially and adversely affected.

Adverse trends in the healthcare service industry may negatively affect lease revenues from healthcare-related properties that we may acquire and the values of those investments.

The healthcare service industry may be affected by the following:

- trends in the method of delivery of healthcare services;
- competition among healthcare providers;
- lower increases or decreases in reimbursement rates from government and commercial payors, high uncompensated care expense, investment losses and limited admissions growth pressuring operating profit margins for healthcare providers;
- availability of capital;
- liability insurance expense;
- health reform initiatives to address healthcare costs through expanded pay-for-performance criteria, value-based purchasing programs, bundled provider payments, accountable care organizations, state health insurance exchanges, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions;
- regulatory environment uncertainty due to the phased implementation of the Patient Protection and Affordable Care Act (commonly called "Obamacare") and its impact upon healthcare facility operator reimbursement, including the impact of Obamacare on reimbursement rates;
- Congressional efforts to reform the Medicare physician fee-for-service formula that dictates annual updates in payment rates for physician services, including significant reductions in the sustainable growth rate, whether through a short-term fix or a more long-term solution;
- scrutiny and formal investigations by federal and state authorities;
- prohibitions on additional types of contractual relationships between physicians and the healthcare facilities and providers to which they refer, and related information-collection activities;
- efforts to increase transparency with respect to pricing and financial relationships among healthcare providers and drug/device manufacturers;
- increased regulation to limit medical errors and conditions acquired inside health facilities and improve patient safety; and
- heightened health information technology standards for healthcare providers.

These changes, among others, can adversely affect the economic performance of some or all of the lessees and operators of healthcare properties that we may acquire and, in turn, negatively affect the lease revenues and the value of our property investments.

Our healthcare properties derive a substantial portion of their income from third-party payors.

Many of the lessees of skilled nursing facilities derive a substantial portion of their net operating revenues from third-party payors, including the Medicare and Medicaid programs. These programs are highly regulated by federal, state and local laws, rules and regulations and are subject to frequent and substantial change. There are no assurances that payments from governmental and other third-party payors will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement under these programs. Efforts by such third-party payors to reduce healthcare costs have intensified in recent years and will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our potential tenants. In addition, the failure of any of our potential tenants to comply with various laws and regulations could jeopardize their ability to continue participating in Medicare, Medicaid and other government-sponsored payment programs. The healthcare industry continues to face various challenges, including increased government and private payor pressure on healthcare providers to control or reduce costs. The financial impact on tenants of healthcare properties that we may acquire could restrict their ability to make rent payments to us, which would have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Lessees of healthcare properties that we may acquire may be affected by the financial deterioration, insolvency and/or bankruptcy of other significant operators in the healthcare industry.

Certain companies in the healthcare industry, including some key senior housing operators, are experiencing considerable financial, legal and/or regulatory difficulties which have resulted or may result in financial deterioration and, in some cases, insolvency and/or bankruptcy. The adverse effects on these companies could have a significant impact on the industry as a whole, including but not limited to negative public perception by investors, lenders and consumers. As a result, lessees of healthcare facilities that we may acquire could experience the damaging financial effects of a weakened industry sector driven by negative headlines, ultimately making them unable to meet their obligations to us, and our business could be adversely affected.

The operator of our Friendswood, Texas facility has experienced financial difficulty. We are currently working to install a replacement operator at the facility. If we cannot find suitable replacement operators for our facilities as needed, our financial results will be negatively impacted.

Risk factors related to our operators' revenues and expenses

Our operators' revenues are primarily driven by occupancy, private pay rates, and Medicare and Medicaid reimbursement, if applicable. Expenses for these facilities are primarily driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Revenues from government reimbursement have, and may continue to, come under pressure due to reimbursement cuts and state budget shortfalls. Operating costs continue to increase for our operators. To the extent that any decrease in revenues and/or any increase in operating expenses result in a property not generating enough cash to make payments to us, our revenues may be reduced and the credit of our operator and the value of other collateral would have to be relied upon. To the extent the value of such property is reduced, we may need to record an impairment for such asset. Furthermore, if we determine to dispose of an underperforming property, such sale may result in a loss. Any such impairment or loss on sale would negatively affect our financial results.

Future economic weakness may have an adverse effect on our operators and tenants, including their ability to access credit or maintain occupancy and/or private pay rates. If the operations, cash flows or financial condition of our operators are materially adversely impacted by economic or other conditions, our revenue and operations may be adversely affected. Increased competition may affect our operators' ability to meet their obligations to us. The operators of our properties compete on a local and regional basis with operators of properties and other health care providers that provide comparable services. We cannot be certain that the operators of all of our facilities will be able to achieve and maintain occupancy and rate levels that will enable them to meet all of their obligations to us. Our operators are expected to encounter increased competition in the future that could limit their ability to attract residents or expand their businesses.

Transfers of health care facilities may require regulatory approvals and these facilities may not have efficient alternative uses

Transfers of health care facilities to successor operators frequently are subject to regulatory approvals or notifications, including, but not limited to, change of ownership approvals under certificate of need ("CON") or determination of need laws, state licensure laws and Medicare and Medicaid provider arrangements, that are not required for transfers of other types of real estate. The replacement of a health care facility operator could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. Alternatively, given the specialized nature of our facilities, we may be required to spend substantial time and funds to adapt these properties to other uses. If we are unable to timely transfer properties to successor operators or find efficient alternative uses, our revenue and operations may be adversely affected.

Risk factors related to government regulations

Some of our operators’ businesses are affected by government reimbursement. To the extent that an operator/tenant receives a significant portion of its revenues from government payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, court decisions, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries or carriers, government funding restrictions (at a program level or specific to certain facilities) and interruption or delays in payments due to any ongoing government investigation amid audits at such property. In recent years, government payors have frozen or reduced payments to health care providers due to budgetary pressures. Health care reimbursement will likely continue to be of paramount importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or effect any future legislative reforms may have on the financial condition of our operators and properties. There can be no assurance that adequate reimbursement levels will be available for services provided by any property operator, whether the property receives reimbursement from Medicare, Medicaid or private payors. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on an obligor's liquidity, financial condition and results of operations, which could adversely affect the ability of an obligor to meet its obligations to us.

Our operators and tenants generally are subject to varying levels of federal, state, local, and industry-regulated licensure, certification and inspection laws, regulation and standards. Our operators' or tenants' failure to comply with any of these laws, regulations, or standards could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension, decertification or exclusion from federal and state health care programs, loss of license or closure of the facility. Such actions may have an effect on our operators' or tenants' ability to make lease payments to us and, therefore, adversely impact us.

Many of our properties may require a license, registration, and/or CON to operate. Failure to obtain a license, registration, or CON, or loss of a required license, registration, or CON would prevent a facility from operating in the manner intended by the operators or tenants. These events could materially adversely affect our operators' or tenants' ability to make rent payments to us. State and local laws also may regulate the expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction or renovation of health care facilities, by requiring a CON or other similar approval from a state agency.

The Patient Protection and Affordable Care Act of 2010, as modified by the Health Care and Education Reconciliation Act of 2010 (collectively, the "Health Care Reform Laws") provide individual states with an increased federal medical assistance percentage under certain conditions. On June 28, 2012, the United States Supreme Court upheld the individual mandate of the Health Reform Laws but partially invalidated the expansion of Medicaid. The ruling on Medicaid expansion will allow states not to participate in the expansion-and to forego funding for the Medicaid expansion-without losing their existing Medicaid funding. Given that the federal government substantially funds the Medicaid expansion, it is unclear whether any state will pursue this option, although at least some appear to be considering this option at this time. The participation by states in the Medicaid expansion could have the dual effect of increasing our tenants' revenues through new patients while further straining state budgets. While the federal government will pay for approximately 100% of those additional costs from 2014 to 2016, states will be expected to begin paying for part of those additional costs in 2017. With increasingly strained budgets, it is unclear how states will pay their share of these additional Medicaid costs and what other health care reimbursements could be reduced as a result. A significant reduction in other health care related spending by states to pay for increased Medicaid costs could affect our tenants' revenue streams.

More generally, and because of the dynamic nature of the legislative and regulatory environment for health care products and services, and in light of existing federal deficit and budgetary concerns, we cannot predict the impact that broad-based, far-reaching legislative or regulatory changes could have on the US economy, our business or that of our tenants.

Risk factors related to liability claims and insurance costs

In recent years, skilled nursing and senior housing operators have experienced substantial increases in both the number and size of patient care liability claims. As a result, general and professional liability insurance costs have increased in some markets. General and professional liability insurance coverage may be restricted or very costly, which may adversely affect the property operators' future operations, cash flows and financial condition, and may have a material adverse effect on the property operators' ability to meet their lease obligations to us.

Risk factors related to acquisitions

We are exposed to the risk that some of our acquisitions may not prove to be successful. We could encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and acquired properties might require significant management attention that would otherwise be devoted to our ongoing business. If we agree to provide construction funding to an operator/tenant and the project is not completed, we may need to take steps to ensure completion of' the project. Such expenditures may negatively affect our results of operations. Furthermore, there can be no assurance that our anticipated acquisitions and investments, the completion of which is subject to various conditions, will be consummated in accordance with anticipated timing, on anticipated terms, or at all.

Risk factors related to joint ventures

We have entered into, and may continue in the future to enter into, partnerships or joint ventures with other persons or entities. Joint venture investments involve risks that may not be present with other methods of ownership, including the possibility that our partner might become insolvent, refuse to make capital contributions when due or otherwise fail to meet its obligations, which may result in certain liabilities to us for guarantees and other commitments; that our partner might at any time have economic or other business interests or goals that are or become inconsistent with our interests or goals; that we could become engaged in a dispute with our partner, which could require us to expend additional resources to resolve such disputes and could have an adverse impact on the operations and profitability of the joint venture; and that our partner may be in a position to take action or withhold consent contrary to our instructions or requests. In addition, our ability to transfer our interest in a joint venture to a third party may be restricted. In some instances, we and/or our partner may have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction. Our ability to acquire our partner's interest may be limited if we do not have sufficient cash, available borrowing capacity or other capital resources. In such event, we may be forced to sell our interest in the joint venture when we would otherwise prefer to retain it. Joint ventures may require us to share decision-making authority with our partners, which could limit our ability to control the properties in the joint ventures. Even when we have a controlling interest, certain major decisions may require partner approval, such as the sale, acquisition or financing of a property.

Our stockholders have limited control over changes in our policies and operations, which increases the uncertainty and risks our stockholders face.

Our Board of Directors determines our major policies, including our policies regarding investment, financing, growth, debt capitalization, REIT qualification and distributions. Our Board of Directors continually evaluates alternatives to maximize value for our stockholders. As a result of this process, or otherwise, our Board of Directors may determine that it is in the best interest of the company to change, amend or revise certain of our major policies. Our Board of Directors may amend or revise these policies without a vote of the stockholders. Under Maryland General Corporation Law and our charter, our stockholders have a right to vote only on certain limited matters. Our board’s broad discretion in setting policies and directing our Advisor and our stockholders’ inability to exert control over those policies increases the uncertainty and risks our stockholders face.

Risks Associated with Debt Financing

We expect to continue to use temporary acquisition financing to acquire properties and otherwise incur other indebtedness, including long-term financing, which will increase our expenses and could subject us to the risk of losing properties in foreclosure if our cash flow is insufficient to make loan payments.

We have used temporary acquisition financing to acquire our healthcare properties. This will enable us to acquire properties before we have raised offering proceeds for the entire purchase price.

With the objective of increasing income, the board of directors may consider future acquisitions featuring long-term debt financing to increase the amount of capital available to us and to achieve greater property diversification. We may also acquire properties encumbered with existing financing which cannot be immediately repaid. We may also invest in joint venture entities that borrow funds or issue senior equity securities to acquire properties, in which case our equity interest in the joint venture would be junior to the rights of the lender or preferred stockholders. Our charter limits our borrowings to the equivalent of 75% of our cost, before deducting depreciation or other non-cash reserves, of all our assets unless any excess borrowing is approved by a majority of our independent directors and is disclosed to our stockholders in our next quarterly report with an explanation from our independent directors of the justification for the excess borrowing. We may borrow funds for operations, tenant improvements, capital improvements or other working capital needs. We may also borrow funds to make distributions, including but not limited to funds to satisfy the REIT tax qualification requirement that we distribute at least 90% of our annual REIT taxable income to our stockholders. We may also borrow, if we otherwise deem it necessary or advisable, to ensure that we maintain our qualification as a REIT for federal income tax purposes. To the extent we borrow funds, we may raise additional equity capital or sell properties to pay such debt.

If there is a shortfall between the cash flow from a property and the cash flow needed to service acquisition financing on that property, then the amount available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt to the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, a default on a single property could affect multiple properties. If any of our properties are foreclosed upon due to a default, the value of our stockholders’ investments in us will be reduced.

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

When providing financing, a lender may impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. Loan documents we have entered into contain covenants that limit our ability to further mortgage the property, discontinue insurance coverage, or replace our Advisor. These or other limitations may limit our flexibility and prevent us from achieving our operating plans.

High levels of debt or increases in interest rates could increase the amount of our loan payments, reduce the cash available for distribution to stockholders and subject us to the risk of losing properties in foreclosure if our cash flow is insufficient to make loan payments.

Our policies do not limit us from incurring debt. High debt levels would cause us to incur higher interest charges, would result in higher debt service payments, and could be accompanied by restrictive covenants. Interest we pay could reduce cash available for distribution to stockholders. Additionally, variable rate debt could result in increases in interest rates which would increase our interest costs, which would reduce our cash flows and our ability to make distributions to our stockholders. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments and could result in a loss.

High mortgage rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our cash flows from operations and the amount of cash distributions we can make

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the debt becomes due or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our income could be reduced. We may be unable to refinance properties. If any of these events occurs, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to you and may hinder our ability to raise capital by issuing more stock or borrowing more money.

Federal Income Tax Risks

Failure to qualify as a REIT would subject us to federal income tax, which would reduce the cash available for distribution to you.

We expect to operate in a manner that will allow us to continue to qualify as a REIT for federal income tax purposes. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis. While we intend to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the tax treatment of certain investments we may make, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year. If we fail to qualify as a REIT in any calendar year and we do not qualify for certain statutory relief provisions, we would be required to pay federal income tax on our taxable income. We might need to borrow money or sell assets to pay that tax. Our payment of income tax would decrease the amount of our income available for distribution to you. Furthermore, if we fail to maintain our qualification as a REIT and we do not qualify for certain statutory relief provisions, we no longer would be required to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT were excused under federal tax laws, we would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to our stockholders.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property. For example:

- In order to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends-paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.
- If we elect to treat property that we acquire in connection with a foreclosure of a mortgage loan or certain leasehold terminations as “foreclosure property,” we may avoid the 100% tax on gain from a resale of that property, but the income from the sale or operation of that property may be subject to corporate income tax at the highest applicable rate.
- If we sell an asset, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% “prohibited transaction” tax unless such sale were made by one of our taxable REIT subsidiaries.

We intend to make distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code.

To maintain our REIT status, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and reduce the overall return to our stockholders.

To qualify as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of our stockholders' investments in us.

If we borrow money to meet the REIT minimum distribution requirement or for other working capital needs, our expenses will increase, our net income will be reduced by the amount of interest we pay on the money we borrow and we will be obligated to repay the money we borrow from future earnings or by selling assets, which will decrease future distributions to stockholders.

To qualify as a REIT, we generally must distribute annually to our stockholders a minimum of 90% of our taxable income, excluding capital gains. We will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our REIT taxable income each year. Additionally, we will be subject to a 4% nondeductible excise tax on any amount by which distributions paid (or deemed paid) by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from previous years. Payments we make to redeem our shares generally are not taken into account for purposes of these distribution requirements. If we do not have sufficient cash to make distributions necessary to preserve our REIT status for any year or to avoid taxation, we may be forced to borrow funds or sell assets even if the market conditions at that time are not favorable for these borrowings or sales. We may decide to borrow funds in order to meet the REIT minimum distribution requirements even if our management believes that the then prevailing market conditions generally are not favorable for such borrowings or that such borrowings would not be advisable in the absence of such tax considerations. Distributions made in excess of our net income will generally constitute a return of capital to stockholders.

If we were considered to actually or constructively pay a "preferential dividend" to certain of our stockholders, our status as a REIT could be adversely affected.

In order to qualify as a REIT, we must distribute to our stockholders at least 90% of our annual REIT taxable income (excluding net capital gain), determined without regard to the deduction for dividends paid. In order for distributions to be counted as satisfying the annual distribution requirements for REITs, and to provide us with a REIT-level tax deduction, the distribution must not be "preferential dividends." A dividend is not a preferential dividend if the distribution is pro rata among all outstanding shares of stock within a particular class, and in accordance with the preferences among different classes of stock as set forth in our organizational documents. There is no de-minimus exception with respect to preferential dividends; therefore, if the IRS were to take the position that we paid a preferential dividend, we may be deemed to have failed the 90% distribution test, and our status as a REIT could be terminated for the year in which such determination is made if we were unable to cure such failure.

If our Operating Partnership is classified as a "publicly-traded partnership" under the Internal Revenue Code, it could be subjected to tax on its income and the amount of potential distributions we make to our stockholders will be less.

We structured the Operating Partnership so that it would be classified as a partnership for federal income tax purposes. In this regard, the Internal Revenue Code generally classifies "publicly traded partnerships" (as defined in Section 7704 of the Internal Revenue Code) as associations taxable as corporations (rather than as partnerships), unless substantially all of their taxable income consists of specified types of passive income. In order to minimize the risk that the Internal Revenue Code would classify the Operating Partnership as a "publicly traded partnership" for tax purposes, we placed certain restrictions on the transfer and/or redemption of partnership units in our Operating Partnership. If the Internal Revenue Service were to assert successfully that our Operating Partnership is a "publicly traded partnership," and substantially all of the Operating Partnership's gross income did not consist of the specified types of passive income, the Internal Revenue Code would treat our Operating Partnership as an association taxable as a corporation. In such event, the character of our assets and items of gross income would change and would likely prevent us from qualifying and maintaining our status as a REIT. In addition, the imposition of a corporate tax on our Operating Partnership would reduce the amount of cash distributable to us from our Operating Partnership, and therefore, would reduce our amount of cash available to make distributions to our stockholders.

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of assets, other than foreclosure property, deemed held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of or securitize loans in a manner that was treated as a sale of the loans for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us.

It may be possible to reduce the impact of the prohibited transactions tax by conducting certain activities through taxable REIT subsidiaries. However, to the extent that we engage in such activities through taxable REIT subsidiaries, the income associated with such activities may be subject to full corporate income tax.

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

Generally the maximum tax rate for dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for this rate. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in stock of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

We may be subject to adverse legislative or regulatory tax changes.

At any time, the federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new federal income tax law, regulation or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

Distributions to tax-exempt investors may be classified as unrelated business taxable income and tax-exempt investors would be required to pay tax on the unrelated business taxable income and to file income tax returns.

Neither ordinary nor capital gains distributions with respect to our common stock nor gains from the sale of stock should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

- under certain circumstances, part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as unrelated business taxable income if our stock is predominately held by qualified employee pension trusts, such that we are a "pension-held" REIT (which we do not expect to be the case);
- part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute unrelated business taxable income if such investor incurs debt in order to acquire the common stock; and
- part or all of the income or gain recognized with respect to our stock held by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from federal income taxation under Sections 501(c)(7), (9), (17), or (20) of the Code may be treated as unrelated business taxable income.

Foreign investors may be subject to FIRPTA tax on the sale of our stock if we are unable to qualify as a "domestically controlled" REIT.

A foreign person disposing of a U.S. real property interest, including stock of a U.S. corporation whose assets consist principally of U.S. real property interests is generally subject to a tax, known as the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") tax, on the gain recognized on the disposition. Distributions that are attributable to gains from the disposition of U.S. real property interests by a REIT are subject to FIRPTA tax for foreign investors as though they were engaged in a trade or business and the distribution constitutes income which is effectively connected with such a business. Such FIRPTA tax does not apply, if the REIT is "domestically controlled." A REIT is "domestically controlled" if less than 50% of the REIT's capital stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT's existence.

We cannot be sure that we will qualify as a "domestically controlled" REIT. If we were to fail to so qualify, any gain realized by foreign investors on a sale of our stock would be subject to FIRPTA tax, unless our stock were traded on an established securities market and the foreign investor did not at any time during a specified testing period, directly or indirectly, own more than 5% of the value of our outstanding common stock.

Retirement Plan Risks

If the fiduciary of an employee benefit plan subject to ERISA (such as a profit sharing, Section 401(k) or pension plan) or an owner of a retirement arrangement subject to Section 4975 of the Internal Revenue Code (such as an individual retirement account ("IRA")) fails to meet the fiduciary and other standards under ERISA or the Internal Revenue Code as a result of an investment in our stock, the fiduciary could be subject to penalties and other sanctions.

There are special considerations that apply to employee benefit plans subject to the Employee Retirement Income Security Act ("ERISA") (such as profit sharing, Section 401(k) or pension plans) and other retirement plans or accounts subject to Section 4975 of the Internal Revenue Code (such as an IRA) that are investing in our shares. Fiduciaries and IRA owners investing the assets of such a plan or account in our common stock should satisfy themselves that:

- the investment is consistent with their fiduciary and other obligations under ERISA and the Internal Revenue Code;
- the investment is made in accordance with the documents and instruments governing the plan or IRA, including the plan's or account's investment policy;
- the investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the Internal Revenue Code;
- the investment in our shares, for which no public market currently exists, is consistent with the liquidity needs of the plan or IRA;
- the investment will not produce an unacceptable amount of "unrelated business taxable income" for the plan or IRA;
- our stockholders will be able to comply with the requirements under ERISA and the Internal Revenue Code to value the assets of the plan or IRA annually; and
- the investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

With respect to the annual valuation requirements described above, we will provide an estimated value for our shares annually. We can make no claim whether such estimated value will or will not satisfy the applicable annual valuation requirements under ERISA and the Internal Revenue Code. The Department of Labor or the Internal Revenue Service may determine that a plan fiduciary or an IRA custodian is required to take further steps to determine the value of our common stock. In the absence of an appropriate determination of value, a plan fiduciary or an IRA custodian may be subject to damages, penalties or other sanctions.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the Internal Revenue Code may result in the imposition of civil and criminal penalties and could subject the fiduciary to claims for damages or for equitable remedies, including liability for investment losses. In addition, if an investment in our shares constitutes a prohibited transaction under ERISA or the Internal Revenue Code, the fiduciary or IRA owner who authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount invested. In addition, the investment transaction must be undone. In the case of a prohibited transaction involving an IRA owner, the IRA may be disqualified as a tax-exempt account and all of the assets of the IRA may be deemed distributed and subjected to tax. ERISA plan fiduciaries and IRA owners should consult with counsel before making an investment in our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2013, our healthcare portfolio consisted of eleven properties. Our healthcare properties are leased to operators on a triple net basis. The following table provides summary information regarding our properties:

Property [(1)]	Location	Date Purchased	Square Footage	Purchase Price	Debt	Dec. 31, 2013 % Leased
Sheridan Care Center	Sheridan, OR	August 3, 2012	13,912	$ 4,100,000	$ 2,785,000	100.0 %
Fern Hill Care Center	Portland, OR	August 3, 2012	13,344	4,500,000	2,984,000	100.0 %
Farmington Square	Medford, OR	September 14, 2012	32,557	8,500,000	5,768,000	100.0 %
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	56,968	15,000,000	10,641,000	100.0 %
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	25,082	8,140,000	6,116,000	100.0 %
Danby House	Winston-Salem, NC	January 31, 2013	26,703	9,700,000	7,275,000	100.0 %
Heritage Woods of Aledo	Aledo, IL	July 2, 2013	49,420	8,625,000	5,850,000	100.0 %
The Shelby House	Shelby, NC	October 4, 2013	23,074	4,500,000	3,375,000	100.0 %
The Hamlet House	Hamlet, NC	October 4, 2013	34,638	6,500,000	4,830,000	100.0 %
The Carteret House	Newport, NC	October 4, 2013	29,570	4,300,000	3,195,000	100.0 %
Redding Assisted Living	Redding, CA	December 18, 2013	26,081	3,500,000	—	100.0 %
Total:			331,349	$ 77,365,000	$ 52,819,000	100.0 %

(1) The above table excludes Sherburne Commons Residences, LLC ("Sherburne Commons"), a variable interest entity ("VIE") for which we became the primary beneficiary and began consolidating its financial results as of June 30, 2011. As of October 19, 2011, Sherburne Commons was classified as held for sale (See Note 16).

Portfolio Lease Expirations

The following table sets forth lease expiration information for each of the ten years following December 31, 2013:

Year Ending December 31	No. of Leases Expiring	Approx. Amount of Expiring Leases (Sq. Feet)	Base Rent of Expiring Leases (Annual $)	Percent of Total Leasable Area Expiring (%)	Percent of Total Annual Base Rent Expiring (%)
2014 - 2021	—	—	$ —	0.0 %	0.0 %
2022	2	89,525	2,891,000	27.0 %	31.4 %
2023 and later	9	241,826	6,304,000	73.0 %	68.6 %
	11	331,351	$ 9,195,000	100.0 %	100.0 %

Real Estate-Related Investment

As of December 31, 2013 and 2012, we had one investment in a real estate loan receivable, the Sherburne Commons Mortgage Loan:

Loan Name Location of Related Property or Collateral	Date Originated	Loan Type	Payment Type	Book Value as of December 31, 2013	Book Value as of December 31, 2012	Rate Type	Annual Interest Rate	Maturity Date
Sherburne Commons Mortgage Loan Nantucket, MA	12/14/2009	1st Mortgage	Interest Only	$ —	$ —	Fixed	8.0 %	1/1/2015

Due to the borrower suspending their interest payments in the 1st quarter of 2011, we issued them a notice of default on June 30, 2011. By issuing them a notice of default, we became the primary beneficiary of the borrower and the borrower a VIE to us as a result of our enhanced ability to direct the activities of the VIE. A primary beneficiary of a VIE is required to consolidate the operations of the VIE. Consequently, we have consolidated the operations of the VIE as of June 30, 2011, and accordingly eliminated the note receivable in consolidation (See Notes 9 and 10 to the accompanying Notes to Consolidated Financial Statements).

As of October 19, 2011, the Sherburne Commons property was reclassified to real estate held for sale. Consequently, the related assets and liabilities of the property are classified as assets of variable interest entity held for sale and liabilities of variable interest entity held for sale on our consolidated balance sheets. Operating results for the property have been reclassified to discontinued operations on our consolidated statements of operations for all periods presented (See Notes 10 and 16 to the accompanying Notes to Consolidated Financial Statements).

ITEM 3. LEGAL PROCEEDINGS

From time to time in the ordinary course of business, we may become subject to legal proceedings, claims, or disputes. As of the date of this report, we are not a party to any material pending legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

During the period covered by this report, there was no established public trading market for our shares of common stock. In order for Financial Industry Regulatory Authority ("FINRA") members to participate in the offering and sale of shares of common stock pursuant to our prior public offerings, we are required to disclose in each annual report distributed to stockholders a per-share estimated value of the shares, the method by which it was developed and the date of the data used to develop the estimated value. In addition, we prepare annual statements of estimated share values to assist fiduciaries of retirement plans subject to the annual reporting requirements of Employee Retirement Income Security Act ("ERISA") in the preparation of their reports relating to an investment in our shares.

On December 31, 2013 the estimated common stock per-share value is $2.09 per share, adjusted from the previous estimated common stock per-share value of $2.10 established on December 31, 2012. The estimated value per share was based upon the recommendation and valuation of our Advisor, based on the methodologies and assumptions described further below. The estimated per-share value determined below neither represents the fair value according to U.S. generally accepted accounting principles ("GAAP") of our assets less liabilities, nor does it represent the amount our shares would trade at on a national securities exchange or the amount a stockholder would obtain if he or she tried to sell his or her shares or if we liquidated our assets. As of the date of this filing, we had no potentially dilutive securities outstanding that would impact the estimated value per share of our common stock.

As with any valuation methodology, our methodology is based on a number of estimates and assumptions that may not be accurate or complete. Different parties with different assumptions and estimates could derive a different estimated per-share amount. Accordingly, with respect to our estimated per-share value, we can provide no assurance that:

- a stockholder would be able to realize this estimated value per share upon attempting to resell his or her shares;
- we would be able to achieve, for our stockholders, the estimated value per share, upon a listing of our shares of common stock on a national securities exchange, selling our real estate portfolio, or merging with another company;
- an independent third-party appraiser or other third-party valuation firm would agree with our estimated value per share; or
- the estimated share value, or the methodologies relied upon to estimate the share value, will be found by any regulatory authority to comply with FINRA, ERISA, or any other regulatory requirements.

Our estimated per-share value was calculated by aggregating the estimated fair value of our investments in real estate and the estimated fair value of our other assets, subtracting the estimated fair value of our liabilities, and dividing the total by the number of our common shares outstanding as of December 31, 2013. Our estimated per-share value is the same as our net asset value. Our estimated per-share value does not reflect "enterprise value," which may include a premium for the portfolio or the potential increase in our share value if we were to list our shares on a national securities exchange. Our estimated per-share value also does not reflect a liquidity discount for the fact that the shares are not currently traded on a national securities exchange.

The following is a summary of the valuation methodologies used:

Investments in Real Estate and Variable Interest Entity Held for Sale. For purposes of calculating an estimated value per share, we or our lenders engaged third-party real estate valuation firms at various dates throughout 2013 to value the healthcare properties. The independent appraisers' analyses, opinions, and conclusions were developed in conformity with the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute and in conformity with the Uniform Standards of Professional Appraisal Practice. Based upon our knowledge of our properties, operations and condition we determined that the value of our assets had not changed materially between the dates of appraisal and December 31, 2013. Each of our real estate assets was appraised individually.

For our variable interest entity held for sale, we used management's internal valuation based upon market comparable properties and valuation metrics for the property, less estimated selling costs, to derive an estimate of fair value.

Our Board of Directors also considered the qualifications of the Advisor, including its professional staff, and determined that the Advisor possesses the experience and professional competence necessary to be relied upon as an expert with respect to the valuation of the Company's assets and liabilities and the shares of our common stock. Our Board of Directors reviewed the report prepared by our Advisor which recommended an estimated per-share value, and considering all information provided in light of its own knowledge regarding our assets and unanimously agreed upon an estimated value of $2.09 per share, which is consistent with the recommendations of our Advisor and the independent appraisers' appraisals.

Notes Payable. Our Advisor estimated the value of our notes payable using a discounted cash flow analysis. The cash flows were based on the remaining loan terms and on management's estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio and type of collateral. The weighted-average discount rate applied to the future estimated debt payments, which have a weighted-average remaining term of 3.35 years, was 5.25%.

We believe that the assumptions employed in estimating the fair value of our notes payable are reasonable and reflect the terms currently available on similar borrowing arrangements to borrowers with credit profiles similar to ours. However, a change in the assumptions would impact the fair value of our notes payable. For example, assuming all other factors remain unchanged, a change in the assumed weighted-average discount rate of 1.00% would yield a change in our net asset value of approximately $0.06 per share.

Other Assets and Liabilities. The carrying values of our other assets and liabilities are considered to be equal to fair value due to their short maturities. Certain balances, including straight-line rent related assets and liabilities, have been eliminated for the purpose of the valuation due to the fact that the value of those balances have no value or decrement to the assets going forward.

Our estimated per-share value was calculated as follows:

	December 2013
Investments in real estate and variable interest entity	$ 3.61
Notes payable	(2.29)
Other assets and liabilities, net	0.77
Estimated net asset value per-share value	$ 2.09
Estimated enterprise value premium	None assumed
Estimated liquidity discount	None assumed
Total estimated per-share value	$ 2.09

Furthermore, the estimated value of our shares was calculated as of December 31, 2013. The value of our shares will fluctuate over time in response to, among other things, changes in real estate market fundamentals, capital markets activities, and attributes specific to the properties within our portfolio. We are not required to update the estimated value per share more frequently than every eighteen months. We expect that any future estimates of the value of our properties will be performed by our Advisor; however, our board of directors may direct our Advisor to engage one or more independent, third-party valuation firms in connection with such estimates.

Stock Repurchase Program

On November 23, 2010, our Board of Directors approved an amendment to suspend redemptions under the program effective December 31, 2010. We can make no assurances as to when and on what terms our redemptions will resume. The share redemption program may be amended, resumed, suspended again, or terminated at any time based in part on our cash and debt position.

During the year ended December 31, 2013, we have received requests to redeem 13,587 shares. During the year months ended December 31, 2012, we have received requests to redeem 38,296 shares. However, due to the current suspension of the stock repurchase program, we were not able to fulfill any of these requests.

Stockholders

As of March 31, 2014, we had approximately 23.0 million shares of common stock outstanding held by 4,978 stockholders of record.

Distributions

In order to qualify for tax treatment as a REIT under the Internal Revenue Code, we must pay distributions to our stockholders each taxable year equal to at least 90% of our net ordinary taxable income. We adopted a distribution reinvestment plan that allows our stockholders to have their distributions invested in additional shares of our common stock and have registered 21,100,000 shares of our common stock for sale pursuant to the distribution reinvestment plan. The purchase price per share is 95% of the price paid by the purchaser for our common stock, but not less than $7.60 per share. As of December 31, 2013 and 2012, approximately 2.3 million shares had been issued under the distribution reinvestment plan. Effective December 14, 2010, our board of directors suspended the distribution reinvestment plan indefinitely. As a result, distributions for the six months of 2011 were paid entirely in cash and suspended after June 2011. We cannot provide any assurance as to if or when we will resume our distribution reinvestment plan.

The declaration, rate, frequency and amount of distributions are at the discretion of our board of directors and will depend on numerous factors including, but not limited to, our funds from operations, financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Internal Revenue Code and other factors our board of directors deems relevant. Our board determined, based on the financial condition of the Company, to suspend the declaration of further distributions.

From our inception in October 2004 through December 31, 2013, we declared aggregate distributions of $32.8 million. Our cumulative net loss applicable to common stockholders and cumulative net cash used in operating activities during the same period were $77.1 million and $3.7 million, respectively.

Funds from Operations and Modified Funds from Operations

Funds from operations ("FFO") is a non-GAAP supplemental financial measure that is widely recognized as a measure of REIT operating performance. We compute FFO in accordance with the definition outlined by the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT defines FFO as net income (loss), computed in accordance with GAAP, excluding extraordinary items, as defined by GAAP, and gains (or losses) from sales of property, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships, joint ventures, noncontrolling interests and subsidiaries.

NAREIT issued in early 2013 updated reporting guidance that directs companies, for their computation of NAREIT FFO, to exclude impairments of depreciable real estate when write-downs are driven by measurable decreases in the fair value of real estate holdings. Previously, the Company's calculation of FFO (consistent with NAREIT's previous guidance) did not exclude impairments of, or related to, depreciable real estate.

Our FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. We believe that FFO is helpful to investors and our management as a measure of operating performance because it excludes depreciation and amortization, gains and losses from property dispositions, impairments and extraordinary items, and as a result, when compared year to year, reflects the impact on operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses, and interest costs, which is not immediately apparent from net income. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting alone to be insufficient. As a result, our management believes that the use of FFO, together with the required GAAP presentations, provide a more complete understanding of our performance. Factors that impact FFO include start-up costs, fixed costs, delays in buying assets, lower yields on cash held in accounts pending investment, income from portfolio properties and other portfolio assets, interest rates on acquisition financing and operating expenses. FFO should not be considered as an alternative to net income (loss), as an indication of our performance, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions.

Changes in the accounting and reporting rules under GAAP have prompted a significant increase in the amount of non-cash and non-operating items included in FFO, as defined. Therefore, we use modified funds from operations ("MFFO"), which excludes from FFO real estate acquisition costs, amortization of above- or below-market rents, and non-cash amounts related to straight-line rents to further evaluate our operating performance. We compute MFFO in accordance with the definition suggested by the Investment Program Association (the "IPA"), the trade association for direct investment programs (including non-listed REITs). However, certain adjustments included in the IPA's definition are not applicable to us and are therefore not included in the foregoing definition.

We believe that MFFO is an important supplemental measure of operating performance because it excludes costs that management considers more reflective of investing activities or non-operating changes. Accordingly, we believe that MFFO can be a useful metric to assist management, investors and analysts in assessing the sustainability of our operating performance. As explained below, management's evaluation of our operating performance excludes these items in the calculation based on the following considerations:

- **Real estate acquisition costs**. In evaluating investments in real estate, including both business combinations and investments accounted for under the equity method of accounting, management's investment models and analyses differentiate costs to acquire the investment from the operations derived from the investment. These acquisition costs have been funded from the proceeds of our initial public offering and other financing sources and not from operations. We believe by excluding expensed acquisition costs, MFFO provides useful supplemental information that is comparable for each type of our real estate investments and is consistent with management's analysis of the investing and operating performance of our properties. Real estate acquisition costs include those paid to our Advisor and to third parties.
- **Adjustments for amortization of above- or below-market rents**. Similar to depreciation and amortization of other real estate-related assets that are excluded from FFO, GAAP implicitly assumes that the value of lease assets diminishes predictably over time and that these charges be recognized currently in revenue. Since real estate values and market lease rates in the aggregate have historically risen or fallen with market conditions, management believes that by excluding these charges, MFFO provides useful supplemental information on the operating performance of our real estate.
- **Adjustments for straight-line rents**. Under GAAP, rental income recognition can be significantly different from underlying contract terms. By adjusting for these items, MFFO provides useful supplemental information on the economic impact of our lease terms and presents results in a manner more consistent with management's analysis of our operating performance.

FFO and MFFO should not be considered as an alternative to net income (loss) or as an indication of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions. Both FFO and MFFO should be reviewed along with other GAAP measurements. Our FFO and MFFO, as presented, may not be comparable to amounts calculated by other REITs.

The following is reconciliation from net loss applicable to common shares, the most direct comparable financial measure calculated and presented with GAAP to FFO and MFFO for each of the last two years:

	Year Ended December 31	
	2013	2012
Net loss applicable to common shares	$ (890,000)	$ (7,458,000)
Adjustments:		
Depreciation and amortization of real estate assets:		
Continuing operations	2,340,000	474,000
Discontinued operations	506,000	1,519,000
Gain on sales of real estate, net	(5,967,000)	—
Impairment of real estate assets:		
Continuing operations	—	—
Discontinued operations	3,368,000	2,077,000
Noncontrolling interests' share in losses	(980,000)	(1,076,000)
Noncontrolling interests' share in FFO	1,011,000	1,061,000
Funds used in operations (FFO) applicable to common shares	$ (612,000)	$ (3,403,000)
Adjustments:		
Real estate acquisition costs	$ 522,000	$ 947,000
Amortization of (below-) above-market rents	10,000	(28,000)
Straight-line rents	(669,000)	(323,000)
Reserve for excess advisor obligation	(125,000)	863,000
Amortization of deferred financing costs	166,000	162,000
Impairment of notes receivable	—	—
Modified funds used in operations (MFFO) applicable to common shares	$ (708,000)	$ (1,782,000)
Weighted-average number of common shares outstanding – basic and diluted	23,028,285	23,028,285
FFO per weighted average common shares	$ (0.03)	$ (0.15)
MFFO per weighted average common shares	$ (0.03)	$ (0.08)

Recent Sales of Unregistered Securities

We did not sell any equity securities that were not registered under the Securities Act of 1933 during the period covered by this Form 10-K.

Equity Compensation Plans

Information about securities authorized for issuance under our equity compensation plans required for this Item is incorporated by reference from our definitive Proxy Statement to be filed in connection with our 2013 annual meeting of stockholders.

ITEM 6. SELECTED FINANCIAL DATA

The following should be read with the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto. The consolidated balance sheet data and the consolidated statements of operations data for the years ended December 31, 2013 and 2012 have been derived from the Company's historical audited consolidated financial statements. The consolidated balance sheet data and the consolidated statements of operations data for the years ended December 31, 2011, 2010 and 2009 have been derived from the Company's historical consolidated financial statements adjusted for the impact of subsequent accounting changes requiring retrospective application, if any.

	As of December 31,				
	2013	2012	2011	2010	2009
Balance Sheet Data:					
Total assets	$ 96,003,000	$ 93,992,000	$ 70,124,000	$ 138,997,000	$ 157,252,000
Notes payable	$ 52,819,000	$ 50,294,000	$ 21,070,000	$ 26,604,000	$ 38,884,000
Total equity	$ 37,462,000	$ 38,757,000	$ 45,626,000	$ 100,970,000	$ 115,155,000

	Years Ended December 31,				
	2013	2012	2011	2010	2009
Statement of Operations Data:					
Total revenues	$ 6,736,000	$ 1,339,000	$ 416,000	$ 1,389,000	$ 1,308,000
Loss from continuing operations	$ (3,379,000)	$ (5,986,000)	$ (5,369,000)	$ (2,542,000)	$ (7,516,000)
(Loss) income from discontinued operations	$ 1,509,000	$ (2,548,000)	$ (48,684,000)	$ (591,000)	$ (595,000)
Net loss applicable to common shares	$ (890,000)	$ (7,458,000)	$ (52,058,000)	$ (3,131,000)	$ (8,103,000)
Basic and diluted (losses) earnings per common share(1)					
Continuing operations	$ (0.15)	$ (0.26)	$ (0.23)	$ (0.11)	$ (0.33)
Discontinued operations	$ 0.11	$ (0.07)	$ (2.03)	$ (0.03)	$ 0.03
Net loss applicable to common shares	$ (0.04)	$ (0.33)	$ (2.26)	$ (0.14)	$ (0.36)
Statement of Cash Flows Data:					
Net cash (used in) provided by operating activities	$ (1,947,000)	$ (6,435,000)	$ (1,669,000)	$ 2,302,000	$ 2,888,000
Net cash (used in) provided by investing activities	$ 8,864,000	$ (40,327,000)	$ 34,006,000	$ (3,740,000)	$ (10,708,000)
Net cash (used in) provided by financing activities	$ 2,678,000	$ 30,346,000	$ (16,868,000)	$ (15,221,000)	$ 212,000
Other Data:					
Distributions declared	$ —	$ —	$ 914,000	$ 10,211,000	$ 10,644,000
Distributions declared per common share	$ —	$ —	$ 0.04	$ 0.45	$ 0.48
Weighted-average number of common shares outstanding – basic and diluted(1)	23,028,285	23,028,285	23,031,830	22,921,142	21,806,219

(1) Basic and diluted loss from continuing operations per common share, basic and diluted (loss) income from discontinued operations per common share, and basic and diluted net loss per common share are based upon the weighted-average number of shares of common stock outstanding. All per-share computations have been adjusted to reflect the common stock dividends for all periods presented.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. See also the "Special Note about Forward-Looking Statements" preceding Item 1 of this report.

Overview

Market Outlook — Real Estate and Real Estate Finance Markets

Despite an increase of new home construction and positive gains in the stock markets in 2013, the U.S. economic recovery has been tepid. Nationally, housing prices are below pre-recession levels, many homeowners continue to be underwater, unemployment continues to be high and the U.S. government continues to deficit spend. The difficulty of accessing capital previously experienced has subsided, but concern about credit risk, the sluggishness of the U.S. economy and the impact of any economic problems in emerging markets on our and the global economy continues.

However, senior housing remained resilient during the economic recession. Some of the largest REITs in the U.S. are health care REITs. Senior housing and care market carries an approximate value of $270 billion and growing. Throughout the U.S., there are just over 22,000 Independent Living, Assisted Living and Skilled Nursing facilities.

Throughout the economic recession, senior housing occupancy held up well when compared to Apartment, Office, Retail, Industrial and Hotels. Key demand drivers for senior housing include the strengthening demographics which include the growing number of baby boomers, a better understanding and acceptance of residents and senior housing as an alternative, more and more potential residents can afford senior housing and have more affluence. Residents are living longer and have better healthcare insurance. Fewer family care givers are available and residents have fewer alternatives. It is forecasted that demographics will remain strong for decades.

Senior housing average cap rates tend to be higher than other asset classes, which improves returns on investment. During the recession, debt was less available. Currently, there are several lenders in the senior housing market with attractive rates and leverage. Sources of debt include high yield bonds, insurance companies, commercial finance companies, commercial banks, Department of Housing & Urban Development (HUD), Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac have nearly $20 billion in total outstanding senior housing loans (Assisted Living and Independent Living).

In general, with experienced, quality operators mitigating risks associated with senior housing, the senior housing market has a strong outlook for market fundamentals and is projected to provide solid and relatively stable returns.

Results of Operations

In 2013 we completed phase one of our transition strategy - disposing of the industrial real estate. The second phase of our transition strategy - acquiring the healthcare real estate assets commenced mid-2012 and will continue going forward. The third phase of our transition strategy – will be to grow the Company primarily by attracting and securing third party equity. We started 2013 owning nine industrial properties and five healthcare properties. However, during the year, we sold the remaining industrial properties as follows: Western and Carter in January for $17.6 million and $1.7 million, respectively, Marathon in June for $2.1 million, Santa Fe in July for $1.7 million, two of four Shoemaker buildings for $1.1 million, the Orlando Small Bay ("OSB") portfolio, consisting of Carter, Goldenrod, Hanging Moss and Monroe in September for $24.0 million and the two remaining Shoemaker buildings in the fourth quarter for $1.1 million in the aggregate. The proceeds were used to pay-off industrial debt and acquire the following healthcare properties - Danby House in January for $9.7 million, Aledo in July for $8.6 million, North Carolina in October for $15.3 million and Kirkwood in December for $3.5 million. Since we completed our transition to owning healthcare properties and sold all remaining industrial properties, the manner in which we report our operations has changed – healthcare operations will be reported as continuing operations while all industrial operations have been reclassified and reported as held for sale on our balance sheet and discontinued operations on our statement of operations for all periods presented.

In 2012 we owned nine industrial properties for the full year and acquired five healthcare properties in the second half of 2012. In 2013, we purchased six healthcare properties. Accordingly, the results of our operations for the years ended December 31, 2013 and 2012 have fluctuated as a result of property acquisitions and dispositions.

In May 2008, we loaned $8.75 million at a rate of 10% per year to two real estate operating companies, Servant Investments, LLC and Servant Healthcare Investments, LLC (collectively, "Servant"). Servant was an advisor to an affiliate of the managing member of our Advisor and the loans were scheduled to mature on May 19, 2013. Quarterly we evaluate the collectability of our notes receivable which involves judgment, estimates and a review of the underlying collateral and borrower's business models and future cash flows from operations. In the third quarter of 2009, we concluded that the collectability of the Servant Investments, LLC ("Servant Investments") note could not be reasonably assured and, therefore, we reserved the $4.6 million note balance and began to recognize interest income on the reserved loan on a cash basis. In the second quarter of 2011, after evaluating the expected effects of changes in the borrower's business prospects, including the uncertainty surrounding Servant's realization of the fees pursuant to the sub-advisory agreement, we concluded that it was probable that the Company would be unable to collect all amounts due according to the terms of the Servant Healthcare, LLC ("Servant Healthcare") note and consequently, we recorded a note receivable impairment of $1.7 million against the balance of that note.

In December 2011, the notes receivable were restructured to provide for the settlement of the notes in the amount of $2.5 million, $1.5 million of which was received from the borrower in December 2011. The remaining $1.0 million was payable pursuant to a promissory note providing for interest at a fixed rate of 5.00% per annum. Interest payments are due monthly and have been paid timely. A principal payment of $0.7 million, plus any accrued and unpaid interest, was paid on December 22, 2013 and the remaining balance of $0.3 million, plus any accrued and unpaid interest, is due on December 22, 2014. For the twelve months ended December 31, 2013 and 2012, the note receivable was recorded at its present value of $0.2 million and $0.9 million, respectively.

Prior to the third quarter of 2011, we operated in one reportable segment: Industrial. As of September 30, 2011, we operated in two reportable business segments for management and internal financial reporting purposes: Industrial and Senior Housing. These operating segments represent the segments for which separate financial information is available and for which operating results are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our Senior Housing segment consisted solely of the operations of the Sherburne Commons property (see Note 10 to the accompanying Notes to Consolidated Financial Statements).

During 2013 and 2012, we owned healthcare and industrial real estate properties which represents two reportable business segments for management and internal financial reporting purposes. This represents two segments for which separate financial information is available and for which operating results are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. However, since all of our industrial properties were all sold by the end of 2013, the industrial operations will be now reported as Discontinued Operations for all periods presented.

On March 17, 2014, we delivered written notice to the Advisor terminating the Advisory Agreement effective May 16, 2014. We are currently working with our Advisor to develop an orderly transition. On March 27, 2014, we received a letter from a law firm purporting to represent the Advisor and certain of its affiliates which made assertions against the Company, its directors and officers. Based upon our examination of these assertions, we believe that these assertions are without merit, and to the extent the Advisor files any formal claims, they will be vigorously defended by the Company.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

	Years Ended December 31,			
	2013	**2012**	**$ Change**	**% Change**
Rental revenues, tenant reimbursements & other income	$ 6,686,000	$ 1,287,000	$ 5,399,000	419.5 %
Property operating expenses	(766,000)	(97,000)	(669,000)	689.7 %
Net operating income [1]	5,920,000	1,190,000	4,730,000	397.5 %
Interest income from notes receivable	50,000	52,000	(2,000)	(3.8)%
General and administrative	(3,352,000)	(3,564,000)	212,000	(5.9)%
Asset management fees and expenses	(1.080,000)	(971,000)	(109,000)	11.2 %
Real estate acquisition costs	(522,000)	(947,000)	425,000	(44.9)%
Recovery of (reserve for) excess advisor obligation	125,000	(863,000)	988,000	(114.5)%
Depreciation and amortization	(2,340,000)	(474,000)	(1,866,000)	393.7 %
Impairment of notes receivable	—	—	—	— %
Impairment of real estate	—	—	—	— %
Interest and other expense and income, net	(2,180,000)	(409,000)	(1,771,000)	433.0 %
Loss from continuing operations	(3,379,000)	(5,986,000)	2,607,000	(43.6)%
Income (loss) from discontinued operations	1,509,000	(2,548,000)	4,057,000	(159.2)%
Net loss	(1,870,000)	(8,534,000)	6,664,000	(78.1)%
Noncontrolling interests' share in losses	980,000	1,076,000	(96,000)	(8.9)%
Net loss applicable to common shares	$ (890,000)	$ (7,458,000)	$ 6,568,000	(88.1)%

(1) Net operating income ("NOI") is a non-GAAP supplemental measure used to evaluate the operating performance of real estate properties. We define NOI as total rental revenues, tenant reimbursements and other income less property operating and maintenance expenses. NOI excludes interest income from notes receivable, general and administrative expense, asset management fees and expenses, real estate acquisition costs, depreciation and amortization, impairments, interest income, interest expense, and income from discontinued operations. We believe NOI provides investors relevant and useful information because it measures the operating performance of the REIT's real estate at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess and compare property-level performance. We believe that net income (loss) is the most directly comparable GAAP measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income (loss) as defined by GAAP since it does not reflect the aforementioned excluded items. Additionally, NOI as we define it may not be comparable to NOI as defined by other REITs or companies, as they may use different methodologies for calculating NOI.

Total rental revenue for our healthcare properties includes rental revenues and tenant paid and/or reimbursements for property taxes and insurance. Property operating and maintenance expenses include insurance, property taxes and other operating expenses. Net operating income increased to approximately $5.9 million for the year ended December 31, 2013 from $1.2 million for the year ended December 31, 2012 primarily due to the 2013 healthcare acquisitions and owning the 2012 acquisitions for a full year.

Interest income from notes receivable were comparable for the years ended December 31, 2013 and December 31, 2012.

General and administrative expense was $3.4 million for the year ended December 31, 2013 and $3.6 million for the year ended December 31, 2012. The decrease was primarily due to decreases in legal fees of $0.2 million, professional fees of $0.1 million offset by higher audit and tax fees of $0.1 million.

Asset management fees were $1.1 million for the year ended December 31, 2013 and $1.0 million for December 31, 2012. The higher asset management fees were due to the healthcare acquisitions of Winston-Salem, Aledo, Shelby, Hamlet, Carteret and Redding and a full year of fees on the 2012 acquisitions offset by the sale of our industrial properties in 2013.

Real estate acquisition costs decreased to $0.5 million for the year ended December 31, 2013 from $0.9 million for the year ended December 31, 2012. The decrease is primarily due to the capitalization of costs paid to third party entities to real estate properties in 2013 accounted for as asset purchases.

Depreciation and amortization increased to approximately $2.3 million for the year ended December 31, 2013 from approximately $0.5 million for the year ended December 31, 2012, primarily due to the owning of the 2012 acquisitions for a full year combined with 2013 acquisition Winston-Salem, Aledo, Shelby, Hamlet, Carteret and Redding.

Reserve for excess advisor obligation represents organizational and offering costs incurred in excess of 3.5% limitation of the gross proceeds from our follow-on offering which terminated on June 10, 2012 (See Note 13 to the accompanying Notes to Consolidated Financial Statements). Our Advisory Agreement provides that the Advisor will reimburse any excess costs that were paid by us. In 2012, we recorded a receivable for the excess of $1.0 million which we fully reserved for based on our evaluation of the Advisor's ability to repay at that time. At December 31, 2012, we reduced our reserve by $0.1 million as it became evident that we would collect this in early 2013. The 2013 credit of $0.1 million represents the additional amount collected in 2013 from the Advisor which is recognized as collected.

Interest expense increased to $2.2 million for the year ended December 31, 2013 from $0.4 million for the year ended December 31, 2012. The increase is primarily due to the higher financing costs and interest rates incurred in 2013 related to our healthcare properties acquired in 2012 and 2013.

The loss from discontinued operations represents the results of operations for properties that were held for sale or sold in 2013 including the Western, Marathon, Santa Fe, OSB portfolio and Shoemaker properties. Additionally, all prior periods presented for these properties were reclassified to discontinued operations for presentation purposes. Income from discontinued operations was $1.5 million for the year ended December 31, 2013 compared to a loss from discontinued operations of $2.5 million for the year ended December 31, 2012. The net change is primarily due to the net gain on sale of Western, Marathon, Santa Fe, OSB properties and Shoemaker.

Liquidity and Capital Resources

We are currently not offering our shares of common stock for sale. Going forward, we expect our primary sources of cash to be rental revenues, tenant reimbursements, joint venture equity and refinancing of existing debt. In addition, we may increase cash through the sale of additional properties or borrowing against currently-owned properties. For the foreseeable future, we expect our primary uses of cash to be for the repayment of principal on notes payable, funding future acquisitions, operating expenses, interest expense on outstanding indebtedness, advances to our VIE to fund operating shortfalls, and, possibly, cash distributions. Operating revenues are roughly expected to meet over the next twelve months. If any shortfall occurs, we plan to fund from available cash and property refinancing.

As of December 31, 2013, we had approximately $10.5 million in cash and cash equivalents on hand. Our liquidity will increase if cash from operations exceeds expenses, additional shares are offered, we receive net proceeds from the sale of whole or partial interest in a property or if refinancing results in excess loan proceeds and decrease as proceeds are expended in connection with the acquisitions, operation of properties and advances to our VIE held for sale. Based on current conditions, we believe that we have sufficient capital resources for the next twelve months.

Credit Facilities and Loan Agreements

As of December 31, 2013, we had debt obligations of approximately $52.8 million. The outstanding balance by loan agreement is as follows:

- The PrivateBank and Trust Company – approximately $7.3 million maturing January 2016,
- The PrivateBank and Trust Company – approximately $11.4 million maturing October 2016,
- GE Capital – approximately $28.3 million maturing September 2017, and
- GE Capital – approximately $5.9 million maturing July 2018

Short-Term Liquidity Requirements

In addition to the capital requirements for recurring capital expenditures, we may incur expenditures for future healthcare acquisitions and/or renovations of our existing properties, such as increasing the size of the properties by developing additional rentable square feet and/or making the space more appealing.

As of December 31, 2013, all the industrial properties have been sold and we continue to hold Sherburne Commons, Nantucket, as held for sale. We continue to pursue options for repaying and/or refinancing debt obligations, including our asset sales. Our Advisor has informed us that they believe that conditions may be acceptable to raise money through joint venture arrangements although there can be no assurances that any such transactions will have terms acceptable to us or will be consummated.

In recent years, financial markets have experienced unusual volatility and uncertainty and liquidity has tightened in all financial markets, including the debt and equity markets. Our ability to repay or refinance debt could be adversely affected by an inability to secure financing at reasonable terms, if at all.

Beginning May 16, 2014, the Company will self-manage its management functions. We believe that on an intermediate to long-term basis, becoming a self-managed REIT will create numerous opportunities for cost savings as compared to the overhead reimbursement and fee structure under the current Advisory Agreement. However we will likely incur incremental costs in the short term as a result of the transition.

Distributions

Effective June 2011, the board of directors suspended the declaration of further distributions. No distributions have been declared for periods after June 30, 2011. The rate and frequency of distributions is subject to the discretion of our board of directors and may change from time to time based on numerous factors, including operating results and cash flow.

Organization and offering costs

Please see Note 13 to the accompanying Notes to Consolidated Financial Statements for detail discussion of organization and offering costs.

Other than the financial market conditions discussed above and market conditions discussed under the caption "Market Outlook—Real Estate and Real Estate Finance Markets," we are not aware of any material trends or uncertainties, favorable or unfavorable, affecting real estate generally, which we anticipate may have a material impact on either capital resources or the revenues or income to be derived from the operation of real estate properties.

Election as a REIT

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, in 2006. Under the Internal Revenue Code of 1986, we are not subject to federal income tax on income that we distribute to our stockholders. REITs are subject to numerous organizational and operational requirements in order to avoid taxation as a regular corporation, including a requirement that they generally distribute at least 90% of their annual ordinary taxable income to their stockholders. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Our failure to qualify as a REIT could result in us having a significant liability for taxes.

Other Liquidity Needs

Property Acquisitions

Our ability to purchase properties over the next twelve months is partially dependent on our ability to raise additional equity capital. We expect to deploy the majority of the cash on hand at December 31, 2013 to purchase additional properties during the next 12 months.

Debt Service Requirements

Please refer to Note 14 to the accompanying Consolidated Financial Statements for a detailed discussion of our debt.

Off-Balance Sheet Arrangements

There are no off-balance sheet transactions, arrangements or obligations (including contingent obligations) that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Inflation

Although the real estate market has not been affected significantly by inflation in recent years, we expect that the contractual rent escalations in the healthcare triple-net leases will protect us to some extent from the impact of inflation. Our ongoing ability to include provisions in the leases that protect us against inflation is subject to competitive conditions that vary from market to market.

Subsequent Events

Please refer to Note 18 to the accompanying Consolidated Financial Statements for a detailed discussion of our subsequent events.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP, requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We believe that our critical accounting policies are those that require significant judgments and estimates such as those related to real estate purchase price allocation, evaluation of possible impairment of real property assets, revenue recognition and valuation of receivables, income taxes, notes receivable and uncertain tax positions. These estimates are made and evaluated on an on-going basis using information that is currently available as well as various other assumptions believed to be reasonable under the circumstances. Actual results could vary from those estimates, perhaps in materially adverse ways, and those estimates could be different under different assumptions or conditions. Our significant accounting policies are described in more detail in Note 3 to the Consolidated Financial Statements.

Investments in Real Estate

Upon acquisition of a property, we allocate the purchase price of the property based upon the fair value of the assets acquired and liabilities assumed, which generally consist of land, buildings, site improvements, furniture and fixtures and intangible lease assets or liabilities, including in-place leases, above-market and below-market leases. We allocate the purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the assets to determine the appropriate useful lives. Depreciation of our assets is being charged to expense on a straight-line basis over the assets' estimated useful lives. We depreciate the fair value allocated to building and improvements over estimated useful lives ranging from 15 to 39 years.

We estimate the value of furniture and fixtures based on the assets' depreciated replacement cost. We depreciate the fair value allocated to furniture and fixtures over estimated useful lives ranging from three to six years.

In-place lease values are calculated based on management's evaluation of the specific characteristics of each tenant's lease. In-place leases are amortized over the initial terms of the respective leases.

Acquired above- and below-market leases are valued based on the present value of the difference between prevailing market rates and the in-place rates over the remaining lease terms. The value of acquired above- and below-market leases is amortized over the remaining non-cancelable terms of the respective leases as an adjustment to rental revenue on our consolidated statements of operations. Our policy is to consider any bargain periods in the calculation of fair value of below-market leases and to amortize below-market leases over the remaining non-cancelable lease term plus any bargain renewal periods in accordance with ASC 840, *Leases*, as determined by the Company's management at the time it acquires real property with an in-place lease. The renewal option rates for our acquired leases do not include any fixed-rate options and, instead, contain renewal options that are based on fair value terms at the time of renewal. Accordingly, no fixed-rate renewal options were included in the fair value of below-market leases acquired and the amortization period is based on the acquired non-cancelable lease term.

We amortize the value of in-place leases and above- and below-market leases over the initial term of the respective leases. Should a tenant terminate its lease, the unamortized portion of the above- or below-market lease value will be charged to revenues. If a lease is terminated prior to its expiration, the unamortized portion of the tenant improvements, intangible lease assets or liabilities and the in-place lease value will be immediately charged to expense. Should a significant tenant terminate its lease, the unamortized portion of intangible assets or liabilities of above- and below-market leases will be charged to revenue.

Impairment of Real Estate Assets

In accordance with ASC 360, *Property, Plant, and Equipment*, we conduct a comprehensive review of our real estate assets for impairment. ASC 360 requires that asset values be analyzed whenever events or changes in circumstances indicate that the carrying value of a property may not be fully recoverable. Indicators of potential impairment include the following:

- Change in strategy resulting in a decreased holding period;
- Decreased occupancy levels;
- Deterioration of the rental market as evidenced by rent decreases over numerous quarters;
- Properties adjacent to or located in the same submarket as those with recent impairment issues;
- Significant decrease in market price; and/or
- Tenant financial problems.

The intended use of an asset, either held for sale or held for the long term, can significantly impact how impairment is measured. If an asset is intended to be held and used, the impairment analysis is based on a two-step test. The first test measures estimated expected future cash flows over the holding period, including a residual value (undiscounted and without interest charges), against the carrying value of the property. If the asset fails that test, the asset's carrying value is compared to the estimated fair value from a market participant standpoint, with the excess of the asset's carrying value over the estimated fair value recognized as an impairment charge to earnings. While we recorded no impairment charges as of December 31, 2013 for properties held and used, we performed Step 1 tests on three of our properties. None of these properties required a Step 2 test. Valuation methodologies, particularly those relying on cash flow estimates, are sensitive to inputs and can subject such impairment analyses to variability.

In the first quarter of 2012, we recorded a $1.1 million impairment related to Nantucket Acquisition, LLC, as a result of receiving an offer to purchase the property that was less than the property's carrying value.

In the fourth quarter of 2012, we recorded a $0.9 million impairment loss related to the Carter Commerce Center based on the contractual sales price that was less than the property's carrying value.

In the second quarter of 2013, we recorded a $3.4 million impairment related to the Orlando Small Bay portfolio as a result of receiving an offer to purchase the property for less than its book value.

The following table illustrates, by property, the impairment charge recorded to impairment of real estate and included in discontinued operations for the years ended December 31:

Property	2013	2012
Carter Commerce Center	$ —	$ 937,000
Goldenrod Commerce Center	657,000	—
Hanging Moss Commerce Center	1,034,000	—
Monroe Commerce Centers	1,677,000	—
Nantucket Acquisition LLC		1,140,000
	$ 3,368,000	$ 2,077,000

An assessment as to whether our investments in real estate are impaired is highly subjective. Impairment calculations, which can be based on discounted cash flow analyses, involve management's best estimate of the holding period, market comparables, future occupancy levels, rental rates, capitalization rates, lease-up periods and capital requirements for each property at the point in time when a valuation analysis is performed. A change in any one or more of these factors could materially impact whether a property is impaired as of any given valuation date.

Fair Value of Financial Instruments

ASC 825, *Financial Instruments*, requires the disclosure of fair value information about financial instruments whether or not recognized on the face of the balance sheet, for which it is practical to estimate that value.

Fair value represents the estimate of the proceeds to be received, or paid in the case of a liability, in a current transaction between willing parties. ASC 820, *Fair Value Measurement* establishes a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. Inputs are either observable or unobservable in the marketplace. Observable inputs are based on market data from independent sources and unobservable inputs reflect the reporting entity's assumptions about market participant assumptions used to value an asset or liability.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1. Quoted prices in active markets for identical instruments.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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 use 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 consolidated balance sheets include the following financial instruments: cash and cash equivalents, notes receivable, receivable from related parties, tenant and other receivables, other assets, deferred costs and deposits, deferred financing costs, accounts payable and accrued liabilities, payable to related parties, prepaid rent, security deposits and deferred revenue and loans payable. With the exception of notes receivable, note receivable from related party and notes payable discussed below, we consider the carrying values to approximate fair value for such financial instruments because of the short period of time between origination of the instruments and their expected payment.

As of December 31, 2013 and December 31, 2012, the fair value of notes receivable was $0.3 million and $1.0 million, compared to the carrying value of $0.2 million and $0.9 million, respectively. The fair value of notes receivable is estimated by discounting the expected cash flows at current market rates at which management believes similar loans would be made. In December 2011, the Servant Investments and the Servant Healthcare notes receivable were restructured to provide for the settlement of the notes in the amount of $2.5 million, $1.5 million of which was received from the borrower in December 2011. The remaining $1.0 million is payable pursuant to a promissory note of Servant Healthcare which provides for interest at a fixed rate of 5.00% per annum. A principal payment of $0.7 million, plus accrued interest, was paid on December 22, 2013 and the remaining balance of $0.3 million, plus any accrued and unpaid interest, is due on December 22, 2014. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our notes receivable are classified as Level 3 assets within the fair value hierarchy.

The fair value of notes payable is estimated using lending rates available to us for financial instruments with similar terms and maturities. As of December 31, 2013 and December 31, 2012, the fair value of notes payable was $52.9 million and $51.0 million, compared to the carrying value of $52.8 million and $50.3 million, respectively. The carrying values noted above include notes payable classified on our consolidated balance sheets as liabilities associated with real estate held for sale totaling $0 and $21.8 million as of December 31, 2013 and December 31, 2012, respectively. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our notes payable are classified as Level 3 assets within the fair value hierarchy.

As a result of our ongoing analysis for potential impairment of our investments in real estate, including properties classified as held for sale, we were required to adjust the carrying value of certain assets to their estimated fair values, or estimated fair value less selling costs for assets held for sale, as of December 31, 2013 (see Note 4 to the accompanying Notes to Consolidated Financial Statements).

There were no assets measured at fair value on a nonrecurring basis during the year ended December 31, 2013.

The following table summarizes the assets measured at fair value on a nonrecurring basis during the year ended December 31, 2012:

	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses for the Year Ended December 31, 2012
Assets held for sale	$ 1,612,000	$ 1,612,000	$ —	$ —	$ (937,000)
Variable interest entity held for sale	$ 3,760,000	$ —	$ 3,760,000	$ —	$ (1,140,000)

The investments in real estate measured at fair value less estimated selling costs was deemed to be a level one asset as its fair value was derived from an offer for the property for which a purchase and sale agreement had been executed.

The variable interest entity held for sale measured at fair value, less estimated selling costs, during 2012 was deemed to be a Level 2 asset as we had received a formal offer for the property. As of the valuation date in the second quarter of 2012, we did not believe that this asset was a Level 1 asset because a purchase and sale agreement had not been executed, giving the potential buyer the right to opt out of the transaction at its discretion.

At December 31, 2013 and December 31, 2012, we do not have any significant financial assets or financial liabilities that are measured at fair value on a recurring basis in our consolidated financial statements.

Revenue Recognition and Valuation of Receivables

Our revenues, which are comprised largely of rental income, include rents reported on a straight-line basis over the initial term of the lease. Since our leases may provide for free rent, lease incentives or rental increases at specified intervals, we are required to straight-line the recognition of revenue, which results in the recording of a receivable for rent not yet due under the lease terms. Accordingly, our management is required to determine, in its judgment, to what extent the unbilled rent receivable applicable to each specific tenant is collectible. Management reviews unbilled rent receivable on a quarterly basis and takes into consideration the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectability of unbilled rent with respect to any given tenant is in doubt, we record an increase in our allowance for doubtful accounts or record a direct write-off of the specific rent receivable.

Income Taxes

We have elected to be taxed as a REIT for federal income tax purposes beginning with our taxable year ended December 31, 2006. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to currently distribute at least 90% of the REIT's ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable income that it distributes to its stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially and adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT, beginning with our taxable year ended December 31, 2006, and we intend to operate in the foreseeable future in such a manner so that we will remain qualified as a REIT in subsequent tax years for federal income tax purposes. All of the distributions declared during 2011 and 2010, respectively, represented a return of capital for federal income tax purposes. No distributions were declared or paid in 2013 or 2012.

Variable Interest Entities

The Company analyzes its contractual and/or other interests to determine whether such interests constitute an interest in a variable interest entity ("VIE") in accordance with ASC 810, *Consolidation*, and, if so, whether the Company is the primary beneficiary. If the Company is determined to be the primary beneficiary of a VIE, it must consolidate the VIE. A VIE is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the entity's economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE (see Note 10 to the accompanying Notes to Consolidated Financial Statements).

Notes Receivable

On a quarterly basis, we evaluate the collectability of our notes receivable. Our evaluation of collectability involves judgment, estimates, and a review of the underlying collateral and the borrower's business models and future prospects. During the years ended December 31, 2013 and 2012, we recorded no impairment charges related to the notes receivable respectively.

Note Receivable from Related Party

On a quarterly basis, we evaluate the collectability of our note receivable from related party. Our evaluation of collectability involves judgment, estimates, and a review of the underlying collateral and borrower's business models and future cash flows. For the years ended December 31, 2013 and 2012, we recorded no impairment on the note receivable from related party.

Uncertain Tax Positions

In accordance with the requirements of ASC 740, "*Income Taxes,"* favorable tax positions are included in the calculation of tax liabilities if it is more likely than not that our adopted tax position will prevail if challenged by tax authorities. As a result of our REIT status, we are able to claim a dividends-paid deduction on our tax return to deduct the full amount of common dividends paid to stockholders when computing our annual taxable income. A REIT is subject to a 100% tax on the net income from prohibited transactions. A "prohibited transaction" is the sale or other disposition of property held primarily for sale to customers in the ordinary course of a trade or business. There is a safe harbor which, if met, expressly prevents the Internal Revenue Service from asserting the prohibited transaction test. As we have not had any sales of properties to date, the prohibited transaction tax is not applicable. We have no income tax expense, deferred tax assets or deferred tax liabilities associated with any such uncertain tax positions for the operations of any entity included in the consolidated results of operations.

Purchase Options

As of December 31, 2013, the Company has a property with a book value of approximately $8.1 million that is subject to a purchase option that becomes exercisable during 2014. The option provides the option holder with the right to purchase the property at increasing exercise price intervals based on elapsed time. The option expires August 13, 2022.

New Accounting Pronouncements

Please see Note 3 to the accompanying Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. We are exposed to the effects of interest rate changes as a result of borrowings used to maintain liquidity and to fund the acquisition, expansion and refinancing of our real estate investment portfolio and operations. Our profitability and the value of our investment portfolio may be adversely affected during any period as a result of interest rate changes. We invest our cash and cash equivalents in government-backed securities and FDIC-insured savings accounts which, by its nature, are subject to interest rate fluctuations. However, we believe that the primary market risk to which we will be exposed is interest rate risk related to our loan agreements.

We borrow funds at a combination of fixed and variable rates. Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed-rate debt or fixed-rate notes receivable unless such instruments mature or are otherwise terminated and/or need to be refinanced. However, interest rate changes will affect the fair value of our fixed-rate instruments. Conversely, changes in interest rates on variable-rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments.

As of December 31, 2013, we had borrowed approximately $52.8 million under variable-rate loan agreements. An increase in the variable interest rate on these loan agreements constitute a market risk as a change in rates would increase or decrease interest expense incurred and therefore cash flows available for distribution to stockholders. Based on the debt outstanding as of December 31, 2013, a one percent (1%) change in interest rates related to the variable-rate debt would result in a change in interest expense of approximately $528,000 per year, or approximately $0.02 per common share on a basic and diluted basis.

In addition to changes in interest rates, the value of our real estate is subject to fluctuations based on changes in the real estate capital markets, market rental rates for office space, local, regional and national economic conditions and changes in the creditworthiness of tenants. All of these factors may also affect our ability to refinance our debt, if necessary.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the index included at Item 15. Exhibits and Financial Statement Schedules.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) 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 Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), as appropriate, to allow timely decisions regarding required disclosure. Our Chief Executive Officer (Principal Executive Officer) and our Chief Financial Officer (Principal Financial Officer) have reviewed the effectiveness of our disclosure controls and procedures and have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

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, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13(a)-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) have concluded that we maintained effective internal control over financial reporting as of December 31, 2013.

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.

This annual report does not include an attestation report of our independent registered public accounting firm regarding control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the Dodd-Frank Wall Street and Consumer Protection Act, which exempts non-accelerated filers from the auditor attestation requirement of Section 404(b) of the Sarbanes-Oxley Act.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference from our definitive Proxy Statement to be filed with the SEC no later than April 30, 2014.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from our definitive Proxy Statement to be filed with the SEC no later than April 30, 2014.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference from our definitive Proxy Statement to be filed with the SEC no later than April 30, 2014.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference from our definitive Proxy Statement to be filed with the SEC no later than April 30, 2014.

REPORT OF THE INDEPENDENT DIRECTORS COMMITTEE

Review of our Investment Objectives

The Independent Directors Committee has reviewed our investment objectives to determine that they are in the best interest of our stockholders. Our investment objectives are to: (i) preserve stockholder capital by owning and operating real estate; (ii) purchase investment-grade properties with the potential for capital appreciation to our stockholders; (iii) purchase income-producing properties which will allow us to pay cash distributions to our stockholders at least quarterly; and (iv) provide liquidity to our stockholders within the shortest reasonable time necessary to accomplish the above objectives.

Our board of directors has begun diversifying our investment objectives to include investing in healthcare-related asset types. In connection with such acquisitions, the board of directors has approved the acquisition of assets with long-term financing in order to leverage the capital available to us and increase our assets under management to enable better diversification.

Review of our Policies

The Independent Directors Committee has reviewed our policies and determined that they are in the best interest of our stockholders. Set forth below is a discussion of the basis for that determination.

Offering Policy. We initiated our initial public offering on January 6, 2006, pursuant to which we offered 44.4 million shares of common stock in our primary offering at $8.00 per share. We also offered 11.0 million shares of our common stock under our distribution reinvestment plan at $7.60 per share. We stopped making offers under our initial public offering on June 1, 2009. We raised gross offering proceeds of approximately $163.7 million from the sale of approximately 20.5 million shares in our initial public offering other than shares issued under the distribution reinvestment plan.

We began accepting subscriptions in our current follow-on public offering on June 10, 2009, pursuant to which we are offering up to 56,250,000 shares of common stock at $8.00 per share in a primary offering. We also offered up to 21,100,000 shares of common stock under our dividend reinvestment plan at a purchase price equal to the higher of $7.60 per share or 95% of the fair market value of a share of our common stock. Effective November 23, 2010, our board of directors determined to discontinue making or accepting offers to purchase shares of stock in our follow-on offering while the board evaluates strategic alternatives to maximize stockholder value. As of December 31, 2013, we had raised approximately $3.4 million of gross proceeds from the sale of approximately 0.4 million shares of our common stock in our secondary offering, other than shares issued under the distribution reinvestment plan. Given our current strategic focus on repositioning the portfolio into healthcare properties and on operational efficiency and reducing overall advisory fees and expenses, and the significant near-term costs that would be associated with organization and offering activities related to re-launching our follow-on offering, we currently believe that it is in the best interests of the Company for the follow-on offering to remain suspended at present.

Acquisition and Investment Policies. We have historically focused on acquiring investment-grade real estate including multi-tenant industrial properties that were: (i) owned and operated on an all-cash basis with no permanent financing; (ii) high-quality, existing, and currently producing income; (iii) leased to a diversified tenant base; and (iii) leased with overall shorter-term operating type leases, allowing for annual rental increases and greater potential for capital growth. In addition, in 2012, we commenced a repositioning strategy and have acquired healthcare-related assets that are: (i) operated by high-quality and experienced operators; (ii) high-quality, existing, and currently producing income; and (iii) owned with limited, long-term leverage. We have the ability to invest in any type of real estate investment that we believe to be in the best interests of our stockholders, including other real estate funds or REITs, mortgage funds, mortgage loans and sale leasebacks. We do not currently believe that any further significant change to our current acquisition and investment policies would be in the best interests of our stockholders.

Borrowing Policies. With the objective of increasing income, we have acquired with short-term borrowing which we plan to refinance with favorable long-term debt financing to increase the amount of capital available to us and to achieve greater property diversification than is currently possible with an all-cash strategy. We may incur indebtedness for working capital requirements, tenant improvements, capital improvements, and leasing commissions and to make distributions, including but not limited to those necessary in order to maintain our qualification as a REIT for federal income tax purposes. We will endeavor to borrow funds on an unsecured basis but we may secure indebtedness with some or all of our properties if a majority of our independent directors determine that it is in the best interests of the Company and our stockholders. We may also acquire properties encumbered with existing financing which cannot be immediately repaid. We may invest in joint venture entities that borrow funds or issue senior equity securities to acquire properties, in which case our equity interest in the joint venture would be junior to the rights of the lender or preferred stockholders. In some cases, our advisor may control the joint venture. Our charter limits our borrowings to the equivalent of 75% of our cost, before deducting depreciation or other non-cash reserves, of all our assets unless any excess borrowing is approved by a majority of our independent directors and is disclosed to our stockholders in our next quarterly report with an explanation from our independent directors of the justification for the excess borrowing. We did not exceed our charter limitation on borrowing during any quarter of 2013. We believe our current borrowing policies are in the best interests of our stockholders because they offer a higher level of safety and stability for our stockholders than would more aggressive borrowing policies.

Disposition Policy. Our goal in selling properties is to achieve maximum capital appreciation, although we cannot guarantee that this objective will be realized. Our general policy is to sell our properties for all cash. When we sell a property, we may, under limited circumstances, lend the purchaser a portion of the purchase price, provided that the aggregate amount of all mortgage loans outstanding on the property, including the loan we may make to the purchaser, may not exceed 85% of the appraised value of the property as determined by an independent appraiser, unless substantial justification exists. Our disposition policy provides us with the flexibility to time and structure property sales in a manner that optimizes our investment return. For this reason, we believe the current disposition policy is in the best interests of our stockholders.

Policy Regarding Working Capital Reserves. We do not intend to set aside offering proceeds for working capital purposes. Setting aside funds for this purpose would decrease the amount we can invest in real estate and hence reduce our opportunities to earn current income. We believe that proceeds from short-term borrowings and our cash flow from operations will be sufficient to meet our needs for working capital.

Policy Regarding Operating Expenses. Pursuant to provisions contained in our charter and in our amended and restated advisory agreement with our advisor, our board of directors has the ongoing responsibility of limiting our total operating expenses for the trailing four consecutive quarters to amounts that do not exceed the greater of 2% of our average invested assets or 25% of our net income, calculated in the manner set forth in our charter, unless a majority of the directors (including a majority of the independent directors) has made a finding that, based on unusual and non-recurring factors that they deem sufficient, a higher level of expenses is justified (the “2%/25% Test”). In the event that a majority of the directors (including a majority of the independent directors) does not determine that such excess expenses are justified, our advisor must reimburse to us the amount of the excess operating expenses paid or incurred (the “Excess Amount”).

For the trailing four-fiscal-quarter period ended December 31, 2013, our total operating expenses exceeded the greater of 2% of our average invested assets or 25% of our net income. We incurred operating expenses of approximately $4.3 million and incurred an Excess Amount of approximately $2.2 million. Our board of directors, including a majority of our independent directors, has determined that this Excess Amount is justified as unusual and non-recurring because of our small size (for a public reporting company) and the costs of repositioning our real estate investments. Notwithstanding such justification and as a condition to such justification, the Advisor has agreed that the Excess Amount for the four-fiscal-quarter period ended December 31, 2013 shall be carried over and included in total operating expenses in subsequent periods for purposes of the 2%/25% Test. The board of directors will continue to monitor the appropriateness of the expenses and the Advisors’s fees and consider options to reduce the Company’s expense structure.

Liquidation or Listing Policy. As we are in the midst of our asset repositioning strategy, we believe it is in the best interest of our stockholders not to list our common shares on a national exchange at this time. First, we believe it is more cost effective to remain unlisted at this point given our equity capitalization than to operate as a listed company. Second, our shares are offered as a long-term investment. We believe that the ability to provide our stockholders with liquidity in the near-term is outweighed by the potential long-term benefits of implementing the current business plan and gradually repositioning the portfolio into higher income-producing properties. In making the decision of whether to apply for listing of our shares, our directors will try to determine whether listing our shares or liquidating our assets will result in greater value for stockholders.

*Policy regarding Transactions with Affiliates***.** Our charter requires our Independent Directors Committee to review and approve all transactions involving our affiliates and us. Prior to entering into a transaction with an affiliate that is not covered by our advisory agreement with our Advisor, a majority of the Independent Directors Committee must conclude that the transaction is fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties. Furthermore, our Independent Directors Committee must review at least annually our fees and expenses to determine that the expenses incurred are reasonable in light of our investment performance, our net asset value, our net income and the fees and expenses of other comparable unaffiliated REITs. In addition, our Code of Business Conduct and Ethics sets forth examples of types of transactions with related parties that would create conflicts of interest between the interests of our stockholders and the private interests of the parties involved in such transactions. Our directors and officers are required to take all reasonable action to avoid such conflicts of interest or the appearance of conflicts of interest. If a conflict of interest becomes unavoidable, our directors and officers are required to report the conflict to a designated ethics contact, which, depending on the circumstances of the transaction, would be either our chief executive officer, chief financial officer, or the chairman of our audit committee. The appropriate ethics contact is then responsible for working with the reporting director or officer to monitor and resolve the conflict of interest in accordance with our Code of Business Conduct and Ethics.

Certain Transactions with Related Persons

The Independent Directors Committee has reviewed the material transactions between our affiliates and us since the beginning of 2013, all of which were approved in advance in accordance with our policy described above, and the terms of which will be disclosed in the Proxy Statement relating to our 2014 Annual Meeting of Stockholders under the heading "Certain Transactions with Related Persons." Based upon our review of these transactions and of the fees paid to affiliates of the Company since the beginning of 2013, we believe that all of the transactions have been fair and reasonable to the Company and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

March 31, 2014 **The Independent Directors Committee of the Board of Directors**
Daniel Johnson (Chairman) and Paul Danchik

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference from our definitive Proxy Statement to be filed with the SEC no later than April 30, 2014.

PART IV

ITEM 15. EXHIBITS

(a)(1) Financial Statements

The following financial statements are included in a separate section of this Annual Report on Form 10-K commencing on the page numbers specified below:

(2) Exhibits

The exhibits listed on the Exhibit Index (following the signatures section of this report) are included, or incorporated by reference, in this annual report.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Summit Healthcare REIT, Inc.

We have audited the accompanying consolidated balance sheet of Summit Healthcare REIT, Inc. (formerly known as Cornerstone Core Properties REIT, Inc.) and subsidiaries (the "Company") as of December 31, 2013 and the related consolidated statements of operations, equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Summit Healthcare REIT, Inc. and subsidiaries as of December 31, 2013, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited the adjustments to the 2012 consolidated financial statements to retrospectively apply the adjustments related to assets held for sale and discontinued operations, as described in Note 16. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2012 consolidated financial statements of the Company other than with respect to these adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 consolidated financial statements taken as a whole.

/s/ BDO USA, LLP

Costa Mesa, California
March 31, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Summit Healthcare REIT, Inc.

We have audited, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 16 to the consolidated financial statements, the consolidated balance sheet of Summit Healthcare REIT, Inc. and subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of operations, equity, and cash flows for the year then ended (the 2012 consolidated financial statements before the effects of the retrospective adjustments discussed in Note 16 to the consolidated financial statements are not presented herein). These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such 2012 consolidated financial statements, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 16 to the consolidated financial statements, present fairly, in all material respects, the financial position of Summit Healthcare REIT, Inc. and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the discontinued operations discussed in Note 16 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

/s/ DELOITTE & TOUCHE LLP
Costa Mesa, California
March 29, 2013

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 10,538,000	$ 999,000
Real estate properties (certain assets held in variable interest entity See Note 5):		
Land	6,502,000	4,521,000
Buildings and improvements, net	52,749,000	23,093,000
Furniture and fixtures, net	5,454,000	2,750,000
Intangible lease assets, net	3,823,000	2,650,000
Certificate of need (license)	6,786,000	6,786,000
Real estate properties, net	75,314,000	39,800,000
Notes receivable	208,000	908,000
Deferred costs and deposits	114,000	—
Deferred financing costs, net	1,023,000	690,000
Receivable from related parties	—	7,000
Tenant and other receivables, net	1,173,000	512,000
Restricted cash	646,000	325,000
Deferred leasing commission, net	2,389,000	1,340,000
Other assets, net	299,000	296,000
Real estate held for sale, net	—	42,963,000
Non-real estate assets associated with real estate held for sale	—	1,888,000
Assets of variable interest entity held for sale	4,299,000	4,264,000
Total assets	$ 96,003,000	$ 93,992,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable and accrued liabilities	$ 972,000	$ 511,000
Payable to related parties	175,000	136,000
Prepaid rent and deferred revenue	32,000	72,000
Security deposit	1,774,000	852,000
Liabilities associated with real estate held for sale	—	22,762,000
Liabilities (certain liabilities held in variable interest entity See Note 5):		
Loans payable	52,819,000	28,450,000
Liabilities of variable interest entity held for sale	2,769,000	2,452,000
Total liabilities	58,541,000	55,235,000
Commitments and contingencies (Note 15)		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2013 and December 31, 2012		
Common stock, $0.001 par value; 290,000,000 shares authorized; 23,028,285 shares issued and outstanding at December 31, 2013 and December 31, 2012	23,000	23,000
Additional paid-in capital	117,226,000	117,226,000
Accumulated deficit	(77,096,000)	(76,206,000)
Total stockholders' equity	40,153,000	41,043,000
Noncontrolling interest	(2,691,000)	(2,286,000)
Total equity	37,462,000	38,757,000
Total liabilities and equity	$ 96,003,000	$ 93,992,000

The accompanying notes are an integral part of these consolidated financial statements.

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31,

		2013		2012
Revenues:				
Rental revenues	$	6,120,000	$	1,222,000
Tenant reimbursements and other income		566,000		65,000
Interest income from notes receivable		50,000		52,000
		6,736,000		1,339,000
Expenses:				
Property operating costs		766,000		97,000
General and administrative		3,352,000		3,564,000
Asset management fees and expenses		1,080,000		971,000
Real estate acquisition costs		522,000		947,000
Depreciation and amortization		2,340,000		474,000
(Recovery of) reserve for excess advisor obligation		(125,000)		863,000
Impairment of notes receivable				—
Impairment of real estate				—
		7,935,000		6,916,000
Operating loss		(1,199,000)		(5,577,000)
Other income and (expense):				
Other income		63,000		—
Interest expense		(2,243,000)		(409,000)
Loss from continuing operations		(3,379,000)		(5,986,000)
Discontinued operations:				
Income (loss) from discontinued operations		(1,090,000)		(471,000)
Impairment of real estate		(3,368,000)		(2,077,000)
Gain on sales of real estate		5,967,000		—
Income (loss) income from discontinued operations		1,509,000		(2,548,000)
Net loss		(1,870,000)		(8,534,000)
Noncontrolling interests' share in losses		980,000		1,076,000
Net loss applicable to common shares	$	(890,000)	$	(7,458,000)
Basic and diluted (loss) income per common share				
Continuing operations	$	(0.15)	$	(0.26)
Discontinued operations		0.11		(0.07)
Net loss applicable to common shares	$	(0.04)	$	(0.33)
Weighted average shares used to calculate basic and diluted loss per common		23,028,285		23,028,285

The accompanying notes are an integral part of these consolidated financial statements

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended December 31, 2013 and 2012

	Common Stock						
	Number of Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total
BALANCE December 31, 2011	**23,028,285**	**$ 23,000**	**$ 116,238,000**	**$ (68,748,000)**	**$ 47,513,000**	**$ (1,887,000)**	**$ 45,626,000**
Reduction of excess offering costs	—	—	988,000	—	988,000	—	988,000
Dividends paid to noncontrolling interests	—	—	—	—	—	(39,000)	(39,000)
Noncontrolling interest contribution						716,000	716,000
Net loss	—	—	—	(7,458,000)	(7,458,000)	(1,076,000)	(8,534,000)
BALANCE — December 31, 2012	**23,028,285**	**23,000**	**117,226,000**	**(76,206,000)**	**41,043,000**	**(2,286,000)**	**38,757,000**
Dividends paid to noncontrolling interests	—	—	—	—	—	(109,000)	(109,000)
Noncontrolling interest contribution	—	—	—	—	—	684,000	684,000
Net loss	—	—	—	(890,000)	(890,000)	(980,000)	(1,870,000)
BALANCE — December 31, 2013	**23,028,285**	**$ 23,000**	**$ 117,226,000**	**$ (77,096,000)**	**$ 40,153,000**	**$ (2,691,000)**	**$ 37,462,000**

The accompanying notes are an integral part of these consolidated financial statements

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net loss	$ (1,870,000)	$ (8,534,000)
Adjustments to reconcile net loss to net cash and cash equivalents (used in) provided by operating activities:		
Amortization of deferred financing costs	166,000	162,000
Depreciation and amortization	2,846,000	1,993,000
Straight line rents and amortization of above/below market rents	(659,000)	(351,000)
Bad debt expense (recovery)	7,000	(13,000)
Reserve of excess advisor obligation	—	863,000
Impairment of real estate	3,368,000	2,077,000
Write-off of lease commission, straight-line rent receivables and other assets, net	1,049,000	—
Gain on sales of real estate	(5,967,000)	—
Change in operating assets and liabilities:		
Tenant and other receivables, net	162,000	(268,000)
Prepaid and other assets	254,000	(721,000)
Preferred leasing commissions	(1,386,000)	(1,764,000)
Restricted cash	(321,000)	(325,000)
Prepaid rent, security deposits and deferred revenue	(133,000)	(39,000)
Receivables from related parties	44,000	245,000
Deferred costs and deposits	21,000	6,000
Accounts payable and accrued expenses	472,000	234,000
Net cash used in operating activities	(1,947,000)	(6,435,000)
Cash flows from investing activities:		
Real estate acquisitions	(37,695,000)	(40,240,000)
Deferred acquisition costs	(113,000)	—
Real estate improvements	(54,000)	(87,000)
Proceeds from note receivable	700,000	—
Real estate dispositions	46,026,000	—
Net cash and cash equivalents provided by (used in) investing activities	8,864,000	(40,327,000)
Cash flows from financing activities:		
Proceeds from issuance of loan payable	24,525,000	43,246,000
Security deposit refunded/received, net	327,000	1,109,000
Repayment of loans payable	(22,004,000)	(13,925,000)
Non-controlling interest contribution	684,000	716,000
Distributions paid to non-controlling interests	(109,000)	(39,000)
Deferred financing costs	(745,000)	(761,000)
Net cash and cash equivalents provided by financing activities	2,678,000	30,346,000
Net increase (decrease) in cash	9,595,000	(16,416,000)
Cash and cash equivalents — beginning of period	1,067,000	17,483,000
Cash and cash equivalents – ending of period (including cash of VIE)	10,662,000	1,067,000
Cash and cash equivalents of VIE – end of period (see Note 10)	(124,000)	(68,000)
Cash and cash equivalents – end of period	$ 10,538,000	$ 999,000
NON CASH INVESTING AND FINANCING		
Supplemental disclosure of cash flow information:		
Cash paid for interest:	$ 2,420,000	$ 1,284,000
Supplemental disclosure of non-cash financing and interest activities		
Accrued real estate improvements	$ —	$ 44,000
Receivable from related party	$ —	$ 125,000
Reduction of excess offering costs	$ —	$ 988,000

The accompanying notes are an integral part of these consolidated financial statements

1. Organization

Summit Healthcare REIT, Inc., (formerly Cornerstone Core Properties REIT, INC) a Maryland Corporation, was formed on October 22, 2004 under the General Corporation Law of Maryland for the purpose of engaging in the business of investing in and owning commercial real estate. As used in this report, the "Company", "we", "us" and "our" refer to Cornerstone Core Properties REIT, Inc. and its consolidated subsidiaries (including variable interest entities) except where the context otherwise requires. Subject to certain restrictions and limitations, our business is managed pursuant to an advisory agreement (the "Advisory Agreement") by an affiliate, Cornerstone Realty Advisors, LLC (the "Advisor"), a Delaware limited liability company that was formed on November 30, 2004.

Cornerstone Operating Partnership, L.P. (the "Operating Partnership"), a Delaware limited partnership, was formed on November 30, 2004. At December 31, 2013, we owned a 99.88% general partner interest in the Operating Partnership while the Advisor owned a 0.12% limited partnership interest. We anticipate that we will conduct all or a portion of our operations through the Operating Partnership. Our financial statements and the financial statements of the Operating Partnership are consolidated in the accompanying consolidated financial statements. These financial statements include consolidation of a variable interest entity that is currently classified as held for sale (see Note 10). All intercompany accounts and transactions have been eliminated in consolidation.

We formed Cornerstone Healthcare Partners LLC ("CHP LLC") with Cornerstone Healthcare Real Estate Fund, Inc. ("CHREF"), an affiliate of our Advisor. We own 95% of CHP LLC, with the remaining 5% owned by CHREF. As CHP LLC's equity holders have voting rights disproportionate to their economic interests in the entity, CHP LLC is considered to be a VIE. We have a controlling financial interest in CHP LLC because we have the power to direct the activities of the VIE that most significantly impact its economic performance and we have the obligation to absorb the VIE's losses and the right to receive benefits from the VIE. Consequently, we are deemed to be the primary beneficiary of the VIE, and therefore have consolidated the operations of the VIE beginning in the third quarter of 2012.

We acquired the Sheridan Care Center, Fern Hill Care Center, Farmington Square, Friendship Haven Healthcare and Rehabilitation Center and Pacific Health and Rehabilitation Center healthcare properties (collectively, the "JV Properties") through CHP LLC. In the third quarter of 2013, as part of our strategy to raise new property level joint venture equity capital to support growth and diversify operator, geographic and other risks, we caused CHP LLC to sell a portion of its interests in the JV Properties to third party investors. Proceeds from the sale of interests in these JV Properties were $0.6 million as of December 31, 2013, of which we received $0.6 million and CHREF received $27,000. At December 31, 2013, we owned a 90.9% interest in the JV Properties, CHREF, an affiliate of the Advisor, owned a 4.8% interest and third party investors owned 4.3%. CHP LLC may sell up to an aggregate 46% interest in these JV Properties, leaving us with 54%. As outside investors acquire additional interests in the JV Properties, our interest in the JV Properties, and that of CHREF, will be reduced proportionately.

2. Public Offering

On January 6, 2006, we commenced a public offering. On June 10, 2009, we commenced a follow-on offering. On June 10, 2012, both offerings expired.

3. Summary of Significant Accounting Policies

The summary of significant accounting policies presented below is designed to assist in understanding our consolidated financial statements. Such consolidated financial statements and accompanying notes are the representations of our management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, or GAAP, in all material respects, and have been consistently applied in preparing the accompanying consolidated financial statements.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, CHP, LLC (of which the Company owns 95%) and Nantucket Acquisition LLC, a variable interest entity (see Note 10). All intercompany accounts and transactions have been eliminated in consolidation.

The Financial Accounting Standards Board ("FASB") issued Accounting Standard Codification ("ASC") 810, *Consolidation*, which addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights and accordingly should consolidate the entity. Before concluding that it is appropriate to apply the voting interest consolidation model to an entity, an enterprise must first determine that the entity is not a variable interest entity. We evaluate, as appropriate, our interests, if any, in joint ventures and other arrangements to determine if consolidation is appropriate.

Use of Estimates

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates on various assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate these estimates and judgments based on available information and experience. Actual results could differ from our estimates under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

Cash and Cash Equivalents

We consider all short-term, highly liquid investments that are readily convertible to cash with a maturity of three months or less at the time of purchase to be cash equivalents.

Restricted Cash

Restricted cash represents cash held in interest bearing accounts related to impound reserve accounts for property taxes, insurance and capital improvements or commitments as required under the terms of mortgage loan agreements. Based on the intended use of the restricted cash, we have classified changes in restricted cash within the statements of cash flows as operating.

Investments in Real Estate

We allocate the purchase price of our properties in accordance with ASC 805 – *Business Combinations*. Upon acquisition of a property, we allocate the purchase price of the property based upon the fair value of the assets acquired and liabilities assumed, which generally consists of land, buildings, site improvements, furniture and fixtures and intangible lease assets or liabilities, including in-place leases, above-market and below-market leases. We allocate the purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. We are required to make subjective assessments as to the estimated useful lives of our depreciable assets. We consider the period of future benefit of the assets to determine the appropriate estimated useful lives. Depreciation of our assets is being charged to expense on a straight-line basis over the estimated useful lives. We depreciate the fair value allocated to building and improvements over estimated useful lives ranging from 15 to 39 years.

We estimate the value of furniture and fixtures based on the assets' depreciated replacement cost. We depreciate the fair value allocated to furniture and fixtures over estimated useful lives ranging from three to six years.

In-place lease values are calculated based on management's evaluation of the expense that would be incurred to acquire a new tenant to occupy the leased space.

Acquired above- and below-market leases are valued based on the present value of the difference between prevailing market rates and the in-place rates over the remaining lease terms. The value of acquired above- and below-market leases is amortized over the remaining non-cancelable terms of the respective leases as an adjustment to rental revenue on our consolidated statements of operations. Our policy is to consider any bargain periods in the calculation of fair value of below-market leases and to amortize below-market leases over the remaining non-cancelable lease term plus any bargain renewal periods in accordance with FASB ASC 840, *Leases*, as determined by the Company's management at the time it acquires real property with an in-place lease. The renewal option rates for our acquired leases do not include any fixed-rate options and, instead, contain renewal options that are based on fair value terms at the time of renewal. Accordingly, no fixed-rate renewal options were included in the fair value of below-market leases acquired and the amortization period is based on the acquired non-cancelable lease term.

We amortize the value of in-place leases and above- and below-market leases over the initial term of the respective leases. Should a tenant terminate its lease, the unamortized portion of the above- or below-market lease value will be charged to revenue. If a lease is terminated prior to its expiration, the unamortized portion of the tenant improvements, intangible lease assets or liabilities and the in-place lease value will be immediately charged to expense.

In an effort to control the rapidly escalating costs of health care, the state of Oregon has implemented a certificate of need ("CON") program pertaining to skilled-nursing facilities. This program requires that a CON is obtained from the state prior to opening such facility. We valued the CON assets related to our Fernhill, Sheridan and Pacific facilities using an income approach. As the CON does not expire and can be sold independently of the facilities, we determined that these assets have indefinite useful lives and consequently are not being amortized.

Depreciation of Real Property Assets

We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the assets to determine the appropriate estimated useful lives. Depreciation of our assets is charged to expense on a straight-line basis over the estimated useful lives.

Impairments

In accordance with ASC 360, *Property, Plant, and Equipment*, we conduct a comprehensive review of our real estate assets for impairment. ASC 360 requires that asset values be analyzed whenever events or changes in circumstances indicate that the carrying value of a property may not be fully recoverable.

Indicators of potential impairment include the following:

- Change in strategy resulting in a decreased holding period;
- Decreased occupancy levels;
- Deterioration of the rental market as evidenced by rent decreases over numerous quarters;
- Properties adjacent to or located in the same submarket as those with recent impairment issues;
- Significant decrease in market price; and/or
- Tenant financial problems.

The intended use of an asset, either held for sale or held and used, can significantly impact the measurement of asset recoverability. If an asset is intended to be held and used, the impairment analysis is based on a two-step test.

The first test measures estimated expected future cash flows over the holding period, including a residual value (undiscounted and without interest charges), against the carrying value of the property. If the asset fails that test, the asset carrying value is compared to the estimated fair value with the excess of the asset's carrying value over the estimated fair value recognized as an impairment charge to earnings.

We recorded no impairment charges related to properties held and used in 2013 and 2012. We recorded impairments of $3.4 million and $2.1 million related to assets held for sale during the years ended December 31, 2013 and 2012.

Fair Value Measurements

ASC 825, *Financial Instruments*, requires the disclosure of fair value information about financial instruments whether or not recognized on the face of the balance sheet, for which it is practical to estimate that value.

Fair value represents the estimate of the proceeds to be received, or paid in the case of a liability, in a current transaction between willing parties. ASC 820, *Fair Value Measurement,* establishes a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. Inputs are either observable or unobservable in the marketplace. Observable inputs are based on market data from independent sources and unobservable inputs reflect the reporting entity's assumptions about market participant assumptions used to value an asset or liability.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1. Quoted prices in active markets for identical instruments.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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 use 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 consolidated balance sheets include the following financial instruments: cash and cash equivalents, notes receivable, receivable from related parties, tenant and other receivables, other assets, deferred costs and deposits, deferred financing costs, accounts payable and accrued liabilities, payable to related parties, prepaid rent, security deposits and deferred revenue and loans payable. With the exception of notes receivable, note receivable from related party and notes payable discussed below, we consider the carrying values to approximate fair value for such financial instruments because of the short period of time between origination of the instruments and their expected payment.

As of December 31, 2013 and December 31, 2012, the fair value of notes receivable was \$0.3 million and \$1.0 million, compared to the carrying value of \$0.2 million and \$0.9 million, respectively. The fair value of notes receivable is estimated by discounting the expected cash flows at current market rates at which management believes similar loans would be made. In December 2011, the Servant Investments and the Servant Healthcare notes receivable were restructured to provide for the settlement of the notes in the amount of \$2.5 million, \$1.5 million of which was received from the borrower in December 2011. The remaining \$1.0 million is payable pursuant to a promissory note of Servant Healthcare which provides for interest at a fixed rate of 5.00% per annum. A principal payment of \$0.7 million, plus accrued interest, was paid on December 22, 2013 and the remaining balance of \$0.3 million, plus any accrued and unpaid interest, is due on December 22, 2014. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our notes receivable are classified as Level 3 assets within the fair value hierarchy.

As of December 31, 2013 and December 31, 2012, the fair value of notes payable was \$52.9 million and \$51.0 million, compared to the carrying value of \$52.8 million and \$50.3 million, respectively. The fair value of notes payable was estimated using lending rates available to us for financial instruments with similar terms and maturities. To estimate fair value as of December 31, 2013, we utilized a discount rate of 5.25%. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our notes payable are classified as Level 3 assets within the fair value hierarchy. The carrying values noted above include notes payable classified on our consolidated balance sheets as liabilities associated with real estate held for sale totaling \$0 and \$21.8 million as of December 31, 2013 and December 31, 2012, respectively.

As a result of our ongoing analysis for potential impairment of our investments in real estate, including properties classified as held for sale, we were required to adjust the carrying value of certain assets to their estimated fair values as of December 31, 2013 (see Note 4).

There were no assets measured at fair value on a nonrecurring basis during the year ended December 31, 2013.

The following table summarizes the assets measured at fair value on a nonrecurring basis during the year ended December 31, 2012:

	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses for the Year Ended December 31, 2012
Assets held for sale	$ 1,612,000	$ 1,612,000	$ —	$ —	$ (937,000)
Variable interest entity held for sale	$ 3,760,000	$ —	$ 3,760,000	$ —	$ (1,140,000)

The investments in real estate measured at fair value less estimated selling costs was deemed to be a level one asset as its fair value was derived from an offer for the property for which a purchase and sale agreement had been executed.

The variable interest entity held for sale measured at fair value, less estimated selling costs, during the second quarter of 2012 was deemed to be a Level 2 asset as we had received a formal offer for the property. As of the valuation date, we did not believe that this asset was a Level 1 asset because a purchase and sale agreement had not been executed, giving the potential buyer the right to opt out of the transaction at its discretion.

At December 31, 2013 and December 31, 2012, we do not have any significant financial assets or financial liabilities that are measured at fair value on a recurring basis in our consolidated financial statements.

Variable Interest Entities

The Company analyzes its contractual and/or other interests to determine whether such interests constitute an interest in a variable interest entity ("VIE") in accordance with ASC 810, *Consolidation*, and, if so, whether the Company is the primary beneficiary. If the Company is determined to be the primary beneficiary of a VIE, it must consolidate the VIE. A VIE is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the entity's economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE (see Notes 5 and 10).

Tenant and Other Receivables, net

Tenant and other receivables are comprised of rental and reimbursement billings due from tenants and the cumulative amount of future adjustments necessary to present rental income on a straight-line basis. Tenant receivables are recorded at the original amount earned, less an allowance for any doubtful accounts, which approximates fair value. Management assesses the realizability of tenant receivables on an ongoing basis and provides for allowances as such balances, or portions thereof, are estimated to become uncollectible. For the years ended December 31, 2013 and 2012, (recoveries)/provisions for bad debt amounted to approximately $7,000 and ($13,000), respectively, which are included in property operating and maintenance expenses in the accompanying consolidated statements of operations. Our allowance for doubtful accounts was $0 and $0.2 million as of December 31, 2013 and 2012.

Other Assets, net

Other assets consist primarily of leasing commissions, net of amortization, and prepaid insurance. Additionally, other assets will be amortized to expense over their future service periods. Balances without future economic benefit are expensed as they are identified.

Leasing commissions are stated at cost and amortized on a straight-line basis over the related lease term. As of December 31, 2013 and December 31, 2012, we incurred approximately $2.6 million and $2.2 million in leasing commissions, respectively. Amortization expense for the years ended December 31, 2013 and 2012 was approximately $0.2 million and $0.2 million, respectively.

Deferred Costs and Deposits

Deferred costs and deposits primarily consist of deposit on potential acquisitions and utility deposits.

Deferred Financing Costs

Costs incurred in connection with debt financing are recorded as deferred financing costs. Deferred financing costs are amortized using the straight-line basis which approximates the effective interest rate method, over the contractual terms of the respective financings.

Revenue Recognition and Valuation of Receivables

Revenue is recorded in accordance with ASC 840, *Lease*s, and SEC Staff Accounting Bulletin No. 104, "*Revenue Recognition in Financial Statements, as amended*" ("SAB 104"). Such accounting provisions require that revenue be recognized after four basic criteria are met. These four criteria include persuasive evidence of an arrangement, the rendering of service, fixed and determinable income and reasonably assured collectability. Leases with fixed annual rental escalators are recognized on a straight-line basis over the initial lease period, subject to a collectability assessment. Rental income related to leases with contingent rental escalators is generally recorded based on the contractual cash rental payments due for the period. Because our leases provide for free rent, lease incentives, or other rental increases at specified intervals, we straight-line the recognition of revenue, which results in the recording of a receivable for rent not yet due under the lease terms. Our revenues are comprised largely of rental income and other income collected from tenants.

Noncontrolling Interest in Consolidated Subsidiary

Noncontrolling interest relates to the interest in the consolidated entities that are not wholly-owned by us.

On January 1, 2009, we adopted ASC 810-10-65, "*Consolidation*", which clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. ASC 810-10-65 also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest and requires disclosure, on the face of the consolidated statements of operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest.

We periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling interest as permanent equity in the consolidated balance sheets. Any noncontrolling interest that fails to qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (a) the carrying amount, or (b) its redemption value as of the end of the period in which the determination is made.

Income Taxes

We have elected to be taxed as a REIT, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code") beginning with our taxable year ending December 31, 2006. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to currently distribute at least 90% of the REIT's ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the Internal Revenue Service were to grant us relief under certain statutory provisions. Such an event could materially and adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we will be organized and operate in such a manner as to qualify for treatment as a REIT and intend to operate for the foreseeable future in such a manner so that we will remain qualified as a REIT for federal income tax purposes.

Uncertain Tax Positions

In accordance with the requirements of ASC 740, "*Income Taxes,"* favorable tax positions are included in the calculation of tax liabilities if it is more likely than not that our adopted tax position will prevail if challenged by tax authorities. As a result of our REIT status, we are able to claim a dividends-paid deduction on our tax return to deduct the full amount of common dividends paid to stockholders when computing our annual taxable income, which results in our taxable income being passed through to our stockholders. A REIT is subject to a 100% tax on the net income from prohibited transactions. A "prohibited transaction" is the sale or other disposition of property held primarily for sale to customers in the ordinary course of a trade or business. There is a safe harbor provision which, if met, expressly prevents the Internal Revenue Service from asserting the prohibited transaction test. We have no income tax expense, deferred tax assets or deferred tax liabilities associated with any such uncertain tax positions for the operations of any entity included in the consolidated results of operations.

Basic and Diluted Net Loss and Distributions per Common Share

Basic and diluted net loss per common share applicable to common shares is computed by dividing net loss applicable to common shares by the weighted-average number of common shares outstanding for the period. For each of the years ended December 31, 2013 and 2012, 40,000 stock options, held by our independent directors, have been excluded from the weighted-average number of shares outstanding since their effect was anti-dilutive.

Basic and diluted net loss per share is calculated as follows:

	Year Ended December 31, 2013	Year Ended December 31, 2012
Net loss applicable to common shares	$ (890,000)	$ (7,458,000)
Basic and diluted net loss per common share applicable to common shares	$ (0.04)	$ (0.33)
Weighted-average number of shares outstanding — basic and diluted	23,028,285	23,028,285

The Company declared no cash distributions per common share during the years ended December 31, 2013 and 2012.

Reclassification

Assets sold or held for sale and associated liabilities have been reclassified on the consolidated balance sheets and operating results and impairments have been reclassified from continuing to discontinued operations.

New Accounting Pronouncements

On January 1, 2013, we adopted Accounting Standards Update ("ASU") 2012-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2012-04 requires incremental fair value disclosures in the notes to the financial statements. The adoption of this guidance did not have a material impact on our consolidated financial statements.

4. Investments in Real Estate

As of December 31, 2013, our portfolio consists of eleven properties which were 100.0% leased. The following table provides summary information regarding our properties.

Property (1)	Location	Date Purchased	Square Footage	Purchase Price	Debt	Dec. 31, 2013 % Leased
Healthcare:						
Sheridan Care Center	Sheridan, OR	August 3, 2012	13,912	$ 4,100,000	$ 2,785,000	100.0 %
Fern Hill Care Center	Portland, OR	August 3, 2012	13,344	4,500,000	2,984,000	100.0 %
Farmington Square	Medford, OR	September 14, 2012	32,557	8,500,000	5,768,000	100.0 %
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	September 14, 2012	56,968	15,000,000	10,641,000	100.0 %
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	25,082	8,140,000	6,116,000	100.0 %
Danby House	Winston-Salem, NC	January 31, 2013	26,703	9,700,000	7,275,000	100.0 %
Heritage Woods of Aledo	Aledo, IL	July 2, 2013	49,420	8,625,000	5,850,000	100.0 %
The Shelby House	Shelby, NC	October 4, 2013	23,074	4,500,000	3,375,000	100.0 %
The Hamlet House	Hamlet, NC	October 4, 2013	34,638	6,500,000	4,830,000	100.0 %
The Carteret House	Newport, NC	October 4, 2013	29,570	4,300,000	3,195,000	100.0 %
Redding Assisted Living	Redding, CA	December 18, 2013	26,081	3,500,000	—	100.0 %
Total Healthcare:			331,349	$ 77,365,000	$ 52,819,000	100.0 %

(1) The above table excludes Sherburne Commons Residences, LLC (“Sherburne Commons”), a variable interest entity (“VIE”) for which we became the primary beneficiary and began consolidating its financial results as of June 30, 2011. As of October 19, 2011, Sherburne Commons was classified as held for sale (See Note 16).

As of December 31, 2013, adjusted cost and accumulated depreciation and amortization related to investments in real estate and related intangible lease assets and liabilities, including those acquired through COP, LP, and excluding assets of variable interest entity held for sale, were as follows:

	Land	Buildings and Improvements	Furniture and Fixture	In-Place Lease Value	Certificate of Need
Investments in real estate and related intangible lease assets (liabilities)	$ 6,502,000	$ 54,324,000	$ 6,393,000	$ 3,935,000	$ 6,786,000
Less: accumulated depreciation and amortization	—	(1,575,000)	(939,000)	(112,000)	—
Net investments in real estate and related intangible lease assets (liabilities)	$ 6,502,000	$ 52,749,000	$ 5,454,000	$ 3,823,000	$ 6,786,000

As of December 31, 2012, adjusted cost and accumulated depreciation and amortization related to investments in real estate and related intangible lease assets and liabilities, including those acquired through CHP LLC, were as follows:

	Land	Buildings and Improvements	Furniture and Fixture	In-Place Lease Value	Certificate of Need
Investments in real estate and related intangible lease assets (liabilities)	$ 4,521,000	$ 23,299,000	$ 2,915,000	$ 2,720,000	$ 6,786,000
Less: accumulated depreciation and amortization	—	(206,000)	(165,000)	(70,000)	—
Net investments in real estate and related intangible lease assets (liabilities)	$ 4,521,000	$ 23,093,000	$ 2,750,000	$ 2,650,000	$ 6,786,000

Real Estate Held for Sale

When assets are classified as held for sale, they are recorded at the lower of carrying value or the estimated fair value of the asset, net of estimated selling costs. In the first quarter of 2012, we recorded a $1.1 million impairment related to Nantucket Acquisition, LLC, as a result of receiving an offer to purchase the property. In the fourth quarter of 2012, we recorded a $0.9 million impairment loss related to the Carter Commerce Center based on the contractual sales price. As of December 31, 2013, we have sold all remaining industrial assets. Consequently, we reclassified these properties to real estate held for sale and their financial operations activity to discontinued operations for all periods presented.

In the second quarter of 2013, we recorded a $3.4 million impairment related to the Orlando Small Bay portfolio as a result of receiving an offer to purchase the property for less than our than book value. This impairment is classified as impairment of real estate and included in discontinued operations on our consolidated statement of operations for the year ended December 31, 2013.

The following table illustrates, by property, the impairment charge recorded to impairment of real estate held for sale or sold for the years ended December 31, 2013 and 2012:

Property	2013	2012
Carter Commerce Center	$ —	$ 937,000
Goldenrod Commerce Center	657,000	—
Hanging Moss Commerce Center	1,034,000	—
Monroe Commerce Centers	1,677,000	—
Nantucket Acquisition LLC	—	1,140,000
	$ 3,368,000	$ 2,077,000

See Note 16 for discussion of amounts recorded in discontinued operations.

Future Minimum Lease Payments

The future minimum lease payments to be received under existing operating leases for properties owned as of December 31, 2013 are as follows:

Years ending December 31,	
2014	7,241,000
2015	7,403,000
2016	7,575,000
2017	7,752,000
2018	7,933,000
2019 and thereafter	57,715,000
	$ 95,619,000

The schedule does not reflect future rental revenues from the potential renewal or replacement of existing and future leases and excludes property operating expense reimbursements. Additionally, leases where the tenant can terminate the lease with short-term notice are not included.

5. Acquisitions

Healthcare Properties Acquisitions -2012

In 2012, we acquired through CHP LLC the five healthcare properties described below. CHREF, an affiliate of the Advisor, owns a 5% interest in CHP LLC. As CHP LLC's equity holders have voting rights disproportionate to their economic interests in the entity, CHP LLC is considered to be a VIE. We have controlling financial interest in CHP LLC because we have the power to direct the activities of the VIE that most significantly impact its economic performance and we have the obligation to absorb the VIE's losses and the right to receive benefits from the VIE. Consequently, we are deemed to be the primary beneficiary of the VIE, and therefore have consolidated the operations of the VIE beginning in the third quarter of 2012. Assets of the VIE may only be used to settle obligations of the VIE and creditors of the VIE have no recourse to the general credit of the Company.

Portland, Oregon Properties (Sheridan and Fernhill)

On August 3, 2012, through CHP LLC we acquired two skilled nursing facilities located in the Portland, Oregon metropolitan area for a purchase price of $8.6 million in cash. 411 SE Sheridan Road ("Sheridan"), located approximately fifty miles southwest of Portland in Sheridan, Oregon, is a 51-bed intermediate care facility. This 13,912 square foot single-story facility was constructed in multiple phases between 1960 and 1970. 5737 NE 37th Avenue ("Fernhill") located in Portland, Oregon, is a 13,344 square foot, originally constructed to be a 51-bed facility. The facility was built in 1960 and has obtained approval to expand to 63 beds. The operator of the Sheridan and Fernhill properties has served in that capacity since 2005, and has over twenty years of experience operating skilled nursing facilities in the Pacific Northwest. Upon the closing of the acquisitions, the existing operator is continuing to operate the properties under new long-term, triple-net leases. Including the Sheridan and Fernhill properties, the operator manages four skilled nursing facilities in Oregon. We acquired our interest in these properties subject to a secured loan with the seller in the aggregate amount of approximately $5.8 million secured by security interests in Sheridan and Fernhill. On September 14, 2012, we repaid the entire principal balance of the seller loan with proceeds from a loan from General Electric Capital Corporation which is secured, in part, by the Sheridan and Fernhill properties (see Note 14).

Medford, Oregon

On September 14, 2012, through CHP LLC, we acquired Farmington Square Medford, a memory care facility with 52 units and 71 licensed beds located within the Medford, Oregon city limits, for a purchase price of $8.5 million in cash. The facility, consisting of four separate wood-framed, single-story buildings totaling 32,557 square feet, was constructed in phases between 1990 and 1997. The operator of the Medford Facility has served in that capacity since 1991, and has over twenty years of experience operating senior-living facilities in the Pacific Northwest. The manager of the facility is continuing to operate the facility under a new long-term, triple-net lease. The acquisition was funded from a loan from General Electric Capital Corporation secured by the property.

Galveston, Texas
On September 14, 2012, through CHP LLC, we acquired Friendship Haven Healthcare and Rehabilitation Center, a skilled-nursing facility with 150 licensed beds located in Galveston County, Texas, for a purchase price of $15.0 million. The facility, a single-story, 56,968 square foot wood-frame building, was constructed in 1997. The manager of the Galveston Facility has served in that capacity since February 2013, and has over twenty years of experience operating senior-living facilities in Texas and Louisiana. The licensed operator is continuing to operate the Galveston facility under a new long-term, triple-net lease. Including the Galveston Facility, the manager manages fifteen skilled-nursing facilities in Texas. The acquisition was funded from a loan from General Electric Capital Corporation secured by the property.

Tigard, Oregon
On December 21, 2012, through CHP LLC, we acquired, through the exercise of an option that was assigned to us by Pacific Gardens Real Estate LLC ("Seller"), the Pacific Health & Rehabilitation skilled-nursing facility ("Pacific") located in Tigard, Oregon for $8.1 million in cash. Pacific, located at 14145 SW 105th Street, Tigard, Oregon has an operational capacity of 78 beds. Pacific will be leased to the current operator pursuant to a long-term triple-net lease.

The following summary provides the allocation of the acquired assets and liabilities of the facilities acquired in 2012. We have accounted for the acquisitions as business combinations under U.S. GAAP. Under business combination accounting, the assets and liabilities of acquired properties are recorded as of the acquisition date, at their respective fair values, and consolidated in our financial statements. The following sets forth the allocation of the purchase prices of the acquired properties as well as the associated acquisitions costs, which have been expensed as incurred.

	Sheridan	Portland	Medford	Galveston	Pacific	Total
Land	$ 160,000	$ 847,000	$ 954,000	$ 1,095,000	$ 1,466,000	$ 4,522,000
Buildings & improvements	1,374,000	1,276,000	6,353,000	11,101,000	1,989,000	22,093,000
Site improvements	151,000	46,000	233,000	509,000	266,000	1,205,000
Furniture & fixtures	328,000	359,000	434,000	1,263,000	531,000	2,915,000
In-place leases	290,000	307,000	526,000	1,032,000	565,000	2,720,000
Certificate of need	1,797,000	1,665,000	—	—	3,323,000	6,785,000
Real estate acquisitions	$ 4,100,000	$ 4,500,000	$ 8,500,000	$ 15,000,000	$ 8,140,000	$ 40,240,000
Real estate acquisition costs	$ 109,000	$ 109,000	$ 298,000	$ 222,000	$ 209,000	$ 947,000

The following unaudited pro forma information for the year ended December 31, 2012 has been prepared to reflect the incremental effect of the above properties acquired during 2012 as if all such transactions took place on January 1, 2012.

	Year ended December 31, 2012
Revenues	$ 4,255,000
Net loss from continuing operations	$ (3,180,000)
Basic and diluted net loss per common share from continuing operations	$ (0.14)

As of December 31, 2013 and 2012, adjusted cost, net of accumulated depreciation and amortization related to real estate and related intangible lease assets and liabilities of the CHP LLC VIE were as follows:

	Land	Buildings and Improvements	Furniture and Fixture	In-Place Lease Value	Certificate of Need
Investments in real estate and related intangible lease assets (liabilities)	$ 4,521,000	$ 23,304,000	$ 2,915,000	$ 2,720,000	$ 6,786,000
Less: accumulated depreciation and amortization	—	(1,143,000)	(665,000)	(90,000)	—
Net investments in real estate and related intangible lease assets (liabilities)	$ 4,521,000	$ 22,161,000	$ 2,250,000	$ 2,630,000	$ 6,786,000

Healthcare Properties Acquisitions -2013

Winston Salem, North Carolina
On January 31, 2013, we, through CHP LLC, acquired the Danby House, an assisted living and memory care facility located in Winston-Salem, North Carolina ("Danby House") for $9.7 million in cash. Danby House, located at 3150 Burke Mill Road, Winston-Salem, North Carolina, has an operational capacity of 99 beds. Danby House is leased to Meridian Senior Living, LLC ("Meridian"), the current operator of the facility, pursuant to a long-term triple-net lease. The initial lease term is ten years with a lessee option to renew for two additional five-year periods.

Aledo, Illinois
On July 2, 2013, we acquired from Aledo Senior Housing, LLC ("Seller"), the Heritage Woods of Aledo property ("Aledo") located in Aledo, Illinois for $8.6 million in cash. Aledo, located at 405 SE 13th Avenue, Aledo, Illinois is an assisted living facility with an operational capacity of 66 units. Aledo will be leased by us to an affiliate of Meridian pursuant to a long-term triple-net lease. The lease term is 15 years with a lessee option to renew for an additional five-year period.

North Carolina Portfolio (Carteret House, Hamlet House, and Shelby House)
On October 4, 2013, we acquired a 32 unit assisted living facility in Newport, North Carolina ("Carteret House"), a 60 unit assisted living facility in Hamlet, North Carolina ("Hamlet House"), and a 40 unit assisted living facility in Shelby, North Carolina ("Shelby House") (together, the "Properties") from Meridian for $15.3 million in cash.

The Properties are leased back to Meridian, the current operator of the Properties, under long-term triple net leases. The lease terms are 15 years, with lessee options to renew for one additional five-year period.

Carteret House
Carteret House is an assisted living facility with 32 units and 64 beds located in Newport, North Carolina. The facility, consisting of a single-story, wood frame structure totaling 29,570 square feet, was constructed in 1994.

Hamlet House
Hamlet House is an assisted living facility with 60 units and beds located in Hamlet, North Carolina. The facility, consisting of a single-story wood frame structure totaling 34,638 square feet, was constructed in 1999.

Shelby House
Shelby House is an assisted living facility with 40 units and 72 beds located in Shelby, North Carolina. The facility, consisting of a single-story wood frame structure totaling 23,074 square feet, was constructed in 1991.

Redding California
On December 18, 2013, we acquired a 40-unit assisted living facility located in Redding, California that was built in 1992 for $3.5 million in cash. The 26,081 square foot facility has been triple-net leased to an affiliate of Compass Senior Living, LLC ("Compass"), the new operator of the facility, pursuant to a ten-year term.

The following summary provides the allocation of the acquired assets and liabilities of the facilities acquired in 2013. We have accounted for the acquisitions as asset purchases under U.S. GAAP. The following sets forth the allocation of the purchase prices of the acquired properties as well as the third party associated acquisitions costs, which have been capitalized. The acquisition fee paid to our Advisor has been expensed.

	Danby	Aledo	North Carolina	Redding	Total
Land	$ 973,000	$ 215,000	$ 793,000	$ —	$ 1,981,000
Buildings & improvements	6,972,000	7,033,000	10,833,000	2,787,000	27,625,000
Site improvements	292,000	451,000	2,227,000	275,000	3,245,000
Furniture & fixtures	978,000	426,000	1,597,000	478,000	3,479,000
Tenant improvements	—	—	—	150,000	150,000
In-place leases	606,000	609,000	—	—	1,215,000
Real estate acquisitions	$ 9,821,000	$ 8,734,000	$ 15,450,000	$ 3,690,000	$ 37,695,000
Real estate acquisition costs	$ 136,000	$ 121,000	$ 214,000	$ 51,000	$ 522,000

The Company recorded revenues and net loss for the twelve months ended December 31, 2013 of approximately $6.7 million and $1.3 million, respectively, related to the 2013 acquisitions. The following unaudited pro forma information for the year ended December 31, 2012 has been prepared to reflect the incremental effect of the above properties acquired during 2012 as if all such transactions took place on January 1, 2012. For the year ended December 31, 2012, acquisition-related costs of $0.9 million were excluded from pro forma net loss. 2012 pro forma net loss was adjusted to include these charges.

	Year ended December 31, 2012
Revenues	$ 4,255,000
Net loss from continuing operations	$ (3,180,000)
Basic and diluted net loss per common share from continuing operations	$ (0.14)

6. Allowance for Doubtful Accounts

Allowance for doubtful accounts were $0 and $0.2 million as of December 31, 2013 and December 31, 2012, respectively.

7. Concentration of Risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily notes receivable and the note receivable from related party. Refer to Notes 8 and 9 with regard to credit risk evaluation of notes receivable and the note receivable from related party, respectively. Our cash is generally invested in investment-grade short-term instruments.

As of December 31, 2013, we had cash accounts in excess of FDIC-insured limits. However, we do not believe the risk associated with this excess is significant.

Concentrations of credit risk also arise when a number of tenants or obligors related to one investment are engaged in similar business activities or activities in the same geographic regions, have similar economic features that would cause their ability to meet contractual obligations, including those of the Company, to be similarly affected by changes in economic conditions. We regularly monitor our portfolio to assess potential concentration risk.

As of December 31, 2013, excluding the Sherburne Commons VIE, we owned one property in California, four properties in Oregon, four properties in North Carolina, one property in Texas, one property in Illinois. Accordingly, there is a geographic concentration of risk subject to economic conditions in certain states. Additionally, as of December 31, 2013, we leased our eleven healthcare properties to five different tenants under long-term triple net leases.

8. Notes Receivable

In May 2008, we agreed to loan up to $10.0 million at a rate of 10% per year to two real estate operating companies, Servant Investments, LLC ("SI") and Servant Healthcare Investments, LLC ("SHI" and collectively with SI, "Servant"). In May 2010, the loan commitments were reduced to $8.75 million. The loans were scheduled to mature on May 19, 2013. At the time the loans were negotiated, Servant was an advisor to an affiliate of the managing member of our Advisor.

We evaluate the collectability of our notes receivable on a quarterly basis. Our evaluation of collectability involves judgment, estimates, and a review of the underlying collateral and borrower's business models and future cash flows from operations. In the third quarter of 2009, we concluded that the collectability of the SI note could not be reasonably assured and, therefore, reserved $4.6 million against the note. In the second quarter of 2011, after evaluating the expected effects of changes in the borrower's business prospects, including the uncertainty surrounding Servant's future realization of the fees pursuant to a sub-advisory agreement, we concluded that it was probable that the Company would be unable to collect all amounts due according to the terms of the SHI note and consequently, we recorded a note receivable impairment of $1.7 million against the balance of that note. In December 2011, the notes receivable were restructured to provide for the settlement of the notes in the amount of $2.5 million, $1.5 million of which was received from the borrower in December 2011. The remaining $1.0 million is payable pursuant to a promissory note of SHI which provides for interest at a fixed rate of 5.00% per annum. A principal payment of $0.7 million, plus any accrued and unpaid interest, was due and paid on December 22, 2013 and the remaining balance of $0.3 million, plus any accrued and unpaid interest, is due on December 22, 2014.

As of December 31, 2013 and 2012, the note receivable had a net balance of $0.2 million and $0.9 million, respectively. Our policy is to recognize interest income for the reserved loan on a cash basis. For the years ended December 31, 2013 and 2012, interest income related to the note receivable was $50,000 and $52,000, respectively. We determined that Servant is not a variable interest entity and there is no requirement to include this entity in our consolidated balance sheets and consolidated statements of operations.

The following table reconciles notes receivable from January 1, 2012 to December 31, 2013**:**

	2013	2012
Balance at January 1	$ 908,000	$ 908,000
Additions:		
Additions to note receivable		—
Recovery of notes receivable due to settlement agreement	(700,000)	—
Balance at December 31,	$ 208,000	$ 908,000

9. Note Receivable from Related Party

On December 14, 2009, we made a participating first mortgage loan (in two tranches) with a principal amount totaling $8.0 million to Nantucket Acquisition LLC ("Nantucket"), an affiliate of our Advisor. The loan was made in connection with Nantucket Acquisition's purchase of a 60-unit senior living community known as Sherburne Commons located on the island of Nantucket, MA. Nantucket was formed for the sole purpose of acquiring Sherburne Commons and related real estate, and holds no other assets. The loan matures on January 1, 2015, with no option to extend, and bears interest at a fixed rate of 8.0% for the term of the loan. Nantucket Acquisition is considered a variable interest entity because the equity owners of Nantucket Acquisition do not have sufficient equity at risk, and our mortgage loan commitment was determined to be a variable interest.

Under the terms of the loan, we were entitled to receive additional interest in the form of a 40% participation in the appreciation in value of the property. Prepayment of the loan was not permitted without our consent and the loan was not assumable.

On a quarterly basis, we evaluate the collectability of our note receivable from related party. Our evaluation of collectability involves judgment, estimates, and a review of the underlying collateral and borrower's business models and future cash flows. For the years ended December 31, 2013 and 2012, we recorded no impairment charges on the note receivable from related parties.

Because the property's occupancy never achieved targeted levels, Nantucket did not have sufficient cash flow and therefore stopped paying interest on the loan in the first quarter of 2011. On June 30, 2011, the Company issued a notice of default to Nantucket. It was this event that caused management to determine that the Company had become the primary beneficiary of this VIE and to modify its previous accounting treatment for Nantucket. In accordance with the loan agreement, upon Nantucket's default, the Company obtained the power to direct the activities of Sherburne Commons that most significantly impacted Nantucket's economic performance, including assuming control of marketing and leasing activity, rental pricing, and the decision to sell or hold Sherburne Commons. As the estimated fair value of Sherburne Commons at that time was less than the principal balance of the Company's first lien loan on the real property, therefore eliminating any equity in the real property held by Nantucket, the Company assumed the obligation to absorb the losses of, and obtained the right to receive any benefits from, the VIE. Since assuming such control, the Company has funded approximately $1.4 million in working capital to support Nantucket. The Company was not contractually required to provide such support. These funds were provided to maintain the operations at the property to prepare it for an eventual sale, which management believes is the only plausible strategy for recovery of the note balance. In management's judgment, the above fact pattern gave the Company a controlling financial interest in Nantucket. Consequently, the Company became the primary beneficiary of the VIE and consolidated the financial results of Nantucket as of June 30, 2011 (see Note 10). In the fourth quarter of 2011, we recorded an impairment charge related to assets of variable interest entity held for sale of $4.8 million related to the Sherburne Commons property.

As a result of the default described above, we began recognizing interest income on a cash basis commencing in the first quarter of 2012. For the years ended December 31, 2013 and 2012, we recognized no income on this note.

During 2013 and 2012, the loan balance was increased by $0.3 million and $0.6 million, respectively, to provide funds to meet Sherburne Commons' operating shortfalls.

As of October 19, 2011, the Sherburne Commons property met the requirements for reclassification to real estate held for sale. Consequently, the related assets and liabilities of the property are classified as assets of variable interest entity held for sale and liabilities of variable interest entity held for sale, respectively, on our consolidated balance sheets. Operating results for the property have been reclassified to discontinued operations on our consolidated statements of operations for all periods presented.

The following table reconciles note receivable from related party from January 1, 2012 to December 31, 2013**:**

	2013	2012
Balance at January 1	$ —	$ —
Additions:		
Additions to note receivable from related parties	292,000	595,000
Deductions:		
Deductions:		
Repayments of note receivable from related party	—	—
Elimination of balance in consolidation of VIE	(292,000)	(595,000)
Balance at December 31,	$ —	$ —

10. Consolidation of Nantucket Variable Interest Entity

GAAP requires the consolidation of variable interest entities ("VIE") in which an enterprise has a controlling financial interest. A controlling financial interest has both of the following characteristics: (i) the power to direct the activities of a VIE that most significantly impact the VIEs economic performance and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

In compliance with ASC 810, *Consolidation,* we continuously analyze and reconsider our initial determination of VIE status to determine whether we are the primary beneficiary by considering, among other things, whether we have the power to direct the activities of the VIE that most significantly impact its economic performance. Such activities would include, among other things, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. We also consider whether we have the obligation to absorb losses of the VIE or the right to receive benefits from the VIE.

As of December 31, 2013 and 2012, we had a variable interest in a VIE in the form of a note receivable from Nantucket Acquisition in the amount of $9.4 million and $9.1 million, respectively (see Note 9).

As a result of our issuing a notice of default with respect to the note, we determined that we were the primary beneficiary of the VIE. Therefore, we consolidated the operations of the VIE beginning June 30, 2011. Assets of the VIE may only be used to settle obligations of the VIE and creditors of the VIE have no recourse to the general credit of the Company.

As of October 19, 2011, the Sherburne Commons property was reclassified to real estate held for sale. Consequently, the related assets and liabilities of the property are classified as assets of variable interest entity held for sale and liabilities of variable interest entity held for sale on our consolidated balance sheet. Operating results for the property have been reclassified to discontinued operations on our consolidated statements of operations for all periods presented.

The following table illustrates our fair value allocation of the assets and liabilities of Sherburne Commons consolidated in our consolidated balance sheets as of June 30, 2011, the date of consolidation of the VIE:

Cash and cash equivalents	$ 236,000
Buildings and improvements	5,658,000
Site improvements	610,000
Furniture and fixtures	390,000
Below-market ground lease	3,180,000
In-place leases	90,000
Below-market leases	(290,000)
Accounts receivable and other assets	195,000
Accounts payable and accrued liabilities	(289,000)
Interest payable	(57,000)
Loan payable	(128,000)
Note payable	(1,332,000)
Total net assets	$ 8,263,000

The estimated fair value of the property was derived using an income approach primarily utilizing Level 3 inputs. This approach estimates fair value based on expected future cash flows and requires us to estimate, among other things (1) future market rental income amounts, (2) property operating expenses, (3) risk-adjusted rate of return and capitalization rates, and (4) the number of months it is expected to take to re-lease the property to stabilized levels. A change in any one or more of these factors could materially impact whether a property is impaired as of any given valuation date. When available, current market information, such as comparative sales prices, was used to determine capitalization, discount, and rental growth rates. In cases where market information was not readily available, the inputs were based on our understanding of market conditions and the experience of our management team.

Since the Sherburne Commons property was reclassified to held for sale in the fourth quarter of 2011, the real estate is recorded at the lower of carrying value or the estimated fair value of the asset, net of estimated selling costs. Since June 30, 2011, leasing activity has been lower than originally anticipated and we have continued to provide funds to meet Sherburne Commons' operating shortfalls. As a result, at the time the property was reclassified as real estate held for sale, we reduced our cash flow forecasts for purposes of determining whether the property was impaired. As a result of expected reduced leasing activity which reduced our cash flow forecasts for Sherburne Commons, we were required to adjust the property to its estimated fair value, net of estimated selling costs resulting in an impairment charge of $4.8 million in 2011.

As of December 31, 2013 and 2012, adjusted cost, net of accumulated depreciation and amortization related to real estate and related intangible lease assets and liabilities of the VIE held for sale were as follows:

	Buildings and Improvements	Acquired Above Market Leases	In-Place Lease Value	Acquired Below-Market Leases
Net investments in real estate and related intangible lease assets (liabilities) of VIE held for sale	$ 688,000	$ 3,172,000	$ 45,000	$ (145,000)

11. Payables to Related Parties

Payables to related parties consists of asset management fees and expense reimbursement payable.

12. Equity

Common Stock

Our articles of incorporation authorize 290,000,000 shares of common stock with a par value of $0.001 and 10,000,000 shares of preferred stock with a par value of $0.001. As of December 31, 2013 and 2012, we had cumulatively issued approximately 20.9 million shares of common stock for a total of $167.1 million of gross proceeds, exclusive of shares issued under our distribution reinvestment plan. On November 23, 2010, we stopped making and accepting offers to purchase shares of our stock. Effective December 14, 2010, we suspended our distribution reinvestment plan and any distributions paid subsequent to December 14, 2010 have been in cash. No distributions have been declared or paid for periods subsequent to June 30, 2012 (see Note 2).

Employee and Director Incentive Stock Plan

We adopted an Employee and Director Incentive Stock Plan (the "Plan") which grants awards of stock to directors, full-time employees, and other eligible participants that provide services to us. We have no employees, and do not intend to grant awards under the Plan to persons who are not directors. Awards granted under the Plan may consist of nonqualified stock options, incentive stock options, restricted stock, share appreciation rights, and distribution equivalent rights. The term of the Plan is ten years and the total number of shares of common stock reserved for issuance under the Plan is equal to 10% of our outstanding shares of stock at any time.

Effective January 1, 2006, we adopted the provisions of ASC 718, *Compensation – Stock Compensation*, which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. As of December 31, 2013, we had granted to our independent, non-employee directors nonqualified stock options to purchase an aggregate of 80,000 shares of common stock, at an exercise price of $8.00 per share. Of these shares, 15,000, 20,000, and 5,000 shares lapsed and were canceled on November 8, 2008, April 5, 2012, and July 2, 2012, respectively, due to the resignations of three directors.

Outstanding stock options became immediately exercisable in full on the grant date, will expire ten years after their grant date, and had no intrinsic value as of December 31, 2013. We did not incur any non-cash compensation expense for the years ended December 31, 2013 and 2012. No stock options were exercised or canceled during the years ended December 31, 2013 and 2012. We record compensation expense for non-employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. These assumptions include the risk-free interest rate, the expected life of the options and the expected stock price volatility over the expected life of the options, and the expected distribution yield. Compensation expense for employee stock options is recognized ratably over the vesting term.

The expected life of the options was based on evaluations of expected future exercise behavior. The risk-free interest rate was based on the U.S. Treasury yield curve at the date of grant with maturity dates approximating the expected term of the options at the date of grant. Volatility was based on historical volatility of the stock prices for a sample of publicly traded companies with risk profiles similar to ours. The valuation model applied in this calculation utilizes highly subjective assumptions that could potentially change over time, including the expected stock price volatility and the expected life of an option. Therefore, the estimated fair value of an option does not necessarily represent the value that will ultimately be realized by an independent, non-employee director.

Our equity compensation plan information as of December 31, 2013 and 2012 is as follows:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	40,000	$ 8.00	See footnote(1)
Equity compensation plans not approved by security holders	—	—	—
Total	40,000	$ 8.00	See footnote(1)

(1) Our Employee and Director Incentive Stock Plan was approved by our security holders and provides that the total number of shares issuable under the plan is a number of shares equal to ten percent (10%) of our outstanding common stock. The maximum number of shares that may be granted under the plan with respect to "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code is 5,000,000. As of December 31, 2013 and 2012, there were approximately 23.0 million shares of our common stock issued and outstanding.

13. Related Party Transactions

Our Company has no employees. Our Advisor is primarily responsible for managing our business affairs and carrying out the directives of our board of directors. We have an Advisory Agreement with the Advisor which entitles the Advisor to specified fees upon the provision of certain services with regard to the investment of funds in real estate projects, among other services, as well as reimbursement of certain costs and expenses incurred by the Advisor in providing services to us.

Advisory Agreement

Under the terms of the Advisory Agreement, the Advisor will use commercially reasonable efforts to present to us investment opportunities to provide a continuing and suitable investment program consistent with the investment policies and objectives adopted by our board of directors. The Advisory Agreement calls for the Advisor to provide for our day-to-day management and to retain property managers and leasing agents, subject to the authority of our board of directors, and to perform other duties (see Note 18).

The fees and expense reimbursements payable to the Advisor under the Advisory Agreement are described below. As discussed below, we amended the Advisory Agreement on July 31, 2012.

Organizational and Offering Costs - Organizational and offering costs of our Offerings have been paid by the Advisor on our behalf and have been reimbursed to the Advisor from the proceeds of our Offerings. Organizational and offering costs consist of all expenses (other than sales commissions and the dealer manager fee) to be paid by us in connection with our Offerings, including our legal, accounting, printing, mailing and filing fees, charges of our escrow holder and other accountable offering expenses, including, but not limited to, (i) amounts to reimburse the Advisor for all marketing-related costs and expenses such as salaries and direct expenses of employees of the Advisor and its affiliates in connection with registering and marketing our shares; (ii) technology costs associated with the offering of our shares; (iii) the costs of conducting our training and education meetings; (iv) the costs of attending retail seminars conducted by participating broker-dealers; and (v) payment or reimbursement of bona fide due diligence expenses. In no event will we have any obligation to reimburse the Advisor for organizational and offering costs totaling in excess of 3.5% of the gross proceeds from our Primary Offering and Follow-On Offering. At times during our offering stage, before the maximum amount of gross proceeds has been raised, the amount of organization and offering expenses that we incur, or that our Advisor and its affiliates incur on our behalf, may exceed 3.5% of the gross offering proceeds then raised.

Inception to date as of December 31, 2012, the Advisor and its affiliates have incurred on our behalf organizational and offering costs totaling $5.6 million including $0.1 million that was expensed and $5.5 million which reduced net proceeds of our Offerings. Of the $5.5 million amount, $4.4 million reduced the net proceeds of our Primary Offering and $1.1 million reduced the net proceeds of our Follow-On Offering.

On June 10, 2012, our Follow-on Offering terminated. Our Advisory Agreement provides for reimbursement by the Advisor for organizational and offering costs in excess of 3.5% of the gross proceeds from our Primary Offering and Follow-On Offering. Under the Advisory Agreement, within 60 days after the end of the month in which our Follow-on Offering terminates, the Advisor is obligated to reimburse us to the extent that the organization and offering expenses related to our Follow-on Offering borne by us exceeds 3.5% of the gross proceeds of the Follow-on Offering. As of June 10, 2012, we had reimbursed our Advisor a total of $1.1 million in organizational and offering costs related to our Follow-on Offering, of which $1.0 million was in excess of the contractual limit. Consequently, in the second quarter of 2012, we recorded a receivable from the Advisor for $1.0 million reflecting the excess reimbursement. However, based on our evaluation of various factors related to collectability of this receivable, we reserved the full amount of the receivable as of June 30, 2012. On December 31, 2012, we reduced our reserve by $0.1 million as it became probable that we would collect this amount during 2013. During 2013, we collected and recognized approximately an additional $0.1 million. No assurances can be made when additional payments, if any, will occur.

Acquisition Fees and Expenses - In the third quarter of 2012, we amended our Advisory Agreement to change the acquisition fee payable to the Advisor from an amount equal to 2.0% of the gross proceeds raised from our Offerings to an amount not to exceed 2.0% of the purchase price of an acquired property. For the years ended December 31, 2013 and 2012, the Advisor earned $0.5 million and $0.6 million of acquisition fees. These fees are included in real estate acquisition costs on our Consolidated Statements of Operations.

Management Fees and Expenses - Prior to October 1, 2011, the Advisory Agreement required us to pay the Advisor a monthly asset management fee of one-twelfth of 1.0% of the Average Invested Assets (as defined in the Advisory Agreement). On August 31, 2011, we amended the Advisory Agreement to provide that, beginning on October 1, 2011, the asset management fee payable by us to our Advisor shall be reduced to a monthly rate of one-twelfth of 0.75% of our Average Invested Assets, as defined above. For the years ended December 31, 2013 and 2012, the Advisor earned $0.8 million and $0.8 million, respectively, of asset management fees which were expensed and included in asset management fees and expenses in our consolidated statements of operations.

In addition, we reimburse the Advisor for the direct and indirect costs and expenses incurred by the Advisor in providing asset management services to us, including personnel and related employment costs related to providing asset management services on our behalf. These fees and expenses are in addition to management fees that we pay to third party property managers. For the years ended December 31, 2013 and 2012, the Advisor reimbursed $0.3 million and $0.2 million, respectively, of such direct and indirect costs and expenses on our behalf, which are included in asset management fees and expenses in our consolidated statements of operations.

Operating Expenses - The Advisory Agreement provides for reimbursement of the Advisor's direct and indirect costs of providing administrative and management services to us. For the years ended December 31, 2013 and 2012, $1.3 million and $1.3 million of such costs, respectively, were reimbursed and are included in general and administrative expenses in our consolidated statements of operations.

Pursuant to provisions contained in our charter and in our Amended and Restated Advisory Agreement with our Advisor, our board of directors has the ongoing responsibility of limiting our total operating expenses for the trailing four consecutive quarters to amounts that do not exceed the greater of 2% of our average invested assets or 25% of our net income, calculated in the manner set forth in our charter, unless a majority of the directors (including a majority of the independent directors) has made a finding that, based on unusual and non-recurring factors that they deem sufficient, a higher level of expenses is justified (the "2%/25% Test"). In the event that a majority of the directors (including a majority of the independent directors) does not determine that such excess expenses are justified, our Advisor must reimburse to us the amount of the excess expenses paid or incurred (the "Excess Amount").

For the four-fiscal-quarter period ended December 31, 2013, our total operating expenses again exceeded the greater of 2% of our average invested assets and 25% of our net income. We incurred operating expenses of approximately $4.3 million and incurred an Excess Amount of approximately $2.2 million during the four-fiscal-quarters ended December 31, 2013. Our Board of Directors, including a majority of our independent directors, has determined that this Excess Amount is justified because of unusual and non-recurring factors such as our small size (for a public reporting company) and the costs of repositioning of our real estate investments. Notwithstanding such justification and as a condition to such justification, the Advisor has again agreed that the Excess Amount for the four-fiscal-quarter period ended December 31, 2013 shall be carried over and included in total operating expenses in subsequent periods for purposes of the 2%/25% Test. The board of directors will continue to monitor the appropriateness of the expenses and the Advisor's fees and consider options to reduce the Company's expense structure.

Property Management and Leasing Fees and Expenses. The Advisory Agreement provides that if we retain our Advisor or an affiliate to manage and lease some of our properties, we will pay a market-based property management fee or property leasing fee, which may include reimbursement of our Advisor's or affiliate's personnel costs and other costs of managing the properties. For the years ended December 31, 2013 and 2012, the Advisor earned approximately $163,000 and $31,000 respectively, of such property management fees. On July 31, 2012, we executed a Property Management and Leasing Agreement with the Advisor pursuant to which it will perform property management and leasing services with respect to our healthcare properties. This agreement stipulates that when the Advisor identifies tenants and negotiates a lease on our behalf for the healthcare properties, we will pay to the Advisor a market based leasing fee. For the years ended December 31, 2013 and 2012, the Advisor earned approximately $1.2 million and $1.4 million of leasing fees, respectively. These costs are included in property operating and maintenance expenses in our consolidated statements of operations.

Disposition Fee - The Amended and Restated Advisory Agreement provides that if the Advisor or its affiliates provide a substantial amount of the services (as determined by a majority of our directors, including a majority of our independent directors) in connection with the sale of one or more properties, we will pay the Advisor or such affiliate a disposition fee up to 1% of the sales price of such property or properties upon closing. This disposition fee may be paid in addition to real estate commissions paid to non-affiliates, provided that the total real estate commissions (including such disposition fee) paid to all persons by us for each property shall not exceed an amount equal to the lesser of (i) 6% of the aggregate contract sales price of each property or (ii) the competitive real estate commission for each property. We will pay the disposition fees for a property at the time the property is sold. For the years ended December 31, 2013 and 2012 the Advisor earned $0.6 million and $0, respectively, of such disposition fees.

Subordinated Participation Provisions - The Advisor is entitled to receive a subordinated participation upon the sale of our properties, listing of our common stock or termination of the Advisor, as follows:

- After stockholders have received cumulative distributions equal to $8.00 per share (less any returns of capital) plus cumulative, non-compounded annual returns on net invested capital, the Advisor will be paid a subordinated participation in net sales proceeds ranging from a low of 5% of net sales proceeds provided investors have earned annualized returns of 6% to a high of 15% of net sales proceeds if investors have earned annualized returns of 10% or more.

- Upon termination of the Advisory Agreement, the Advisor will receive the subordinated performance fee due upon termination. This fee ranges from a low of 5% of the amount by which the sum of the appraised value of our assets minus our liabilities on the date the Advisory Agreement is terminated plus total distributions (other than stock distributions) paid prior to termination of the Advisory Agreement exceeds the amount of invested capital plus annualized returns of 6%, to a high of 15% of the amount by which the sum of the appraised value of our assets minus our liabilities plus all prior distributions (other than stock distributions) exceeds the amount of invested capital plus annualized returns of 10% or more.

- In the event we list our stock for trading, the Advisor will receive a subordinated incentive listing fee instead of a subordinated participation in net sales proceeds. This fee ranges from a low of 5% of the amount by which the market value of our common stock plus all prior distributions (other than stock distributions) exceeds the amount of invested capital plus annualized returns of 6%, to a high of 15% of the amount by which the sum of the market value of our common stock plus all prior distributions (other than stock distributions) exceeds the amount of invested capital plus annualized returns of 10% or more.

For the years ended December 31, 2013 and 2012, we did not incur any subordinated participation fees.

Dealer Manager Agreement

Pacific Cornerstone Capital, Inc. (“PCC”), an affiliate of our Advisor, was the dealer manager for our initial and follow-on public offerings, prior to our follow-on offering expiring on June 10, 2012. As such, PCC was entitled to receive a sales commission of up to 7% of gross proceeds from sales in the primary offerings. PCC was also entitled to receive a dealer manager fee equal to up to 3% of gross proceeds from sales in the primary offerings. Dealer manager fees and sales commissions paid to PCC are a cost of capital raised and, as such, are included as a reduction of additional paid in capital in the accompanying consolidated balance sheets. PCC was also entitled to receive reimbursement of bona fide due diligence expenses up to 0.5% of the gross proceeds from sales in the primary offerings. The Advisory Agreement required the Advisor to reimburse us to the extent that offering expenses including sales commissions, dealer manager fees and organization and offering expenses (but excluding acquisition fees and acquisition expenses discussed above) were in excess of 13.5% of gross proceeds from our primary offerings. The dealer manager agreement with PCC effectively terminated on November 23, 2010 pursuant to the terms of that agreement.

14. Notes Payable

We have total debt obligations of $52.8 million that will mature between 2016 and 2018. In connection with our notes payable, we incurred financing costs totaling $1.2 million and $1.1 million, as of December 31, 2013 and 2012, respectively. These financing costs have been capitalized and are being amortized over the life of their respective financing agreements. During the years ended December 31, 2013 and 2012, 0.2 million and $0.4 million respectively, of deferred financing costs were amortized and included in interest expense in our consolidated statements of operations.

Wells Fargo Bank, National Association

In the first quarter of 2013, we sold the Carter property for cash proceeds of $1.7 million and used $0.6 million to pay down the loan with Wells Fargo Bank, National Association ("Wells Fargo"). In the third quarter of 2013, we sold two of the four Shoemaker Industrial buildings, Goldenrod Commerce Center, Hanging Moss Commerce Center, Monroe South Commerce Center and Monroe North Commerce Center for $24.0 million in cash and used $5.6 million of the proceeds to pay off the Wells Fargo loan in its entirety. During the years ended December 31, 2013 and 2012, we incurred $0.1 million and $0.3 million of interest expense, respectively.

Transamerica Life Insurance Company

The Transamerica Life Insurance Company ("Transamerica") loan agreement was secured by the Monroe North Commerce Center Property. On September 6, 2013, we sold this property, along with three other industrial properties, and used $6.7 million of the net proceeds to pay-off the Transamerica loan of $6.3 million and paid a prepayment penalty fee of $0.4 million. During the years ended December 31, 2013 and 2012, we incurred $0.3 million and $0.4 million of interest expense, respectively.

Seller Loan

On August 1, 2012, upon the acquisition of the Fernhill and Sheridan properties, we entered into a loan agreement with the sellers, Sheridan Care Center LLC, Sheridan Properties LLC, Fernhill Estates LLC, and Fernhill Properties LLC, for a loan (the "Seller Loan") in the aggregate amount of approximately $5.8 million secured by security interests in the two properties. The Seller Loan, which bore interest fixed at 5.0%, had a maturity date of on March 15, 2013, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the loan agreement would become due. The Seller Loan was interest-only and could be voluntarily prepaid in its entirety prior to the maturity date without penalty. Interest payments on the Seller Loan were due monthly. The principal balance of the Seller Loan was paid off in full on September 14, 2012 with the proceeds of the GE Healthcare Loan (described below). During the year ended December 31, 2012, we incurred $23,000 of interest expense related to this Seller Loan.

General Electric Capital Corporation – Western Property

On September 7, 2012, we entered into a loan agreement (the "Western Loan") with General Electric Capital Corporation for a loan in the aggregate amount of approximately $8.9 million, secured by the 20100 Western Avenue property. On January 23, 2013, we sold the 20100 Western Avenue property for cash proceeds of $17.6 million and paid off the entire balance of the Western Loan. The Western Loan, which bore interest at LIBOR plus 4.30%, with a LIBOR floor of 0.25%, was due to mature on September 30, 2014. The Western Loan was scheduled to be interest only through November 1, 2013, at which time it would begin amortizing over a 30-year period. During the year ended December 31, 2012, we incurred $134,000 of interest expense related to this loan agreement.

General Electric Capital Corporation – Healthcare Properties

On September 13, 2012, we entered into a loan agreement with General Electric Capital Corporation ("GE Healthcare Loan") for a loan in the aggregate amount of approximately $16.5 million secured by security interests in the Medford Facility and Galveston Facility. Additionally, we used part of the loan proceeds to repay the entire principal balance of the Seller Loan of $5.8 million. Consequently, the GE Healthcare Loan is also secured, in part, by the Fernhill and Sheridan properties. On December 21, 2012, we amended the loan agreement with General Electric Capital Corporation entered into on September 13, 2012 for an additional loan in the amount of $6.15 million secured by the Pacific property. The loan bears interest at LIBOR (London Interbank Offer Rate), with a floor of 50 basis points, plus a spread of 4.50%, and matures on September 12, 2017, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the loan agreement will become due. The GE Healthcare Loan was interest-only for the first twelve months (known as the "lockout period") and amortizes over a 25 year period thereafter. The loan may be voluntarily prepaid during the lockout period provided the borrower pays a penalty equal to the sum of the LIBOR Breakage Amount, as defined in the, GE Healthcare Loan Agreement and two percent of the outstanding balance of the loan. The GE Healthcare Loan may be prepaid with no penalty after the expiration of the lockout period, which has expired. Interest payments on the GE Healthcare Loan are due monthly. As of December 31, 2013, we were in compliance with all covenants. The monthly payment on this GE Healthcare Loan is approximately $0.1 million. As of December 31, 2013 and December 31, 2012, we had net borrowings of approximately $28.3 million and $28.5 million under the loan agreement, respectively. During the years ended December 31, 2013 and 2012, we incurred $1.4 million and $0.4 million, respectively, of interest expense related to this loan agreement.

The principal payments due on the loan for each of the four following years ended December 31 are as follows:

Year	Principal Amount
2014	$ 492,000
2015	523,000
2016	551,000
2017	26,728,000
Subtotal	$ 28,294,000

General Electric Capital Corporation – Aledo Property

On July 2, 2013, we entered into a loan agreement with GE for a loan (the "Aledo Loan") in the aggregate principal amount of $5.9 million secured by a first lien security interest in the Heritage Woods of Aledo facility. The Aledo Loan, which bears interest for the first 12 months at 90-day LIBOR plus 4.50%, with a LIBOR floor of 0.50%, matures on July 1, 2018, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the Aledo Loan will become due. The Aledo Loan is interest only for the first 12 months of the loan, and amortizes over a 25 year period with a 6.00% fixed interest rate thereafter. The Aledo Loan may not be prepaid for the first 12 months of the loan. After the 12 months lockout period, the loan may be prepaid without penalty. If certain conditions are met, primarily adding an additional asset to the loan to be cross collateralized with the Heritage Woods of Aledo property, the Company may borrow an additional $0.9 million on the Aledo Loan. As of December 31, 2013, we had net borrowings of approximately $5.9 million under the loan agreement. During the year ended December 31, 2013, we incurred $149,000 of interest expense related to the Aledo Loan.

The principal payments due on the Aledo Loan for each of the five following years ending December 31 are as follows:

Year	Principal Amount
2014	$ 56,000
2015	119,000
2016	125,000
2017	132,000
2018	5,418,000
Subtotal	$ 5,850,000

The PrivateBank and Trust Company – Winston-Salem Property

On January 31, 2013, we entered into a loan agreement with The PrivateBank and Trust Company for a loan (the "PB Loan") in the aggregate principal amount of $7.3 million secured by a first lien security interest in the Danby House facility. The PB Loan, which bears interest at one-month LIBOR plus 4.00%, with a LIBOR floor of 1.00% or the Prime Rate plus 1.75%, with an all-in floor of 5.00%, matures on January 30, 2016, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the PB Loan will become due. The PB Loan amortizes over 25 years, with principal amounts being paid into a sinking fund. The PB Loan may be prepaid with no penalty if refinanced through the U.S. Department of Housing and Urban Development ("HUD"). As of December 31, 2013, we had net borrowings of approximately $7.3 million under the loan agreement. During the year ended December 31, 2013, we incurred $339,000 of interest expense related to the PB Loan.

The principal payments, including payments to be made to the sinking fund, due on the PB loan for each of the three following years ending December 31 are as follows:

Year	Principal Amount
2014	$ 170,000
2015	179,000
2016	6,926,000
Subtotal	$ 7,275,000

We intend to refinance this loan with HUD insured debt to be secured by the Danby House property. In the fourth quarter of 2013, we have filed loan applications with HUD and have paid $0.4 million in fees and expenses associated with the refinancing. Such amounts have been capitalized and are included in deferred financing costs on the accompanying consolidated financial statements. While there can be no assurances made with respect to the HUD refinancing, we expect these HUD loans to close in the first quarter of 2014.

The PrivateBank and Trust Company – North Carolina Portfolio

On October 4, 2013, we entered into a loan agreement with The PrivateBank and Trust Company ("North Carolina Loan") for a loan in the aggregate amount of $11.4 million secured by a first lien security interest in the Carteret House, Hamlet House, and Shelby House properties. The loan, which bears interest at LIBOR, with a floor of 100 basis points, plus a spread of 4.25%, matures on October 3, 2016, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the loan agreement will become due. The Loan requires that the payment of principal, based on a 25 year amortization schedule, be deposited into a sinking fund. The loan may be prepaid with no penalty if the Properties are refinanced through HUD. Interest payments on the Loan are due monthly. As of December 31, 2013, we had net borrowings of approximately $11.4 million under the loan agreement. During the year ended December 31, 2013, we incurred $148,000 of interest expense related to the North Carolina Loan.

The principal payments, including payments to be made to the sinking fund, due on the North Carolina Loan for each of the three following years ending December 31 are as follows:

Year	Principal Amount
2014	$ 233,000
2015	245,000
2016	10,922,000
Subtotal	$ 11,400,000

15. Commitments and Contingencies

We monitor our properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, we are not currently aware of any environmental liability with respect to the properties that would have a material effect on our consolidated financial condition, results of operations and cash flows. Further, we are not aware of any environmental liability or any unasserted claim or assessment with respect to an environmental liability that we believe would require additional disclosure or the recording of a loss contingency.

Our commitments and contingencies include the usual obligations of real estate owners and operators in the normal course of business. In the opinion of management, these matters are not expected to have a material impact on our consolidated financial condition, results of operations and cash flows. We are also subject to contingent losses related to the notes receivable and note receivable from related party. For further details see Notes 8 and 9. We are not presently subject to any material litigation nor, to our knowledge, any material litigation threatened against us which if determined unfavorably to us would have a material effect on our consolidated financial statements.

16. Discontinued Operations

Divestitures

In accordance with ASC 360, *Property, Plant & Equipment*, we report results of operations from real estate assets that meet the definition of a component of an entity that have been sold, or meet the criteria to be classified as held for sale, as discontinued operations.

Real Estate Held for Sale and Disposed

In the fourth quarter of 2011 our board of directors authorized us to actively market the Sherburne Commons property, a VIE that we began consolidating on June 30, 2011 (see Note 10). As of December 31, 2013 and 2012, the property has been classified as assets of variable interest entity held for sale and liabilities of variable interest entity held for sale and the results of operations for the variable interest entity held for sale have been presented in discontinued operations on the accompanying consolidated statements of operations for all periods presented.

No real estate investments were disposed in 2012.

On December 17, 2012, we became obligated under a purchase and sale agreement to sell our Carter Commerce Center property for a sale price of $1.7 million and recorded an impairment charge of $1.5 million related to this property. On January 30, 2013, we sold our Carter Commerce Center property to Carter Commerce Center, LLC, an unrelated third party, for a sale price of $1.7 million and used $0.6 million of the proceeds to pay down the Wells Fargo loan secured by the property. The property, located at 890 Carter Road, Orlando, Florida, is a 49,125 square feet industrial building we acquired in November 2007.

On December 31, 2012, we became obligated under a purchase and sale agreement to sell our 20100 Western Avenue property for approximately $17.6 million. On January 23, 2013, we sold Western Avenue to MMB Management, LLC, an unrelated third party, for a sale price of $17.6 million and used $8.9 million of the proceeds to pay off the GE loan related to the property. The property is located at 20100 Western Avenue, Torrance, California and is an 116,433 square feet industrial building which we acquired in December 2006.

On June 27, 2013, we sold one of the two Marathon Center property buildings to Marathon Acquisitions, LLC, an unrelated third party, for $0.9 million in cash. Marathon Center, located in Tampa Florida, is a 25,117 square foot industrial property we acquired in April 2007.

On June 28, 2013, we sold the second of the two Marathon Center property buildings to Sulmor LLC, an unrelated third party, for $1.2 million in cash. Marathon Center, located in Tampa Florida, is a 26,903 square foot industrial property we acquired in April 2007.

On July 26, 2013, we sold our Santa Fe property to an unrelated third party for $1.7 million in cash. The property consists of 12,200 square feet of industrial space. We acquired the property in August 2010.

On August 5, 2013, we sold one of the four Shoemaker Industrial Buildings to an unrelated third party, for $0.6 million in cash. We used $0.4 million of the proceeds to pay down the Wells Fargo loan secured by the property. The Shoemaker Industrial building that was sold is located in Santa Fe Springs, California.

On August 14, 2013, we sold the second of the four Shoemaker Industrial Buildings to an unrelated third party, for $0.5 million in cash and used $0.4 million of the proceeds to pay down the Wells Fargo loan secured by the property. The Shoemaker Industrial building that was sold is located in Santa Fe Springs, California.

On September 6, 2013, we sold the Goldenrod Commerce Center, Hanging Moss Commerce Center, Monroe South Commerce Center and Monroe North Commerce Center properties to an unrelated third party for $24.0 million in cash. The Properties collectively comprise 526,694 square feet of industrial space we acquired from November 2007 through April 2008. We used $11.5 million of the sales proceeds to pay off the Wells Fargo Bank and Transamerica Life Insurance Company loans secured by the properties (see Note 14) and paid a prepayment penalty of $0.4 million related to the Transamerica loan.

On October 28, 2013, we sold the third of four Shoemaker Industrial buildings to an unrelated third party, for $0.6 million in cash. The Shoemaker Industrial Buildings are located in Santa Fe Springs, California.

On November 26, 2013, we sold the last Shoemaker Industrial building to an unrelated third party, for $0.5 million in cash.

The following is a summary of the components of income (loss) from discontinued operations for the years ended December 31, 2013 and 2012:

	2013	2012
Rental revenues, tenant reimbursements and other income	$ 4,373,000	$ 6,282,000
Operating expenses, real estate taxes, and interest expense	(4,957,000)	(5,234,000)
Depreciation and amortization	(506,000)	(1,519,000)
Impairment of real estate	(3,368,000)	(2,077,000)
Gain on sales of real estate, net	5,967,000	—
Income (loss) from discontinued operations	$ 1,509,000	$ (2,548,000)

For the years ended December 31, 2013 and 2012, we recorded impairment charges of $3.4 million and $2.1 million, respectively, related to real estate held for sale and these impairment charges are classified in discontinued operations in our consolidated statements of operations for the following properties:

Property	2013	2012
Carter Commerce Center	$ —	937,000
Goldenrod Commerce Center	657,000	—
Hanging Moss Commerce Center	1,034,000	—
Monroe Commerce Centers	1,677,000	—
Nantucket	—	1,140,000
	$ 3,368,000	$ 2,077,000

The fair values of the properties impaired in 2012 and 2013 were based on offers received for the properties.

The following table presents balance sheet information for the properties classified as held for sale as of December 31:

	2013	2012
Investments in real estate:		
Land	$ —	$ 11,525,000
Buildings and improvements, net	—	31,406,000
Intangible lease assets, net	—	32,000
Real estate held for sale, net	$ —	$ 42,963,000
Other assets:		
Tenant and other receivables, net	$ —	$ 671,000
Leasing commissions, net	—	481,000
Other assets	—	736,000
Non-real estate assets associated with real estate held for sale	$ —	$ 1,888,000
Assets of variable interest entity held for sale:		
Cash and cash equivalents	$ 124,000	$ 68,000
Investments in real estate, net	3,905,000	3,905,000
Accounts receivable, inventory and other assets	270,000	291,000
Total Assets	$ 4,299,000	$ 4,264,000
Liabilities:		
Accounts payable and accrued liabilities	$ —	$ 421,000
Interest payable	—	—
Tenant security deposits	—	497,000
Intangible lease liabilities, net	—	—
Notes payable	—	21,844,000
Liabilities associated with real estate held for sale	$ —	$ 22,762,000
Liabilities of variable interest entity held for sale:		
Note payable	$ 1,332,000	$ 1,332,000
Loan payable	219,000	222,000
Accounts payable and accrued liabilities	600,000	454,000
Intangible lease liabilities, net	145,000	145,000
Interest payable	473,000	299,000
Liabilities of variable interest entity held for sale	$ 2,769,000	$ 2,452,000

Purchase Options
As of December 31, 2013, the Company has a property with a book value of approximately $8.1 million that is subject to a purchase option that becomes exercisable during 2014. The option provides the option holder with the right to purchase the property at increasing exercise price intervals based on elapsed time. The option expires August 13, 2022.

17. Segment Reporting

ASC 280, *Segment Reporting*, establishes standards for reporting financial and descriptive information about an enterprise’s reportable segments. Historically we have operated in one reportable segment: industrial, which consisted of multi-tenant industrial properties offering a combination of warehouse and office space adaptable to a broad range of tenants and uses typically catering to local and regional businesses. With the acquisitions of healthcare real estate in mid-2012, we began to operate in two reportable segments: industrial and healthcare. Our healthcare segment consists of senior-housing facilities leased to healthcare operating companies under long-term “triple-net” or “absolute-net” leases, which require the tenants to pay all property-related expenses. We lease our healthcare properties to five different operators, each of which comprise over ten percent of our healthcare segment revenue. The Sherburne Commons property continues to be reported as held for sale (see Note 16) and the results of its operations have been reported in discontinued operations.

As part of our transition strategy, we sold the remaining industrial properties in 2013. Therefore, for the year ended December 31, 2013 and 2012, all the industrial properties have been reclassified as held for sale (see Note 16) and the results of its operations are now all reported in discontinued operations for all periods presented.

18. Subsequent Events

On March 17, 2014, we delivered written notice to the Advisor terminating the Advisory Agreement effective May 16, 2014. We are currently working with our Advisor to develop an orderly transition. On March 27, 2014, we received a letter from a law firm purporting to represent the Advisor and certain of its affiliates which made certain assertions against the Company, its directors and officers. Based upon our examination of these assertions, we believe that these assertions are without merit, and to the extent the Advisor files any formal claims, they will be vigorously defended by the Company.

Beginning in January 2014, the tenant/operator of the Friendship Haven Healthcare and Rehabilitation Center stopped paying rent payments due to us under the lease agreement. On March 18, 2014, We terminated the lease agreement. The Company plans to operate the facility until a long-term lease agreement can be executed with a financially stable tenant/operator. We have initiated preliminary conversations with several prospective replacement tenant/opearators and expect to secure one for the facility by the third quarter of 2014.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUMMIT HEALTHCARE REIT, INC.

Date: March 31, 2014

By: /s/ Kent Eikanas
Kent Eikanas
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 31, 2014.

Name	Title
/s/ Kent Eikanas Kent Eikanas	President (Principal Executive Officer)
/s/ Dominic J. Petrucci Dominic J. Petrucci	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Paul Danchik Paul Danchik	Director
/s/ Daniel L. Johnson Daniel L. Johnson	Director

EXHIBIT INDEX

Ex.	Description
3.1	Amendment and Restatement of Articles of Incorporation (incorporated by reference to Exhibit 3.2 to the Company’s Annual Report on Form 10-K filed on March 24, 2006).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.3 to Post-Effective Amendment No. 1 to the Registration Statement on Form S-11 (No. 333-121238) filed on December 23, 2005 (“Post-Effective Amendment No. 1”)).
3.3	Articles of Amendment of Cornerstone Core Properties Reit, Inc. dated October 16, 2013 (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on October 22, 2013).
4.1	Subscription Agreement (incorporated by reference to Appendix A to the prospectus included on Post-Effective Amendment No. 2 to the Registration Statement on Form S-11 (No. 333-155640) filed on April 16, 2010 (“Post-Effective Amendment No. 2”)).
4.2	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates) (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-11 (No. 333-121238) filed on December 14, 2004).
4.3	Amended and Restated Distribution Reinvestment Plan (incorporated by reference to Appendix B to the prospectus dated April 16, 2010 included on Post-Effective Amendment No. 2).
10.1	Amended and Restated Advisory Agreement, dated September 20, 2005 (incorporated by reference to Exhibit 10.1 to Post-Effective Amendment No. 1).
10.2	Amendment No. 1 to the Amended and Restated Advisory Agreement dated as of August 31, 2012 (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012).

10.3	Amendment No. 2 to the Amended and Restated Advisory Agreement dated as of November 11, 2012 (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012).
10.4	Agreement of Limited Partnership of Cornerstone Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 to Pre-Effective Amendment No. 4 to the Registration Statement on Form S-11 (No. 333-121238) filed on August 30, 2005).
10.5	Form of Employee and Director Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Pre-Effective Amendment No. 2 to the Registration Statement on Form S-11 (No. 333-121238) filed on May 25, 2005).
10.6	Purchase and Sale Agreement, dated April 28, 2006, by and between Cornerstone Operating Partnership, L.P. and Mack Deer Valley Phase II, LLC (incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K filed on May 18, 2006).
10.7	Purchase and Sale Agreement, dated April 6, 2006, as amended as of May 23, 2006, by and between Cornerstone Operating Partnership, L.P., Squamar Limited Partnership and IPM, Inc. (incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K filed on May 26, 2006).
10.8	Purchase and Sale Agreement, dated June 16, 2006, by and between Cornerstone Operating Partnership, L.P. and First Industrial Harrisburg, LP (incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K filed on June 29, 2006).

10.9	Amendment to Agreement of Purchase and Sale, dated June 19, 2006, by and between Cornerstone Operating Partnership, L.P. and First Industrial Harrisburg, LP (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on June 29, 2006).
10.10	Credit Agreement, dated as of June 30, 2006, among Cornerstone Operating Partnership, L.P., Cornerstone Core Properties REIT, Inc., Cornerstone Realty Advisors, LLC, and HSH Nordbank AG, New York Branch ("Credit Agreement with HSH Nordbank AG, New York Branch") (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on July 7, 2006).
10.11	Purchase and Sale Agreement by and between Cornerstone Operating Partnership, L.P. and See Myin & Ock Ja Kymm Family Trust dated August 17, 2006 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on October 13, 2006).
10.12	Amendment to Agreement of Purchase and Sale by and between Cornerstone Operating Partnership, L.P. and Myin & Ock Ja Kymm Family Trust, dated September 18, 2006 (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on October 13, 2006).
10.13	Purchase and Sale Agreement by and between the registrant and WESCO Harbor Gateway, L.P. dated November 1, 2006 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on November 21, 2006).
10.14	15172 Goldenwest Circle Lease (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on December 7, 2006).
10.15	Purchase and Sale Agreement, as amended, by and between Cornerstone Operating Partnership, L.P. and CP 215 Business Park, LLC dated March 16, 2007 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on May 7, 2007).
10.16	Purchase and Sale Agreement (Building M-1) by and between Cornerstone Operating Partnership, L.P. and CP 215 Business Park, LLC, a California limited Liability company, dated May 2, 2007 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on May 23, 2007).
10.17	Purchase and Sale Agreement (Buildings W-4, W-5 and W-6) by and between Cornerstone Operating Partnership, L.P. and CP 215 Business Park, LLC, a California limited Liability company, dated May 2, 2007 (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on May 23, 2007).
10.18	Purchase and Sale Agreement, as amended, by and between Cornerstone Operating Partnership, L.P. and LaPour Deer Valley North, LLC, an Arizona limited liability company dated August 10, 2007 (incorporated by reference to Exhibit 99.1 to the Registrants Current Report on Form 8-K filed on September 14, 2007).
10.19	Agreement of Purchase and Sale between Cornerstone Operating Partnership and Small Bay Partners, LLC dated September 14, 2007 (incorporated by reference to Exhibit 99.1 to the Registrants Current Report on Form 8-K filed on November 21, 2007)
10.20	Second Amendment to Agreement of Purchase and Sale between Cornerstone Operating Partnership and Small Bay Partners, LLC dated October 24, 2007 (incorporated by reference to Exhibit 99.2 to the Registrants Current Report on Form 8-K filed on November 21, 2007).

10.21	Loan Agreement, dated November 13 2007, by and among COP-Monroe, LLC, COP-Carter, LLC, COP-Hanging Moss, LLC and COP-Goldenrod, LLC, as borrower, and Wachovia Bank, National Association, as Lender (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K filed on November 21, 2007).
10.22	Purchase and Sale Agreement by and between Cornerstone Operating Partnership, L.P. and Realvest-Monroe Commercenter LLC, a Florid limited liability company, dated November 29, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 21, 2007).
10.23	First Amendment to Purchase and Sale Agreement by and between Cornerstone Operating Partnership, L.P. and Realvest-Monroe Commercenter LLC, a Florida limited liability company, dated January 15, 2008 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 23, 2008).
10.24	Second Amendment to Purchase and Sale Agreement, as amended, by and between Cornerstone Operating Partnership, L.P. and Realvest-Monroe Commercenter LLC, a Florida limited liability company, dated January 28, 2008 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 23, 2008).
10.25	Third Amendment to Purchase and Sale Agreement, as amended, by and between Cornerstone Operating Partnership, L.P. and Realvest-Monroe Commercenter LLC, a Florida limited liability company, dated February 20, 2008 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 23, 2008).
10.26	Fourth Amendment to Purchase and Sale Agreement, as amended, by and between Cornerstone Operating Partnership, L.P. and Realvest-Monroe Commercenter LLC, a Florida limited liability company, dated April 1, 2008 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on April 23, 2008).
10.27	Assumption and Amendment of Note, Mortgage and Other Loan Documents, by and between Cornerstone Operating Partnership, L.P. and TransAmerica Life Insurance Company, an Iowa corporation, dated April 17, 2008 (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on April 23, 2008).
10.28	Promissory Note in the amount of $6,640,000.00 made as of December 14, 2009 by NANTUCKET ACQUISITION LLC, to and in favor of CORNERSTONE OPERATING PARTNERSHIP, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 17, 2009).
10.29	Promissory Note (with Shared Appreciation) in the amount of $1,360,000.00 made as of December 14, 2009 by NANTUCKET ACQUISITION LLC, to and in favor of CORNERSTONE OPERATING PARTNERSHIP, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 17, 2009).
10.30	Leasehold Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing made as of December 14, 2009, by NANTUCKET ACQUISITION LLC, as Borrower to CORNERSTONE OPERATING PARTNERSHIP, L.P., as Lender (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 17, 2009).
10.31	Operating Agreement for Nantucket Acquisition LLC dated as of December 14, 2009 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on December 17, 2009).
10.32	Amendment No. 3 to Credit Agreement with HSH Nordbank AG, New York Branch dated as of June 30, 2008 (incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q filed on November 12, 2008).

10.33	Amendment No. 4 to Credit Agreement with HSH Nordbank AG, New York Branch dated as of June 30, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 16, 2010).
10.34	Amendment No. 5 to Credit Agreement with HSH Nordbank AG, New York Branch dated as of September 2, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 15, 2010).
10.35	Amendment No. 6 to Credit Agreement with HSH Nordbank AG, New York Branch dated as of September 30, 2010 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 15, 2010).
10.36	Amendment No. 7 to Credit Agreement with HSH Nordbank AG, New York Branch dated as of October 29, 2010 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 15, 2010).
10.37	Amendment No. 8 to Credit Agreement with HSH Nordbank AG, New York Branch dated as of November 12, 2010 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on November 15, 2010).
10.38	Amendment No. 9 to Credit Agreement with HSH Nordbank AG, New York Branch dated as of November 30, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 6, 2010).
10.39	Purchase and Sale Agreement dated as of June 3, 2011by and between COP-Goldenwest, LLC and the Westminster Redevelopment Agency (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011).
10.40	Amendment No. 10 to Credit Agreement with HSH Nordbank AG, New York Branch dated as of July 20, 2011 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 25, 2011).
10.41	Assumption and Modification Agreement related to the Wells Fargo loan dated August 12, 2011 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011).
10.42	Purchase and Sale Agreement made as of August 31, 2011, by and between COP-Deer Valley, LLC, COP-Pinnacle Peak, LLC, and Columbia Industrial Properties Midwest, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 7, 2011
10.43	Purchase and Sale Agreement dated August 31, 2011 by and between the Company and J3 Harmon, L.L.C. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 7, 2011).
10.44	Purchase and Sale Agreement made as of October 26, 2011, by and between COP- South Industrial, LLC and Damar Holdings, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 31, 2011).
10.45	Purchase and Sale Agreement made as of November 10, 2011, by and between COP- Deer Valley, LLC and COP- Pinnacle Peak, LLC and Buchanan Street Partners, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 16, 2011

10.46 Forbearance and First Amendment to Loan Agreement dated as of December 22, 2011 (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on March 30, 2012).

10.47 Indemnification Agreement dated December 29, 2011 by and between the Company and Sharon C. Kaiser (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on March 30, 2012).

10.48 Indemnification Agreement dated December 29, 2011 by and between the Company and Stephen I. Robie (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on March 30, 2012).

10.49 Indemnification Agreement dated December 29, 2011 by and between the Company and Paul Danchik (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on March 30, 2012).

10.50 Indemnification Agreement dated December 29, 2011 by and between the Company and Jody Fouch (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on March 30, 2012

10.51 Indemnification Agreement dated December 29, 2011 by and between the Company and Daniel Johnson (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on March 30, 2012).

10.52 Indemnification Agreement dated December 29, 2011 by and between the Company and Lee Powell Stedman (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on March 30, 2012).

10.53 Second Modification Agreement with Wells Fargo Bank, National Association dated as of February 13, 2012 (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on March 30, 2012).

10.54 Lease agreement effective May 1, 2012 between COP-Western Avenue, LLC, a California Limited Liability Company, and Fujitsu Ten Corp. of America, a California Corporation, pertaining to 20100 and 20200 Western Avenue, Los Angeles, California (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2012)

10.55 Loan Agreement between COP-Western Ave., LLC and General Electric Capital Corporation dated September 7, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 13, 2012).

10.56	Purchase and Sale Agreement effective April 10, 2012 and assigned to CHP Portland LLC on September 11, 2012 between CHP Portland LLC and Sheridan Care Center LLC, Sheridan Properties LLC, Fernhill Estates LLC, Fernhill Properties LLC, and Pacific Gardens Estates LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.57	Purchase and Sale Agreement effective June 1, 2012 and assigned to CHP Medford 1, LLC on September 11, 2012 between CHP Medford 1, LLC and Monterey Village (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.58	Purchase and Sale Agreement effective June 1, 2012and assigned to SNF, LLC on September 11, 2012 between CHP Friendswood SNF, LLC and Friendswood Realty, LP (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.59	Lease Agreement between CHP Portland, LLC and Sheridan Care Center LLC, Fernhill Estates LLC, and Pacific Gardens Estates LLC dated August 3, 2012 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.60	Lease Agreement between CHP Medford 1, LLC and RSL Medford, LLC dated September 14, 2012 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.61	Lease Agreement between CHP Friendswood SNF, LLC and Mason Friendswood OP, LLC dated September 14, 2012 (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.62	Loan Agreement between General Electric Capital Corporation and CHP Portland, LLC, CHP Medford 1, LLC, and CHP Friendswood SNF, LLC dated September 13, 2012 (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.63	Loan Agreement between COP-Western Ave., LLC and General Electric Capital Corporation dated as of September 7, 2012, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 13, 2012 (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.64	Cornerstone Healthcare Partners LLC Operating Agreement dated June 11, 2012(incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.65	Purchase and Sale Agreement effective November 12, 2012 by and between Nantucket Acquisition LLC and Northbridge Communities LLC (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012
10.66	Purchase and Sale Agreement dated December 17, 2012 by and between the Company and Terry Wiler (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2012).
10.67	Assignment of Option Right Agreement effective December 24, 2012 between Pacific Gardens Estates, LLC and CHP Tigard, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 28, 2012).

10.68	Purchase and Sale Agreement dated December 28, 2012by and between the Company and MMB Management, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 4, 2013
10.69	Purchase and Sale Agreement dated as of November 12, 2012 and assigned to Cornerstone Healthcare Real Estate Fund, Inc. on January 31, 2013 between Cornerstone Healthcare Real Estate Fund, Inc. and IP-Winston Salem Health Holdings, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 5, 2013).
10.70	Term Loan and Security Agreement between The PrivateBank and Trust Company and HP Winston-Salem, LLC dated January 31, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 5, 2013).
10.71	Purchase and Sale Agreement dated December 28, 2012 by and between the Company and MMB Management, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 4, 2013).
10.72	Purchase and Sale Agreement dated as of November 12, 2012 and assigned to Buyer on January 31, 2013 between Cornerstone Healthcare Real Estate Fund, Inc. and IP-Winston Salem Health Holdings, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 5, 2013).
10.73	Loan agreement between lender and HP Winston-Salem, LLC dated January 31, 2013 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 5, 2013).
10.74	Purchase and Sale Agreement effective January 28, 2013 and assigned to Buyer on July 2, 2013 between HP Aledo, LLC and Aledo Senior Housing, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 3, 2013).
10.75	Purchase and Sale Agreement dated July 30, 2013 by and between the Company and Hamlet Health Investors, LLC and Newport Health Investors, LLC.
10.76	Purchase and Sale Agreement dated July 30, 2013 by and between the Company and WPC Salem, LLC.
10.77	Purchase and Sale Agreement dated June 6, 2013 by and between the Company and Rio Hondo Capital Partners, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 29, 2013).
10.78	Loan Agreement between lender and HP Carteret, LLC, HP Hamlet, LLC, and HP Shelby, LLC dated October 4, 2013.
14.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K filed on March 24, 2006).
21.1	List of Subsidiaries (filed herewith).
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
* 101.INS	XBRL Instance Document
* 101.SCH	XBRL Taxonomy Extension Schema Document
* 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
* 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
* 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
* 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT ("**Agreement**") is made and entered into as of this 30 day of July, 2013 (the "**Effective Date**"), by and among HAMLET HEALTH INVESTORS, LLC a North Carolina limited liability company ("**HHI**") and NEWPORT HEALTH INVESTORS, LLC ("**NHI**"), a North Carolina limited liability company (collectively, "**Seller**"), and CORNERSTONE CORE PROPERTIES REIT, INC. a Maryland corporation, or its assignee ("**Buyer**").

1. Purchase and Sale. On the terms and conditions set forth herein, Seller shall sell, assign, transfer, convey and deliver to Buyer and Buyer shall purchase from Seller its interest in the following, which are hereinafter referred to collectively as the "**Property**":

(a) The improvements located on the Real Property, consisting of two (2) assisted living and memory care facilities as described in Schedule 1 (a) attached hereto (singularly, a "**Facility**" and collectively, the "**Facilities**"), owned by Seller, and all right, title and interest of Seller in and to the items described in (a) through (f) herein;

(b) All of the real estate on which each Facility is situated, together with all tenements, easements, appurtenances, privileges, rights of way, and other rights incident thereto, all building and improvements and any parking lot to such Facility located thereon situated in the State of North Carolina (the "**State**"), which is described in Exhibit A attached hereto and made a part hereof by this reference (collectively, the "**Real Property**");

(c) All of the tangible personal property, inventory, equipment, machinery, supplies including drugs and other supplies, spare parts, furniture, furnishings, warranty claims, contracts, including but not limited to supply contracts, contracts rights, intellectual property, including but not limited to patents, trade secrets, and all rights and title to the names under which each Facility operates, mailing lists, customer lists, vendor lists, resident files, books and records owned by the Seller, who may retain copies of same, and shall have reasonable access to such books and records after the Closing as required for paying taxes and responding to legal inquiry, as such personal property is described in Schedule 1(c) attached hereto (collectively, the "**Personal Property**");

(d) All transferable licenses, permits, certifications, assignable guaranties and warranties in favor of Seller, approvals or authorizations and all assignable intangible property not enumerated herein which is used by the Seller in connection with each Facility, and all other assets whether tangible or intangible; provided, that Seller shall retain all licenses required to be retained by Seller in order to operate the current business within each Facility;

(e) All trade names or other names commonly used to identify the Facility and all goodwill associated therewith. The intent of the parties is to transfer to Buyer only such names and goodwill associated with each Facility itself and not with Seller or any affiliate of Seller, so as to avoid any interference with the unrelated business activities of Seller; and

(f) All telephone numbers used in connection with the operation of each Facility, and to the extent not described above, all goodwill of Seller associated with each Facility (the items described in clauses (e) and (f) above are collectively referred to as "**Intangibles**").

2. Excluded Assets. Seller's cash, investment securities, bank account(s) and accounts receivable, and deposits attributable and relating to the operation of each Facility, and Seller's corporate minute books and corporate tax returns, partnership records, and other corporate and partnership records shall be excluded from each Facility sold by Seller to Buyer hereunder as well as Seller's real property not identified in Schedule 1(a) (the "**Excluded Assets**").

3. Purchase Price; Deposits. The following shall apply with respect to the Purchase Price of the Property:

(a) The purchase price (the "**Purchase Price**") payable by Buyer to Seller for the Property is Ten Million Eight Hundred Thousand and 00/100 Dollars ($10,800,000.00).

(b) The Purchase Price as allocated to each Facility by Seller is set forth on Schedule 3 attached hereto and made a part hereof.

(c) Within three (3) business days after this Agreement is fully executed by the parties, Buyer shall deposit the sum of Twenty-Five Thousand and 00/100 Dollars ($25,000.00) as an earnest money deposit ("**Initial Deposit**") with Lawyers Title Insurance Company, at its office at 4100 Newport Place Drive, Suite 120, Newport Beach, California 92660, Attention: Debi Calmelat ("**Title Company**" or "**Escrow Agent**") and Escrow Agent will deposit it into an interest-bearing account with the interest for the benefit of Buyer. In addition, if Buyer has not terminated this Agreement on or before the expiration of the Due Diligence Period (defined below), then Buyer shall deposit with Escrow Agent an additional Twenty-Five Thousand and 00/100 Dollars ($25,000.00) ("**Additional Deposit**") within three (3) business days following the expiration of the Due Diligence Period (the Initial Deposit and the Additional Deposit are collectively referred to as the "**Deposits**"). Interest earned on the Deposit shall be paid to the party entitled to such amount as provided in this Agreement.

(d) At Closing, the Deposit shall be credited against the Purchase Price and Buyer shall deposit the balance of the Purchase Price in Cash to the Escrow Agent.

(e) Buyer shall not assume or pay, and Seller shall continue to be responsible for, any and all debts, obligations and liabilities of any kind or nature, fixed or contingent, known or unknown, of Seller not expressly assumed by Buyer in this Agreement. Specifically, without limiting the foregoing, Buyer shall not assume any obligation, liability, cost, expense, claim, action, suit or proceeding pending as of the Closing, nor shall Buyer assume or be responsible for any subsequent claim, action, suit or proceeding arising out of or relating to any such other event occurring, with respect to the manner in which Seller conducted its business at the Facilities, on or prior to the date of the Closing Date. In addition, Buyer shall not assume successor liability obligations to Medicaid, HMO or any other third party payer programs or be responsible for recoupment's, fines, or penalties required to be paid to such parties as a result of the operation of the Facilities prior to the Closing Date by Seller or Sellers' operating entities, Hamlet AL Holdings, LLC and Newport AL Holdings, LLC (each an "**Operator**", and collectively, "**Operators**").

4. Closing. The closing of the purchase and sale transactions pursuant to this Agreement ("**Closing**") shall occur on the date that is thirty (30) days after the expiration of the Due Diligence Period ("**Closing Date**"). The Closing shall take place through Seller's delivery of a special warranty deed and Buyer's delivery of cash or immediately available funds through an escrow agreement (the "**Escrow**") to be established with the Escrow Agent pursuant to form escrow instructions which shall be modified to be consistent with the terms and provisions of this Agreement, and which shall be mutually agreed upon by the parties hereto.

5. Conveyance. Title to each Facility shall be conveyed to Buyer by a special warranty deed and bill of sale in form agreed to by the parties prior to the end of the Due Diligence Period, as defined herein. Fee simple indefeasible title to the Real Property and title to the Personal Property, shall be conveyed from Seller to Buyer or Buyer's nominee in "AS-IS, WHERE-IS" condition, free and clear of all liens, charges, easements and encumbrances of any kind, other than:

(a) Liens for real estate taxes or assessments not yet due and payable;

(b) The standard printed exceptions included in the PTR, as defined in Section 14(a) herein; unless objected to in writing by Buyer during the Due Diligence Period;

(c) Such exceptions that appear in the PTR and that are either waived or approved by Buyer in writing pursuant to Section 14(b) herein;

(d) Liens or encumbrances caused by the actions of Buyer but not those caused by the actions of Seller; and

(e) Those matters identified as Permitted Exceptions on the attached Exhibit B.

The items described in this Section 5 are sometimes collectively referred to as the "**Permitted Exceptions**."

6. Buyer's Due Diligence.

(a) Buyer shall have sixty (60) days from the Effective Date to complete Buyers Due Diligence (the "**Due Diligence Period**"); provided, however, that if Seller does not deliver the Due Diligence Items in the time frames set forth in Section 10(a)(v) below, the Due Diligence Period shall be extended on a day-by-day basis for each day of delay in delivery of the Due Diligence Items beyond the time periods set forth in Section 10(a)(v) below. During the Due Diligence Period, Seller shall permit the officers, employees, directors, agents, consultants, attorneys, accountants, lenders, appraisers, architects, investors and engineers designated by Buyer and representatives of Buyer (collectively, the "**Buyer's Consultants**") access to, and entry upon the Real Property and each Facility to perform its normal and customary due diligence, including, without limitation, the following (collectively, the "**Due Diligence Items**"):

(i) Review of vendor contracts ("**Contracts**") and leases ("**Leases**") to which each Facility (or the Seller, on behalf of such Facility) are a party, as set forth on Schedule 8(f) attached hereto;

(ii) Conduct environmental investigations (including a Phase 1 Environmental Audit);

(iii) Inspection of the physical structure of each Facility;

(iv) Review of current PTR, as defined in Section 14 herein, and underlying documents referenced therein;

(v) Review of ALTA Surveys, as defined in Section 14 herein, for each Facility;

(vi) Inspection of the books and records of each Facility and that portion of the Seller's books and records which pertain to the Facilities;

(vii) Review of the Due Diligence Items, as described in Schedule 10(a)(v) attached hereto, to be provided by Seller within five (5) business days following the Effective Date;

(viii) Conduct such other inspections or investigations as Buyer may reasonably require relating to the ownership, operation or maintenance of the Facilities;

(ix) Review of resident files, agreements, and any other documentation regarding the residents of the Facilities, which review shall in all events be subject to all applicable laws, rules and regulations concerning the review of medical records and other types of patient records; and

(x) Review of files maintained by the State relating to the Facilities; and

(xi) Review of all drawings, plans and specifications and all engineering reports for the Facilities in the possession of or readily available to Seller; and

(xii) Seller will furnish copies of all environmental reports, property condition reports, appraisals, title reports and ALTA Surveys (or surveys) that it currently has in its possession.

(xiii) Review copies of currently effective written employment manuals or written employment policies and/or procedures have been provided to or for employees.

Notwithstanding the foregoing provisions of this Subsection, in the event Seller fails to deliver all Due Diligence Items listed in Schedule 10(a)(v) on or before the time set forth in Subsection (a)(vii) above, then the Due Diligence Period shall be deemed extended on a day-to-day basis until Seller completes such delivery of the Due Diligence Items to Buyer.

(b) Buyer agrees and acknowledges that: (i) Buyer will not disclose the Due Diligence Items or any other materials received from Seller pursuant to this Agreement (the "**Property Information**") or any of the provisions, terms or conditions thereof, or any information disclosed therein or thereby, to any party outside of Buyer's organization, other than Buyer's Consultants whom shall also not disclose the Property Information to third parties; (ii) the Property Information is delivered to Buyer solely as an accommodation to Buyer; (iii) Seller has not undertaken any independent investigation as to the truth, accuracy or completeness of any matters set out in or disclosed by the Property Information; and(iv) except as expressly contained in this Agreement, Seller has not made and does not make any warranties or representations of any kind or nature regarding the truth, accuracy or completeness of the information set out in or disclosed by the Property Information.

(c) All due diligence activities of Buyer at the Facilities shall be scheduled with Seller upon two (2) business days prior notice. Reviews, inspections and investigations at the Facilities shall be conducted by Buyer in such manner so as not to disrupt the operation of the Facilities.

(d) Buyer may, at its sole cost, obtain third party engineering and physical condition reports and Phase I Environmental Audits covering each Facility, certified to Buyer, prepared by an engineering and/or environmental consultants acceptable to Buyer; provided, no inspection by Buyer's Consultants shall involve the taking of samples or other physically invasive procedures (such as a Phase II environmental audit) without the prior written consent of Seller, which consent shall not be unreasonably withheld or delayed. Notwithstanding anything to the contrary contained in this Agreement, Buyer shall indemnify, defend (with counsel acceptable to Seller) and hold Seller and its employees and agents, and each of them, harmless from and against any and all losses, claims, damages and liabilities, without limitation, attorneys' fees incurred in connection therewith) arising out of or resulting from Buyer' or Buyer's Consultant's exercise of its right of inspection as provided for in this Section 6; provided, however, such indemnification shall not extend to matters merely discovered by Buyer and/ or the acts or omissions of Seller or any third party. The indemnification obligation of Buyer under this Section 6 shall survive the termination of this Agreement indefinitely. Following any audit or inspection as provided for herein, Buyer shall return the Real Property and the Facilities to the condition in which they existed immediately prior to such audit or inspection.

(e) If the results of the foregoing inspections and audits are not acceptable to Buyer in its sole and absolute discretion, Buyer may, upon notice to Seller given on or before 5:00 p.m. (Pacific Time) on the last day of the Due Diligence Period, terminate this Agreement, and in such event, neither party shall have any further rights and obligations under this Agreement, except for obligations which expressly survive the termination of this Agreement. Failure of Buyer to deliver written notice of approval prior to 5:00 p.m. (Pacific Time) on the last day of the Due Diligence Period shall be deemed to constitute Buyer's disapproval of the matters described in this Section 6(a). If this Agreement shall be terminated prior to Closing, upon Seller's request, Buyer shall promptly return or destroy all copies of the Due Diligence Items.

(f) During the Due Diligence Period, Buyer shall obtain, at Buyer's election, a third party inspection report with respect to each Facility (the **Inspection Report**"). If the Inspection Report recommends any critical repairs (the "**Critical Repairs**") be made to any Facility, Buyer shall provide Seller with written notice of the same prior to the expiration of the Due Diligence Period, and the Critical Repairs shall be listed on a new Schedule 6(f) to be attached to the Agreement. Seller shall make all Critical Repairs listed in the Inspection Report to such Facility at least ten (10) business days prior to the Closing, at Seller's sole cost and expense (not to exceed One Hundred Thousand Dollars ($100,000) per Facility ("**Seller's Critical Repair Cap**")). Buyer shall be responsible for any Critical Repair costs for any Facility over the Seller's Critical Repair Cap. Seller shall deliver to Buyer a completion letter or similar notice documenting the completion of the repairs (the "**Repair Completion Notice**") executed by Seller and Seller's contractor and/or architect who performed and/or supervised the construction of the repairs. The Critical Repairs shall be constructed in a workmanlike manner and in accordance with all applicable laws.

7. Prorations; Closing Costs; Possession; Post Closing Assistance.

(a) There will be no prorations at the Closing and Operator, its successors or assigns shall remain responsible for all taxes, costs and expenses relating to the Facilities following the Closing pursuant to the Post Closing Lease (as defined in Section 12(a)(v)).

(b) Seller shall pay any state, county and local transfer taxes arising out of the transfer of the Real Property.

(c) Buyer shall pay the cost of the standard owner's title insurance policy, as described in this Agreement. Buyer shall also pay the cost of any lender's policy for Buyer's lender, any title endorsements requested by Buyer and its lender and the cost of updating or obtaining new Surveys. Seller and Buyer shall equally share the fees of Escrow Agent. All other costs associated with title and survey matters shall be paid in accordance with Forsyth County (and local) custom and practice.

(d) Buyer and Seller shall each pay their own attorney's fees. Buyer shall pay for all costs of review of the Due Diligence Items and its additional due diligence inspection costs including, without limitation, the cost of any environmental reports.

(e) On the Closing Date, each Operator shall retain possession of its respective Facility pursuant to the Post Closing Lease.

8. Representations and Warranties of Seller. Seller hereby represents and warrants to Buyer that:

(a) Legality.

(i) Organization, Corporate Powers, Etc. Each Seller entity is duly organized, validly existing and in good standing under the laws of the State of North Carolina. Each Seller has the full power, authority and legal right (A) to execute and deliver, and perform and observe the provisions of this Agreement and each Transaction Document, as defined herein, to which it is a party, (B) to transfer good, indefeasible title to the Property to Buyer free and clear of all liens, claims and encumbrances except for Permitted Exceptions (as defined in Section 5 hereof), and (C) to carry out the transactions contemplated hereby and by such other instruments to be carried out by such party.

(ii) Due Authorization, Etc. This Agreement and the Closing Documents (collectively the "**Transaction Documents**") have been, and each instrument provided for herein or therein to which Seller is a party will be, when executed and delivered as contemplated hereby authorized, executed and delivered by Seller and the Transaction Documents constitute, and each such instrument will constitute, when executed and delivered as contemplated hereby, legal, valid and binding obligations of Seller and enforceable in accordance with their terms.

(iii) Governmental Approvals. To the best of Seller's knowledge, no consent, approval or other authorization (other than corporate or other organizational consents which have been obtained), or registration, declaration or filing with, any court or governmental agency or commission is required for the due execution and delivery of any of the Transaction Documents to which Seller is a party or for the validity or enforceability thereof against such party other than the recording or filing for recordation of the North Carolina form Special Warranty Deed (the "**Deed**") which recordings shall be accomplished at Closing.

(iv) Other Rights. No right of first refusal, option or preferential purchase or other similar rights are held by any person with respect to any portion of the Property.

(v) No Litigation. Except as set forth on Schedule 8(a)(v) attached hereto, neither Seller nor its registered agent for service of process has been served with summons with respect to any actions or proceedings pending or, to Seller's actual knowledge, no such actions or proceedings are threatened, against Seller before or by any court, arbitrator, administrative agency or other governmental authority, which (A) individually or in the aggregate, are expected, in the reasonable judgment of Seller, to materially and adversely affect Seller's ability to carry out any of the transactions contemplated by any of the Transaction Documents or (B) otherwise involve any portion of the Property including, without limitation, the Facilities.

(vi) No Conflicts. Neither the execution and delivery of the Transaction Documents to which Seller is a party, compliance with the provisions thereof, nor the carrying out of the transactions contemplated thereby to be carried out by such party will result in (A) a breach or violation of (1) any material law or governmental rule or regulation applicable to Seller now in effect, (2) any provision of any of Seller's organizational documents, (3) any material judgment, settlement agreement, order or decree of any court, arbitrator, administrative agency or other governmental authority binding upon Seller, or (4) any material agreement or instrument to which Seller is a party or by which Seller or its respective properties are bound; (B) the acceleration of any obligations of Seller; or (C) the creation of any lien, claim or encumbrance upon any properties or assets of Seller.

(b) Property.

As of the Effective Date and the Closing Date, except as set forth on Schedule 8(b):

(i) Seller has no actual knowledge of and has not received any notice of outstanding deficiencies or work orders of any authority having jurisdiction over any portion of the Property;

(ii) Seller has no actual knowledge of and has not received any notice of any claim, requirement or demand of any licensing or certifying agency supervising or having authority over the Facility to rework or redesign it in any material respect or to provide additional furniture, fixtures, equipment or inventory so as to conform to or comply with any law which has not been fully satisfied;

(iii) Seller has not received any notice from any governmental authority of any material violation of any law applicable to any portion of the Real Property or to the Facilities;

(c) Condemnation. There is no pending or, to the actual knowledge of Seller, threatened condemnation or similar proceeding or assessment affecting the Real Property, nor, to the actual knowledge of Seller, is any such proceeding or assessment contemplated by any governmental authority.

(d) Hazardous Substances. Except as disclosed on Schedule 8(d), which includes a list of all environmental reports provided by Seller to Buyer in connection with this Agreement (the "**Seller Environmental Reports**"), to Seller's actual knowledge, there has been no production, storage, manufacture, voluntary or involuntary transmission, use, generation, treatment, handling, transport, release, dumping, discharge, spillage, leakage or disposal at, on, in, under or about the Real Property of any Hazardous Substances by Seller, or any affiliate or agent thereof, except in strict compliance with all applicable Laws. To Seller's actual knowledge and except as disclosed on Schedule 8(d), there are no Hazardous Substances at, on, in, under or about the Real Property in violation of any Law, and to Seller's actual knowledge, there is no proceeding or inquiry by any federal, state or local governmental agency with respect thereto. For purposes of this Agreement, "**Hazardous Substances**" shall mean any hazardous or toxic substances, materials or wastes, including, without limitation, those substances, materials and wastes listed in the United States Department of Transportation Table (49 CFR 172.1 01) or by the Environmental Protection Agency as hazardous substances (40 CFR Part 302 and amendments thereto) or such substances, materials and wastes which are or become regulated under any applicable local, state or federal law (collectively, "**Laws**"), including, without limitation, any material, waste or substance which is (i) a hazardous waste as defined in the Resource Conservation and Recovery Act of 1976, as amended (42 U.S.C. § 6901 et seq.); (ii) a pollutant or contaminant or hazardous substance as defined in the Comprehensive Environmental Response. Compensation and Liability Act of 1980, as amended (42 U.S.C. § 9601 et seq.); (iii) a hazardous substance pursuant to § 311 of the Clean Water Act (33 U.S.C. § 1251, et seq., 33 U.S.C. § 1321) or otherwise listed pursuant to § 307 of the Clean Water Act (33 U.S.C. § 1317); (iv) a hazardous waste pursuant to § 1004 of the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.); (v) polychlorinated biphenyls (PCBs) as defined in the Federal Toxic Substance Control Act, as amended (15 U.S.C. § 2501 et seq.); (vi) hydrocarbons, petroleum and petroleum products; (vii) asbestos; (viii) formaldehyde or medical or biohazardous waste; (ix) radioactive substances; (x) flammables and explosives; (xi) any state statutory counterparts to those federal statutes listed herein; or (vii) any other substance, waste or material which could presently or at any time in the future require remediation at the behest of any governmental agency. Any reference in this definition to Laws shall include all rules and regulations which have been promulgated with respect to such Laws.

(e) Brokers. Neither Seller nor Buyer has dealt with any broker or finder in connection with the transactions contemplated hereby. Each party represents and warrants to the other party that it has not dealt with any broker, salesman, finder or consultant with respect to this Agreement or the transactions contemplated hereby. Each party agrees to indemnify, protect, defend, protect and hold the other party harmless from and against all claims, losses, damages, liabilities, costs, expenses (including reasonable attorneys' fees and disbursements) and charges resulting from such indemnifying party's breach of the foregoing representation. The provisions of this Section 8(e) shall survive the Closing or earlier termination of this Agreement.

(f) Leases and Contracts. Schedule 8(f) is a list of all Leases and Contracts relating to the Facilities to which Seller is a party or by which Seller may be bound. Seller has made or will promptly make available to Buyer true, complete and accurate copies of all Leases and Contracts including, without limitation, any modifications thereto. All of the Leases and Contracts are in full force and effect without claim of material default there under, and, except as may be set forth on Schedule 8(f).

(g) Financial Statements. Schedule 8(g) contains (i) the balance sheets of the Operator for the last three (3) fiscal years ending prior to the date of this Agreement (audited if available and unaudited to the extent audited statements are not available) and the unaudited balance sheets for each of the past three (3) fiscal quarters completed prior to the date of this Agreement and (ii) the related consolidated statements of income, results of operations, changes in members' equity and changes in financial position with respect to each such period as compared with the immediately prior period (collectively, the "**Financial Statements**"). The Financial Statements taken as a whole (A) fairly present the financial condition and results of operation of the Operators for the periods indicated, (B) are true, accurate, correct and complete in all material respects, and (C) except as stated in Schedule 8(g) (or in the notes to the Financial Statements) have been prepared in accordance with the Operator's tax basis reporting, as consistently applied. Except as disclosed in Schedule 8(g), or otherwise disclosed in writing to Buyer, to Seller's actual knowledge neither Seller, as to any Facility, nor any Facility is obligated for or subject to any material liabilities, contingent or absolute, and whether or not such liabilities would be disclosed in accordance with tax basis reporting, and Schedule 8(g) sets forth all notes payable, other long term indebtedness and, to Seller's actual knowledge, all other liabilities to which the Facilities and the Real Property are or at Closing (and following Closing) will be subject, other than new indebtedness obtained by Buyer in connection with its purchase of the Property. Seller has received no notice of default under any such instrument.

(h) Interests in Competitors, Suppliers and Customers. Other than the Operator entities and except as set forth on Schedule 8(h), or in Schedule 1(a) as constituting a part of the Facilities, Seller does not have any interest in any property used in the operation of, or holds an interest in, any competitor, supplier or customer of Seller or the Facilities.

(i) No Foreign Persons. Neither Seller nor its members is a foreign person within the meaning of Sections 897 or 1445 of the Code, nor is Seller a U.S. Real Property Holding Company within the meaning of Section 897 of the Code.

(j) Licensure. As of the date hereof, except as set forth on Schedule 8(j) attached hereto, there is no action pending or, to the actual knowledge of Seller, recommended by the appropriate state agency to revoke, withdraw or suspend any license to operate the Facilities, or certification of the Facilities, or any material action of any other type with regard to licensure or certification. Each Facility is operating and functioning as an assisted living and memory care facility without any waivers from a governmental agency affecting such Facility except as set forth in Schedule 8(j), and is fully licensed for an assisted living and memory care facility, as applicable, by the State for the number of beds and licensure category set forth in Schedule 1(a) hereto. Schedule 8(j) attached hereto contains a complete and accurate list of all life safety code waivers or other waivers affecting each Facility.

(k) Regulatory Compliance.

(i) Seller or the Operator has duly and timely filed all reports and other items required to be filed (collectively, the "**Reports**") with respect to any cost based or other form of reimbursement program or any other third party payor (including without limitation, Medicaid, medically indigent assistance, Blue Cross, Blue Shield, any health maintenance, preferred provider, independent practice or other healthcare related organizations, peer review organizations, or other healthcare providers or payors) (collectively, "**Payors**") and have timely paid all amounts shown to be due thereon. At the time of filing, to Seller's actual knowledge, each Report was true, accurate and complete. To Seller's actual knowledge, all rights and obligations of the Facilities or Seller under such Reports are accurately reflected or provided for in the Financial Statements.

(ii) Except as set forth in Schedule 8(k) attached hereto, (A) neither Seller nor, to Seller's actual knowledge, the Operator is delinquent in the payment of any amount due under any of the Reports for the Facilities, (B) there are no written or threatened proposals by any Payors for collection of amounts for which Seller or any Facility could be liable, (D) there are no current or pending claims, assessments, notice, proposal to assess or audits of Seller or Operator or any Facility with respect to any of the Reports, and, to Seller's actual knowledge, no such claims, assessments, notices, or proposals to assess or audit are threatened, and (D) neither Seller nor Operator has executed any presently effective waiver or extension of the statute of limitations for the collection or assessment of any amount due under or in connection with any of the Reports with respect to any Facility.

(iii) Except as set forth in Schedule 8(k) attached hereto, neither Seller nor the Operator has received notice of failure to comply with all applicable Laws, settlement agreements, and other agreements with any state or federal governmental body relating to or regarding any Facility (including all applicable environmental, health and safety requirements), and Seller or the Operator has and maintains all permits, licenses, authorizations, registrations, approvals and consents of governmental authorities and all health facility licenses, accreditations, Medicaid, and other Payor certifications necessary for its activities and business including the operation of each Facility as currently conducted. Each health facility license, Medicaid and other Payor certifications, Medicaid provider agreement and other agreements with any Payors is in full force and effect without any waivers of any kind (except as disclosed in Schedule 8 (k)) and has not been amended or otherwise modified, rescinded or revoked or assigned nor, to Seller's actual knowledge, (A) is there any threatened termination, modification, recession, revocation or assignment thereof, (B) no condition exists nor has any event occurred which, in itself or with the giving of notice, lapse of time or both would result in the suspension, revocation, termination, impairment, forfeiture, or non-renewal of any governmental consent applicable to Seller or to any Facility or of any participation or eligibility to participate in any Medicaid, or other Payor program and (C) there is no claim that any such governmental consent, participation or contract is not in full force and effect.

(l) Regulatory Surveys. Seller shall deliver to Buyer, in the manner required pursuant to the terms of this Agreement, complete and accurate copies of the survey or inspection reports made by any governmental authority with respect to each Facility during the calendar years 2009, 2010, 2011 and year-to-date 2012. To the best of Seller's knowledge, after diligent investigation, and except as shown on Schedule 8(l), all exceptions, deficiencies, violations, plans of correction or other indications of lack of compliance in such reports have been fully corrected and there are no bans or limitations in effect, pending or threatened with respect to admissions to any Facility nor any licensure curtailments in effect, pending or threatened with respect to any Facility. Seller shall continue to deliver all such surveys, inspection reports as and when same are received and/or filed as the case may be prior to the Closing.

(m) Licensed Bed/Current Rate Schedule. As of the Effective Date, Schedule 8(m) sets forth (i) the number of licensed beds and the number of operating beds in the Facility, (ii) the current standard private rates charged by each Facility to all of its residents, and (iii) the number of beds or units presently occupied in, and the occupancy percentage at, the Facility, including the current rates charged by each Facility for each such occupied bed or unit. Neither Seller nor any Operator has any life care arrangement in effect with any current or future resident.

(n) Operations. Each Facility is adequately equipped and each Facility includes sufficient and adequate numbers of furniture, furnishings, equipment, consumable inventory, and supplies to operate such Facility as each is presently operated by Seller. Personal Property used to operate each Facility and to be conveyed to Buyer is free and clear of liens, security interests, encumbrances, leases and restrictions of every kind and description, except for Permitted Encumbrances and any liens, security interests and encumbrances to be released at Closing.

(o) No Misstatements, Etc. To the best of Seller's knowledge, neither the representations and warranties of Seller stated in this Agreement, including the Exhibits and the Schedules attached hereto, nor the Due Diligence Items or any certificate or instrument furnished or to be furnished to Buyer by Seller in connection with the transactions contemplated hereby, contains or will contain any untrue or misleading statement of a material fact.

(p) Supplementation of Schedules; Change in Representations and Warranties. Seller shall have the continuing right and obligation to supplement and amend the Schedules herein on a regular basis including, without limitation, Schedule 8(g), and Seller's warranties and representations required hereunder, as necessary or appropriate (i) in order to make any representation or warranty not misleading due to events, circumstances or the passage of time or (ii) with respect to any matter hereafter arising or discovered up to and including the Closing Date, but Buyer shall not be deemed to have approved such supplemental Schedules unless Buyer expressly acknowledges approval of same in writing. In the event Seller amends any such Schedules, or Buyer or Seller gains actual knowledge prior to the Closing that any representation or warranty made by the other party contained in this Section 8 is otherwise untrue or inaccurate, such party shall, within five (5) days after gaining such actual knowledge but in any event prior to the Closing, provide the other party with written notice of such inaccuracy, whereupon the noticed party shall promptly commence, and use its best efforts to prosecute to completion, the cure of such matter, to the extent any such matter is curable. If any such matter is not curable within reason and is material, in Buyer's reasonable business judgment, Buyer shall have the right to terminate this Agreement upon written notice to Seller within five (5) business days of receipt or delivery of such notice, as applicable, on the same basis as set forth in Section 13(a) if during the Due Diligence Period and in Section 13(b)(i)(i) herein if after expiration of the Due Diligence Period.

(q) Survival of Representations and Warranties; Updates. The representations and warranties of Seller in this Agreement shall not be merged with the Deeds at the Closing and shall survive the Closing for the period of one (1) year provided such warranties shall be deemed made as of the date provided; provided, Seller understands and agrees that the Post Closing Lease, shall provide for a lengthier period of survival with respect to certain matters referenced therein.

For purposes of this Agreement, the phrase "to Seller's actual knowledge" or words of similar import shall mean the actual knowledge of Charles E. Trefzger, Jr.

9. Representations and Warranties of Buyer. Buyer hereby warrants and represents to Seller that:

(a) Organization, Corporate Powers, Etc. Buyer is a limited liability company, validly existing and in good standing under the laws of the State of Delaware and is duly qualified and in good standing in each other state or jurisdiction in which the nature of its business requires the same except where a failure to be so qualified does not have a material adverse effect on the business, properties, condition (financial or otherwise) or operations of that person. Buyer has full power, authority and legal right (i) to execute and deliver, and perform and observe the provisions of this Agreement and each Transaction Document to which it is a party, and (ii) to carry out the transactions contemplated hereby and by such other instruments to be carried out by Buyer pursuant to the Transaction Documents.

(b) Due Authorization, Etc. The Transaction Documents have been, and each instrument provided for herein or therein to which Buyer is a party will be, when executed and delivered as contemplated hereby, duly authorized, executed and delivered by Buyer and the Transaction Documents constitute, and each such instrument will constitute, when executed and delivered as contemplated hereby, legal, valid and binding obligations of the Buyer enforceable in accordance with their terms.

(c) Governmental Approvals. To Buyer's actual knowledge, no consent, approval or other authorization (other than corporate or other organizational consents which have been obtained), or registration, declaration or filing with, any court or governmental agency or commission is required for the due execution and delivery of any of the Transaction Documents to which Buyer is a party or for the validity or enforceability thereof against such party.

(d) No Litigation. Except as set forth on Schedule 9(d) attached hereto, neither Buyer nor its registered agent for service of process has been served with summons with respect to any actions or proceedings pending or, to Buyer's actual knowledge, no such actions or proceedings are threatened, against Buyer before or by any court, arbitrator, administrative agency or other governmental authority, which individually or in the aggregate, are expected, in the reasonable judgment of Buyer, to materially and adversely affect Buyer's ability to carry out any of the transactions contemplated by any of the Transaction Documents.

(e) No Conflicts. Neither the execution and delivery of the Transaction Documents to which Buyer is a party, compliance with the provisions thereof, nor the carrying out of the transactions contemplated thereby to be carried out by such party will result in (i) a breach or violation of (A) any material law or governmental rule or regulation applicable to Buyer now in effect, (B) any provision of any Buyer's organizational documents, (C) any material judgment, settlement agreement, order or decree of any court, arbitrator, administrative agency or other governmental authority binding upon Buyer, or (D) any material agreement or instrument to which Buyer is a party or by which Buyer or its respective properties are bound; (ii) the acceleration of any obligations of Buyer; or (iii) the creation of any lien, claim or encumbrance upon any properties or assets of Buyer.

(f) No Misstatements, Etc. To the best of Buyer's knowledge, neither the representations and warranties of Buyer stated in this Agreement, including the Exhibits and the Schedules attached hereto, nor any certificate or instrument furnished or to be furnished to Seller by Buyer in connection with the transactions contemplated hereby, contains or will contain any untrue or misleading statement of a material fact.

(g) Survival of Representations and Warranties; Updates. The representations and warranties of Buyer in this Agreement shall not be merged with the Deeds at the Closing and shall survive the Closing for the period of one (1) year.

10. Covenants of Seller. Seller covenants with respect to the Facilities as follows:

(a) Pre-Closing. Between the date of this Agreement and the Closing Date, except as contemplated by this Agreement or with the prior written consent of Buyer, which shall not be unreasonably withheld, conditioned or delayed:

(i) Seller shall use its best efforts to cause the Operator to operate the Facilities diligently, in accordance with the Operator's obligations under its lease or other arrangement with Seller, and only in the ordinary course of business and consistent with past practice.

(ii) Seller shall use its best efforts to prevent the Operator from making any material change in the operation of any Facility, and shall prevent the Operator from selling or agreeing to sell any items of machinery, equipment or other assets of the Facility, or otherwise entering into any agreement affecting any Facility, except in the ordinary course of business;

(iii) Seller shall use its best efforts to prevent the Operator from entering into any Lease or Contract or commitment affecting any Facility, except for Leases or Contracts entered into in the ordinary course of business;

(iv) During normal business hours and consistent with Section 6(c) herein, Seller shall provide Buyer or its designated representative with access to the Facility upon prior notification and coordination with Seller and the Operator; provided, Buyer shall not materially interfere with the operation of any Facility. At such times Seller and the Operator shall permit Buyer to inspect the books and records of each Facility;

(v) Within five (5) business days following the execution of this Agreement by the parties, Seller shall deliver to Buyer the due diligence items described on the Due Diligence List attached hereto as Schedule 10(a)(v) (the "**Due Diligence Items**"); provided, in the event certain Due Diligence Items ("**Unavailable Items**") are not readily accessible to Seller, Seller may identify the Unavailable Items by written notice to Buyer within such five (5) business day period and shall use its best efforts to deliver all Unavailable Items to Buyer as promptly as possible, but in no event more than ten (10) business days following the execution of this Agreement. If Buyer requests additional items not included on Schedule 10(a)(v), it will do so by written request delivered by Seller and Seller will use its best efforts to provide such information within five (5) business days within receipt of the request; and, provided further, Seller shall continue to cause Operator to deliver to Buyer, following the expiration of the Due Diligence Period, financial reports showing, among other things, the EBITDAR (defined below) for the Facilities for the trailing six (6) month annualized operations for any given period. The term "**EBITDAR**" means "earnings before interest, taxes, depreciation, amortization and rent and reserves (reserves meaning additions to capital reserves)."

(vi) Seller shall use its best efforts to prevent the Operator from moving residents from any Facility, except (a) to any other Facility which is owned by Seller and constitutes part of the Property as defined herein, (b) for health treatment purposes or otherwise at the request of the resident, family member or other guardian or (c) upon court order or the request of any governmental authority having jurisdiction over such Facility;

(vii) Seller shall use commercially reasonable efforts to cause the Operators to retain the services and goodwill of the employees of such Operator until the Closing;

(viii) Seller shall maintain in force, or shall cause each Operator to maintain in force, the existing hazard and liability insurance policies, or comparable coverage, for each Facility as are in effect as of the date of this Agreement;

(ix) Seller shall, and shall cause each Operator, to file all returns, reports and filings of any kind or nature, including but not limited to, cost reports referred to in this Agreement, required to be filed by Seller or the Operator on a timely basis and shall timely pay all taxes or other obligations and liabilities or recoupments which are due and payable with respect to each Facility in the ordinary course of business with respect to the periods Seller or Operator operated each Facility;

(x) Seller shall cause each Operator (a) to maintain all required operating licenses in good standing, (b) to operate each Facility in accordance with its current business practices and (c) to promptly notify Buyer in writing of any notices of material violations or investigations received from any applicable governmental authority;

(xi) Seller shall use commercially reasonable efforts to cause each Operator to make all customary repairs, maintenance and replacements required to maintain its Facility in substantially the same condition as on the date of Buyer's inspection thereof, ordinary wear and tear excepted;

(xii) Seller shall promptly notify Buyer in writing of any Material Adverse Change, as defined herein, of which Seller becomes aware in the condition or prospects of the Facilities including, without limitation, sending Buyer copies of all surveys and inspection reports of all governmental agencies received after the date hereof and prior to Closing, promptly following receipt thereof by the Operator. For purposes of this Agreement, a "**Material Adverse Change**" shall mean: (i) a decrease in the adjusted rolling six (6) month EBITDAR to less than One Million One Hundred Fifty-Three Thousand Four Hundred Thirty and 00/100 Dollars ($1,153,430.00), cumulatively, or (ii) loss of licensure, or (iii) loss of Medicaid participation, or (iv) any adverse action by a governmental agency which, with the passage of time, would reasonably be expected to materially affect in a negative manner licensure at any Facility, or any adverse action in any Facility which would reasonably be expected to materially affect in a negative manner such Facility's participation or eligibility to participate in any Medicaid, or other Payor program, unless appropriate corrective action has been taken by the Operator, in the ordinary course of business, or (v) failure to settle with the appropriate governmental authority, or to satisfy on or before the Closing (either directly with such governmental authority or by funds escrowed by Seller for such purposes) all claims for reimbursements, recoupments, taxes, fines or penalties which may be due to any governmental authority having jurisdiction over any Facility, or (vi) the occurrence of a title or survey defect occurring after the date of this Agreement which would reasonably be expected to adversely affect the ability of Buyer to operate the assisted living and memory care facility at its respective Facility or to obtain financing for such Facility, or (vii) the commencement of any third party litigation which interferes with Seller's ability to close the transactions contemplated by this Agreement, or (viii) any damage, destruction or condemnation affecting any Facility in which the estimate of damage exceeds $100,000 per Facility and such damage or destruction has not been repaired, or Buyer as not otherwise waived such condition prior to Closing. In the event of any occurrence described in clause (iv) above, Operator shall deliver a copy of the Plan of Correction or otherwise notify Buyer in writing of the planned action, and such Plan of Correction or other corrective action which has been approved by the applicable regulatory agency or agencies.

(xiii) Seller agrees to cause each Operator to remedy any compliance deficiency cited in any written notice from, or in any settlement agreement or other Plan of Correction or other agreement with, any state governmental body, or in the event of state proceedings against any Operator or any Facility, or receipt by any Operator of such notice prior to the Closing Date, of any condition which would affect the truth or accuracy of any representations or warranties set forth in this Agreement by Seller; provided, however, in the event a physical plant deficiency is cited which Seller has insufficient time to remedy before the Closing Date, in accordance with the approval of the appropriate state agency, then the same shall be deemed remedied when the costs of correcting said deficiency (based upon reasonable estimates from established vendors selected by Seller and Buyer and approved by Seller and by Buyer, in its sole and absolute discretion) shall be held back in the Escrow at the Closing and not released to Seller until such deficiency is corrected by Seller; and, provided further, a non-physical plant deficiency which cannot be remedied prior to the Closing, in accordance with the approval of the appropriate state agency, will be deemed to be remedied for purposes of this Section if such Operator develops a Plan of Correction addressing the deficiency(ies) and such Plan of Correction is approved by the applicable State agency. Seller shall use its best efforts to remedy any such deficiency subsequent to the Closing which is to be remedied as a result of a Plan of Correction filed by Seller or any Operator prior to the Closing, and Buyer shall cooperate with such efforts by Seller; provided, Seller shall bear all costs associated with such remedy. In the event any such Plan of Correction agreed to by Seller and Operator prior to the Closing is not approved by the applicable State agency subsequent to Closing, Seller shall promptly use its best efforts, and shall cause such Operator to use its best efforts, to amend the Plan of Correction in such a manner that is necessary to obtain acceptance by the State of the amended Plan of Correction as soon as practicable after submittal. Notwithstanding any other provision of this Agreement, the obligation of Seller pursuant to this Subsection 10(a)(xiii) shall survive the Closing for such period of time as is necessary to remedy such deficiency.

(xiv) Seller shall, at its cost and on or before Closing, obtain payoffs or other lender documentation required to obtain timely releases of financing statements and tax and judgment liens affecting or relating to each Facility which have been filed or recorded in the State with the Office of the Secretary of State and the appropriate County Recorder's Office.

(xv) Seller shall promptly comply with any notices of violations received relating to each Facility and shall deliver to Buyer a copy of any such notice received and evidence of compliance with such notice.

(xvi) Seller shall complete the Critical Repairs in accordance with Section 6(f) of this Agreement.

(b) Closing. On or before the Closing Date, Seller shall deliver the following documents to Escrow Agent relating to the Facilities ("**Closing Documents**"):

(i) One (1) original executed Deed for each Facility, in recordable form;

(ii) Two (2) original executed counterparts of the Post Closing Lease;

(iii) Two (2) original executed counterparts of the bill of sale for the Personal Property ("**Bill of Sale**"), an assignment of Seller's interest in the Contracts and Leases ("**Assignment of Contracts and Leases**"), and other instruments of transfer and conveyance in form and substance to be agreed upon prior to the expiration of the Due Diligence Period transferring and assigning to Buyer the Real Property, Personal Property and the Intangibles to be transferred as provided herein with respect to the Facilities ("**Instruments of Assignment**");

(iv) One (1) original of the executed Repair Completion Notice for each Facility, as applicable, to the extent not previously delivered to Buyer.

(v) One (1) original executed certificate executed by Seller confirming that Seller's representations and warranties continue to be true and correct in all material respects, or stating how such representations and warranties are no longer true and correct ("**Seller's Confirmation**");

(vi) All contractor's and manufacturer's guaranties and warranties, if any, in Seller's possession relating to each Facility (collectively, the "**Warranties**"), which delivery will be made by leaving such materials at the Facility; and

(vii) Two (2) original executed counterparts of each of the FIRPTA Certificate, escrow agreements and other documents required by the Title Company in connection with the transactions contemplated by this Agreement (collectively, the "**Title Company Documents**").

11. Covenants of Buyer. Buyer hereby covenants as follows:

(a) Pre-Closing. Between the date hereof and the Closing Date, except as contemplated by this Agreement or with the consent of Seller, Buyer agrees that Buyer shall not take any action inconsistent with its obligations under this Agreement or which could hinder or delay the consummation of the transaction contemplated by this Agreement. Between the date hereof and the Closing Date, Buyer agrees that Buyer shall not (i) make any commitments to any governmental authority, (ii) enter into any agreement or contract with any governmental authority or third parties, or (iii) alter, amend, terminate or purport to terminate in any way any governmental approval or permit affecting the Real Property, Personal Property or Facility, which would be binding upon Seller, any Real Property Owner, the Facility or Personal Property after any termination of this Agreement.

(b) Closing. On or before the Closing Date, Buyer shall deposit the following with Escrow Agent:

(i) The Purchase Price in accordance with the requirements of this Agreement;

(ii) Two (2) original executed counterparts of the Post Closing Lease;

(iii) Two (2) original executed counterparts of each of the Instruments of Assignment requiring Buyer's signature;

(iv) One (1) original executed certificate executed by Buyer confirming that Buyer's representations and warranties continue to be true and correct in all material respects, or stating how such representations and warranties are no longer true and correct ("**Buyer's Confirmation**"); and

(v) Two (2) original executed counterparts of each of the Title Company Documents requiring Buyer's signature.

12. Conditions to Closing.

(a) Conditions to Buyer's Obligations. All obligations of Buyer under this Agreement are subject to the reasonable satisfaction and fulfillment, prior to the Closing Date, of each of the following conditions. Any one or more of such conditions may be waived in writing by Buyer.

(i) Seller's Representations, Warranties and Covenants. Seller's representations, warranties and covenants contained in this Agreement or in any certificate or document delivered in connection with this Agreement or the transactions contemplated herein, shall be true at the date hereof and as of the Closing Date as though such representations, warranties and covenants were then again made, except to the extent that Buyer has discovered, or Seller has provided Buyer with written notice (the "**Supplemental Notice**") prior to Closing that Seller has just become aware, that a representation is untrue or inaccurate, and Buyer nevertheless elects not to terminate this Agreement at the expiration of the Due Diligence Period, or, if the Supplemental Notice is delivered after the Due Diligence Period, Buyer elects to proceed with closing the transaction despite such inaccuracy, whereupon Buyer will be deemed to have waived any right of recourse or damages against Seller resulting from such inaccuracy disclosed in the Supplemental Notice. Upon receipt of a Supplemental Notice from Seller after the expiration of the Due Diligence Period, Buyer shall have the right to (a) terminate this Agreement upon written notice to Seller within five (5) days after receipt of the Supplemental Notice, or (b) elect to proceed with closing the transaction as set forth in this Agreement. If Seller provides Buyer with a Supplemental Notice within ten (10) business days of Closing, then Buyer shall have the right, at its option and upon written notice to Seller, to extend the Closing Date for up to ten (10) business days in order to analyze and review the issues disclosed in the Supplemental Notice.

(ii) Seller's Performance. Seller shall have performed all of its obligations and covenants under this Agreement that are to be performed prior to or at Closing.

(iii) Damage and Condemnation. Prior to the Closing Date, no portion of any Facility shall have been damaged or destroyed by fire or other casualty where the estimate of damage to such Facility exceeds 10% of the Purchase Price allocated to such Facility, or proceedings be commenced or threatened to take or condemn any material part of the Real Property or improvements comprising a Facility by any public or quasi-public authority under the power of eminent domain. A proceeding shall be deemed to be "material" if such condemnation or taking (i) relates to the material taking or closing of any right of access to any Real Property or Facility, (ii) cause the Real Property or Facility to become non-conforming with then current legal requirements governing such Real Property or Facility, (iii) results in the loss of parking that is material to the operation of such Facility, or (iv) result in the loss of value in excess of 10% of the Purchase Price allocated to such Facility, in Buyer's reasonable judgment. If such Facility shall have been so damaged or destroyed, Seller shall deliver prompt written notice of such condemnation, damage or destruction to Buyer. In the event Buyer waives this condition, by written notice to Seller within fifteen (15) business days of receipt of notice of such proceeding, and the Closing occurs, Seller shall assign to Buyer all its right to any insurance proceeds in connection therewith. If proceedings shall be so commenced or threatened to take or condemn the Real Property or the Facility or portion thereof prior to Closing, and if Buyer waives this condition and the Closing occurs, Seller shall pay or assign to Buyer all Seller's right to the proceeds of any condemnation award in connection thereof.

(iv) Absence of Litigation. No action or proceeding shall have been instituted, threatened or, in the reasonable opinion of Buyer, is likely to be instituted before any court or governmental body or authority the result of which could prevent or make illegal the acquisition by Buyer of any Facility, or the consummation of the transaction contemplated hereby, or which could materially and adversely affect any Facility or the business or prospects of any Facility.

(v) Form of Post Closing Lease. Prior to the expiration of the Due Diligence Period, Operators and Buyer shall have agreed upon the form of the post closing lease (the "**Post Closing Lease**") between Buyer, as landlord, and Operator, as tenant. The Post Closing Lease shall be in substantially the form attached hereto and incorporated herein by reference as Exhibit C.

(vi) No Material Adverse Change. No Material Adverse Change shall have occurred in any Facility.

(vii) Removal of Personal Property Liens. Seller shall have removed (or shall have sufficient payoff or other documents to remove such liens) all personal property liens which are related to the Facilities and the Facilities shall be free and clear of all liens, claims and encumbrances other than Permitted Exceptions once such payoffs are made at Closing.

(viii) Title Insurance Policies. Title Company shall be prepared to issue the (i) Owners Title Insurance Policy for each Facility as of the Closing Date, with coverage in the amount of the allocable portion of the Purchase Price for such Facility, insuring Buyer as owner of such Facility subject only to the Permitted Exceptions, and (ii) ALTA Title Insurance Policy for each Facility as of the Closing Date, with coverage in the amount of the allocable portion of Buyer's loan from Buyer's lender ("**Lender**"), insuring Lender's lien against each Facility subject only to such exceptions as may be approved by Lender, and with such endorsements as may be required by Lender.

(ix) Close of Escrow Under Purchase Agreement for Shelby House. Concurrently herewith, Buyer, as buyer, and WPC Salem, LLC, an affiliate of Seller, as seller, are entering into a Purchase and Sale Agreement (the "**Shelby Purchase Agreement**") with respect to the purchase and sale of certain assisted living facility located at 950 Hardin Drive, Shelby, NC 28150 (the "**Shelby Facility**"). The close of escrow under the Shelby Purchase Agreement shall be an express condition to Buyer's obligation to close under this Agreement.

(b) Conditions to Seller's Obligations. All obligations of Seller under this Agreement are subject to the fulfillment, prior to the Closing Date, of each of the following conditions. Anyone or more of such conditions may be waived by Seller in writing.

(i) Buyer's Representations, Warranties and Covenants. Buyer's representations, warranties and covenants contained in this Agreement or in any certificate or document delivered in connection with this Agreement or the transactions contemplated herein shall be true at the date hereof and as of the Closing Date as though such representations, warranties and covenants were then again made.

(ii) Buyer's Performance. Buyer shall have performed its obligations and covenants under this Agreement that are to be performed prior to or at Closing.

(iii) Absence of Litigation. No action or proceeding shall have been instituted, threatened or, in the reasonable opinion of Seller, is likely to be instituted before any court or governmental body or authority the result of which could prevent or make illegal the acquisition by Buyer of any Facility, or the consummation of the transaction contemplated hereby, or which could materially and adversely affect any Facility or the business or prospects of any Facility.

(iv) No Actions. There shall be no action pending or recommended by the appropriate state agency to revoke, withdraw or suspend any license to operate any Facility or the certification of any Facility, or any action of any other type with regard to licensure or certification or with respect to Medicaid provider billing agreements necessary to operate any Facility.

(v) Execution of Post Closing Lease and Form of Post Closing Lease. Prior to the expiration of the Due Diligence Period, Operator and Buyer shall have agreed upon the form of the Post Closing Lease. Further, it shall be a condition to Closing that Operators and Buyer execute the Post Closing Lease simultaneously with Closing.

13. Termination; Defaults.

(a) Termination For Failure of Condition. Either party may terminate this Agreement for non-satisfaction or failure of a condition to the obligation of either party to consummate the transaction contemplated by this Agreement (including, without limitation, Buyer's election to disapprove the condition of the title or Surveys pursuant to Section 14 herein), unless such matter has been satisfied or waived by the date specified in this Agreement or by the Closing Date (as same may be extended by the parties to allow the parties to satisfy or waive conditions to close in the manner provided in this Agreement). In the event of such a termination, Escrow Agent shall promptly return (i) to Buyer, all funds of Buyer in its possession, including the Deposit and all interest accrued thereon, and (ii) to Seller and Buyer, all documents deposited by them respectively, which are then held by Escrow Agent. Thereafter, neither party shall have any continuing obligation or liability to the other party except for any such matters that expressly survive the Closing or termination of this Agreement, as provided herein. The provisions of this Section 13(a) are intended to apply only in the event of a failure of condition, as set forth herein, which is not the result of a default by either party, but which shall not apply in the event the non-terminating party is in default of its obligations under this Agreement.

(b) Termination For Cause.

(i) If the Agreement is terminated by Seller because Buyer fails to consummate the Closing as a result of a default by Buyer under this Agreement, Seller's sole and exclusive remedy prior to the Closing Date shall be to terminate this Agreement by giving written notice of termination to Buyer and Escrow Agent, whereupon (A) Escrow Agent shall promptly release to Seller the Deposit, and all interest accrued thereon, (B) Escrow Agent shall return to Buyer and Seller all documents deposited by them respectively, which are then held by Escrow Agent, (C) the parties shall be released and relieved of all obligations to each other under this Agreement, except for provisions that expressly survive termination as provided herein (including without limitation, indemnification provisions), (D) Buyer shall return to Seller all documents received by it during the course of its Due Diligence and (E) Buyer shall have no further right to purchase the Property or legal or equitable claims against Seller (except for any breach by Seller of provisions that survive termination) and/or the Property. Buyer shall have no liability to Seller under any circumstances for any speculative, consequential or punitive damages. Without limiting the other provisions of this Agreement, Buyer acknowledges that the provisions of this Subsection are a material part of the consideration being given to Seller for entering into this Agreement and that Seller would be unwilling to enter into this Agreement in the absence of the provisions of this Subsection. The provisions of this Subsection shall survive any termination of this Agreement. With respect to any action by Seller against Buyer or by Buyer against Seller commenced after the Closing Date, Seller and Buyer expressly waive any right to any speculative, consequential, or punitive damages. The parties acknowledge and agree that Seller's actual damages as a result of Buyer's default would be difficult or impossible to ascertain and that the deliveries and payments provided for in this paragraph constitute reasonable compensation for its actual damages. Seller and Buyer acknowledge that they have read and understand the provisions of this Section 13(b)(i) and by their initials below agree to be bound by its terms.

Sellers' Initials	Buyer's Initials

(ii) Buyer shall have the right to terminate this Agreement in the event Seller defaults in the performance of its obligations under this Agreement, or in the event WPC Salem, LLC, defaults in the performance of their respective obligations under the Shelby Purchase Agreement. If this Agreement is terminated by Buyer because Seller has defaulted in the performance of its obligations under this Agreement, and/or a default by WPC Salem, LLC, under the Shelby Purchase Agreement, Buyer's sole and exclusive remedies prior to the Closing Date shall be either: (A) to terminate this Agreement by giving written notice of termination to Seller and Escrow Agent and pursue any and all remedies for Buyer's out-of-pocket costs (including attorneys' fees and court costs), attributable to the termination of this Agreement supported by documentary evidence, excluding any speculative or punitive damages, whereupon (i) Escrow Agent shall promptly return to Buyer the Deposit, and all interest accrued thereon, and (ii) Escrow Agent shall return to Seller and Buyer all documents deposited by them respectively, which are then held by Escrow Agent, or (B) to pursue the remedy of specific performance of Seller's obligation to perform its obligations under this Agreement. Seller shall have no liability to Buyer under any circumstances for any speculative, consequential or punitive damages. Without limiting the other provisions of this Agreement, Seller acknowledges that the provisions of this Subsection are a material part of the consideration being given to Buyer for entering into this Agreement and that Buyer would be unwilling to enter into this Agreement in the absence of the provisions of this Subsection. The provisions of this Subsection shall survive any termination of this Agreement. With respect to any action by Buyer against Seller or by Seller against Buyer commenced after the Closing Date, Buyer and Seller expressly waive any right to any speculative, consequential, punitive or special damages including, without limitation, lost profits. Seller and Buyer acknowledge that they have read and understand the provisions of this Section 13.2(b) and by their initials below agree to be bound by its terms.

Sellers' Initials	Buyer's Initials

(c) General. In the event a party elects to terminate this Agreement such party shall deliver a notice of termination to the other party.

14. Surveys and PTR.

(a) Buyer has previously obtained a preliminary title report (the "**PTR**") covering the Real Property and each Facility dated prior to the date of this Agreement, together with legible copies of any and all instruments referred to in the PTR as constituting exceptions to title of the Real Property (the "**Title Documents**").

(b) Seller shall have delivered to Buyer a copy of the existing surveys, if any, in Seller's possession for each Facility ("**Surveys**") in accordance with Section 10(a)(v) herein. Buyer shall be responsible for obtaining an update of the Surveys or new Surveys, at Buyer's sole cost ("**New Surveys**"). On or before ten (10) business days prior to the expiration of the Due Diligence Period, Buyer shall notify Seller and the Title Company ("**Buyer's Title Notice**") of any objections which Buyer may have to the PTR and/or Surveys. If Buyer objects to any matters (other than the Permitted Exceptions, as defined herein) which, in Buyer's determination, might adversely affect the ability of Buyer to operate any of the Facilities, Seller shall use its reasonable business efforts to cure same, but shall not be obligated to cure matters other than to obtain the release (at Closing) of the existing mortgage and other monetary liens caused by Seller which may be released by payment of the mortgage payoff or lien amount from Seller's Closing proceeds (collectively, "**Monetary Liens**"). If Seller delivers written notice to Buyer ("**Seller's Title Notice**"), on or before the expiration of the Due Diligence Period that Seller is willing to remove any exceptions objected to by Buyer, then Seller shall be obligated to remove such exceptions on or prior to the Closing and such exceptions shall not be Permitted Exceptions. If Seller does not provide Buyer with Seller's Title Notice or Seller's Title Notice does not provide for Seller's agreement to remove all exceptions objected to by Buyer, then Buyer shall have the right to terminate this Agreement prior to the expiration of the Due Diligence Period or waive Buyer's objection to any exceptions Seller has not agreed to remove with such exceptions becoming Permitted Exceptions upon Buyer waiving its due diligence contingency. Buyer shall, promptly following the execution of this Agreement, commence to use its best efforts to obtain the New Surveys as soon as practicable. Notwithstanding the foregoing provisions of this Subsection (b), Buyer shall have the right to object, promptly upon learning of any such new matters during the Due Diligence Period, to any matters raised in the New Surveys which were not addressed in the Surveys, and the parties shall cooperate with the Title Company, during the Due Diligence Period and as promptly as possible following the delivery of Buyer's objections to such new matters in the New Surveys, to resolve any such matters to Buyer's satisfaction. The Due Diligence Period shall not be extended for resolution of any such matters in the New Surveys.

15. Cooperation. Following the execution of this Agreement, Buyer and Seller agree that if any event should occur, either within or without the knowledge or control of Buyer or Seller, which would prevent fulfillment of the conditions to the obligations of any party hereto to consummate the transaction contemplated by this Agreement, each such party shall use reasonably commercial efforts to cure or to cause the cure of the same as expeditiously as possible. In addition, each party shall cooperate fully with each other in preparing, filing, prosecuting, and taking any other actions with respect to, any applications, requests, or actions which are or may be reasonable and necessary to obtain the consent of any governmental instrumentality or any third party or to accomplish the transaction contemplated by this Agreement.

16. Indemnification.

(a) Indemnification Provisions.

(i) Subject to the limitation on damages contained in Section 13(b)(ii) hereof, Seller hereby agrees to indemnify, protect, defend and hold harmless Buyer and its officers, directors members shareholders tenants, successors and assigns harmless from and against any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including interest, penalties and reasonable attorneys' fees, costs and expenses) which any of them may suffer as a result of: (A) any material breach of or material inaccuracy in the representations and warranties, or breach, non-fulfillment or default in the performance of any of the conditions, covenants and agreements, of Seller contained in this Agreement or in any certificate or document delivered by Seller pursuant to any of the provisions of this Agreement, unless Seller cures such matter in the manner provided in Section 8(p) herein or (B) the failure to discharge any federal, state or local tax liability, or to pay any other assessments, recoupments, claims, fines, penalties or other amounts or liabilities accrued or payable with respect to any activities of Seller prior to the Closing Date (whether brought before or after the Closing Date), or (C) any obligation which is expressly the responsibility of Seller under this Agreement, or (D) any amounts required to cure citation violations issued by any state health or human services authority on any Facility relating to any period prior to the Closing Date (whether brought before or after the Closing Dates), or (E) any claim by any employee of Seller relating to any period of employment prior to the Closing Date (whether brought before or after the Closing Date), or (F) the existence against the Real Property of any mechanic's or materialmen's claims resulting from the action or inaction of Seller or anyone acting under authority of Seller, or (G) any other cost, claim or liability arising out of or relating to events (other than as a result of the actions of Buyer or Buyer's Consultants) or Seller's ownership, operation or use of any Facility prior to the Closing Date. Any amount due under the aforesaid indemnity shall be due and payable by Seller within 30 days after demand thereof. Seller shall have the right to contest any such claims, liabilities or obligations as provided herein.

(ii) Subject to the limitation on damages contained in Section 13(b)(i) hereof, Buyer hereby agrees to indemnify, protect, defend and hold harmless Seller and its officers, directors, members, shareholders and tenants harmless from and against any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including interest, penalties and reasonable attorneys' fees, costs and expenses) which any of them may suffer as a result of: (A) any material breach of or material inaccuracy in the representations and warranties, or breach, non-fulfillment or default in the performance of any of the conditions, covenants and agreements, of Buyer contained in this Agreement or in any certificate or document delivered by Buyer pursuant to any of the provisions of this Agreement, unless Buyer cures such matter in the manner provided in Section 8(p) herein, or (B) the existence against the Real Property of any mechanic's or materialmen's claims arising from actions of Buyer or Buyer's Consultants prior to the Closing, or (C) any claim by any employee of Buyer relating to any period after the Closing Date, or (D) any other cost, claim or liability arising out of or relating to events (other than as a result of Seller, Seller's operator, Seller's lessee, or Seller's consultants) of Buyer's ownership, operation or use of any Facility after the Closing Date, or (E) any obligation which is expressly the responsibility of Buyer under this Agreement. Any amount due under the aforesaid indemnity shall be due and payable by Buyer within thirty (30) days after demand therefor. Buyer shall have the right to contest any such claims, liabilities or obligations as provided herein or any other cost, claim or liability arising out of or relating to events or Buyer's ownership, operation or use of the Facilities after the Closing Date.

(iii) The parties intend that all indemnification claims be made as promptly as practicable by the party seeking indemnification (the "**Indemnified Party**"). Whenever any claim shall arise for indemnification hereunder, the Indemnifying Party shall promptly notify the party from whom indemnification is sought (the "**Indemnitor**") of the claim, and the facts constituting the basis for such claim (the "**Indemnification Claim**"). Failure to notify the Indemnitor will not relieve the Indemnitor of any liability that it may have to the Indemnified Party, except to the extent the defense of such action is materially and irrevocably prejudiced by the Indemnified Party's failure to give such notice.

(iv) An Indemnitor shall have the right to defend against an Indemnification Claim, with counsel of its choice reasonably satisfactory to the Indemnified Party, if (a) within fifteen (15) days following the receipt of notice of the Indemnification Claim the Indemnitor notifies the Indemnified Party in writing that the Indemnitor will indemnify the Indemnified Party from and against the entirety of any damages the Indemnified Party may suffer resulting from, relating to, arising out of, or attributable to the Indemnification Claim, (b) the Indemnitor provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnitor will have the financial resources to defend against the Indemnification Claim and pay, in cash, all damages the Indemnified Party may suffer resulting from, relating to, arising out of, or attributable to the Indemnification Claim, (c) the Indemnification Claim involves only money damages and does not seek an injunction or other equitable relief, (d) settlement of, or an adverse judgment with respect to, the Indemnification Claim is not in the good faith judgment of the Indemnified Party likely to establish a precedential custom or practice materially adverse to the continuing business interests of the Indemnified Party, and (e) the Indemnitor continuously conducts the defense of the Indemnification Claim actively and diligently.

(v) So long as the Indemnitor is conducting the defense of the Indemnification Claim in accordance with Section 16(a)(iv), then (A) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Indemnification Claim, (B) the Indemnified Party shall not consent to the entry of any order or finalization of any tentative settlement, the only condition of which is the consent of the Indemnified Party thereto, with respect to the Indemnification Claim without the prior written consent of the Indemnitor (not to be withheld unreasonably), and (C) the Indemnitor will not consent to the entry of any order or finalization of any tentative settlement, the only condition of which is the consent of the Indemnified Party thereto, with respect to the Indemnification Claim without the prior written consent of the Indemnified Party (not to be unreasonably withheld or delayed, provided that it will not be deemed to be unreasonable for an Indemnified Party to withhold its consent with respect to (i) any breach of any law, order or permit, (ii) any violation of the rights of any person, or (iii) any matter which Indemnified Party believes could have a material adverse effect on any other actions to which the Indemnified Party or its Affiliates are party or to which Indemnified Party has a good faith belief it may become party. Notwithstanding the foregoing provisions of this Subsection (v), if Indemnified Party refuses its consent to any of the matters set forth in clauses (i) through (iii) above, the indemnity amount shall be determined as if such consent had been given and Indemnitor shall pay over to the Indemnified Party such amount and be absolved from any further obligation as to that particular claim; Indemnified Party may then resolve the claim in the manner it sees fit without further recourse against Indemnitor.

(vi) Each party hereby consents to the non-exclusive jurisdiction of any governmental body, arbitrator, or mediator in which an action is brought against any Indemnified Party for purposes of any Indemnification Claim that an Indemnified Party may have under this Agreement with respect to such action or the matters alleged therein, and agrees that process may be served on such party with respect to such claim anywhere in the world, provided however, that any venue relating to any claim or proceeding arising out of this Agreement or any other agreement between Sellers and Buyer shall be the State and the laws of the State shall apply.

(b) Insurance Proceeds. In determining the amount of damages for which either party is entitled to assert an Indemnification Claim, the amount of any such claims or damages shall be determined after deducting therefrom the amount of any insurance coverage or proceeds or other third party recoveries received by such other party in respect of such damages. If an indemnification payment is received by the Indemnified Party in respect of any damages and the Indemnified Party later receives insurance proceeds or other third party recoveries in respect of such damages, the Indemnified Party shall immediately pay to the Indemnifying Party a sum equal to the lesser of the actual amount of net insurance proceeds or other third party recoveries (remaining after recovery costs and expenses) or the actual amount of the indemnification payment previously paid by or on behalf of the Indemnified Party.

(c) No Incidental, Consequential and Certain Other Damages. An Indemnitor shall not be liable to an Indemnified Party for incidental, consequential, enhanced, punitive or special damages unless such damages are included in a third-party claim and such Indemnified Party is liable to the third party claimant for such damages.

(d) Indemnification if Negligence of Indemnity; No Waiver of Rights or Remedies.

Each Indemnified Party's rights and remedies set forth in this Agreement shall survive the Closing or other termination of this Agreement, shall not be deemed waived by such Indemnified Party's consummation of the Closing of the sale transactions (unless the Indemnified Party has knowledge of the existence of an Indemnification Claim at Closing and decides to proceed with Closing)and will be effective regardless of any inspection or investigation conducted by or on behalf of such Indemnified Party or by its directors, officers, employees, or representatives or at any time (unless such inspection or investigation reveals the existence of an Indemnified Claim and such party proceeds with Closing), whether before or after the Closing Date.

(e) Other Indemnification Provisions. A claim for any matter not involving a third party may be asserted by notice to the Party from whom indemnification is sought.

(f) Dispute Resolution. Any dispute arising out of or relating to claims for indemnification pursuant to this Article 16 or any other dispute hereunder, shall be resolved in accordance with the procedures specified herein, which shall be the sole and exclusive procedure for the resolution of any such disputes.

17. Notices. Any notice, request for consent or approval, election or other communication provided for or required by this Agreement shall be in writing and shall be delivered by hand, by air courier service, postage prepaid (certified with return receipt requested), fax transmission or electronic transmission followed by delivery of the hard copy of such communication by air courier service or mail as aforesaid, addressed to the person to whom such notice is intended to be given at such address as such person may have previously furnished in writing to the such party's last known address. Until receipt of written notice to the contrary, the parties' addresses for notices shall be:

To Buyer:

Cornerstone Core Properties REIT, Inc.
c/o Cornerstone Healthcare Properties
1920 Main Street, Suite 400
Irvine, CA 92614
Attention: Kent Eikanas
Phone: (949) 812-4335
Email: KEikanas@crefunds.com

With a Copy to:

Heffernan Seubert & French LLP
1075 Curtis Street
Menlo Park, CA 94025
Attention: Rachel Rosati Warner
Phone: (650) 322-2919
Email: rwarner@hsfllp.com

To Seller: Hamlet Health Investors, LLC
P.O. Box 2568
Hickory, NC 28603
Phone: (828) 322-5535
Email: CET@meridiansenior.com

Newport Health Investors, LLC
P.O. Box 2568
Hickory, NC 28603
Phone: (828) 322-5535
Email: CET@meridiansenior.com

With a Copy to: John A. Cocklereece, Jr.
Bell, Davis & Pitt, P.A.
100 North Cherry Street, Suite 600
Winston-Salem, NC 27101
Phone: (336) 722-3700
E-mail:jcockelreece@belldavispitt.com

18. Sole Agreement. This Agreement constitutes the entire understanding between the parties with respect to the transactions contemplated herein, and all prior or contemporaneous oral agreements, understandings representations and statement, and all prior written agreements, understandings, letters of intent and proposals are merged into this Agreement. Neither this Agreement nor any provisions hereof may be waived, modified, amended, discharged or terminated except by an instrument in writing signed by the party against which the enforcement of such waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in such instrument.

19. Assignment; Successors. Neither party shall assign this Agreement without the prior written consent of the other; provided, however, Buyer may assign all of its rights, title, liability, interest and obligation pursuant to this Agreement to one or more entities owned, controlled by or under common control with Buyer. Subject to the limitations on assignment set forth above, all the terms of this Agreement shall be binding upon and inure to the benefit of and be enforceable by and against the heirs, successors and assigns of the parties hereto.

20. Severability. Should any one or more of the provisions of this Agreement be determined to be invalid, unlawful or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby and each such provision shall be valid and remain in full force and effect.

21. Risk of Loss. Until the Closing Date, Seller shall bear the risk of loss for the Facilities and after the Closing Date, the risk of loss of the Facilities shall be governed by the Post Closing Lease.

22. Holidays. If any date herein set forth for the performance of any obligations by Seller or Buyer or for the delivery of any instrument or notice as herein provided should be on a Saturday, Sunday or legal holiday, the compliance with such obligations or delivery shall be deemed acceptable on the next business day following such Saturday, Sunday or legal holiday. As used herein, the term “legal holiday” means any state or federal holiday for which financial institutions or post offices are generally closed in the State for observance thereof.

23. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, and all of which together shall be deemed to constitute one and the same instrument. Facsimile signature pages or electronically transmitted signature pages shall constitute original counterparts for all purposes.

24. Covenant Not to Compete; Non-Solicitation of Employees. For a period of three (3) years following the Closing Date, each Seller agrees (i) not to own, manage, lease or operate a long term assisted living facility which is located within a ten (10) mile radius of each Facility and (ii) not to solicit the transfer of patients or residents of any of the Facilities to any long term assisted living facility which is managed, leased or operated by any entity owned and/or controlled by any of the Seller entities or such individual within a ten (10) mile radius of each Facility.

25. Exhibits and Schedules. To the extent that one or more Exhibits or Schedules are not attached to this Agreement at the time this Agreement is executed, Seller and Buyer agree that this Agreement is not rendered unenforceable by reason of such fact. Seller shall provide such exhibits to Buyer during the Due Diligence Period as promptly as possible in order to allow the parties to agree upon such Exhibits and Schedules and to afford Buyer adequate time in which to complete its due diligence review prior to the expiration of the Due Diligence Period.

26. Prevailing Party. Subject to the limitations as otherwise set forth in this Agreement, if an action shall be brought on account of any breach of or to enforce or interpret any of the terms, covenants or conditions of this Agreement, the prevailing party shall be entitled to recover from the other party, as part of the prevailing party’s costs, reasonable attorney’s fees, the amount of which shall be fixed by the court and shall be made a part of any judgment rendered.

27. Time is of the Essence. Time is of the essence of this Agreement.

28. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State.

[Signatures on Following Pages]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement by parties legally entitled to do so as of the day and year first set forth above.

"SELLER":

HAMLET HEALTH INVESTORS, LLC, a North Carolina limited liability company

By: /s/ Charles E. Trefzger, Jr.
Its: Manager

NEWPORT HEALTH INVESTORS, LLC, a North Carolina limited liability company

By: /s/ Charles E. Trefzger, Jr.
Its: Manager

"BUYER":

CORNERSTONE CORE PROPERTIES REIT, INC., a Maryland corporation

By: /s/ Kent Eikanas
Kent Eikanas, President

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT ("**Agreement**") is made and entered into as of this 30 day of July, 2013 (the "**Effective Date**"), by and between WPC SALEM, LLC, a North Carolina limited liability company ("**Seller**"), and CORNERSTONE CORE PROPERTIES REIT, INC., a Maryland corporation, or its assignee ("**Buyer**").

1. Purchase and Sale. Seller is the optionee pursuant to the certain Option Agreement dated as of August 16, 2012 (the "**Option Agreement**"), whereby Clifford E. Hemingway ("**Hemingway**"), the sole owner of Shelby Health Investors, LLC, a North Carolina limited liability company ("**SHI**"), granted to Charles E. Trefzger, Jr. ("**Trefzger**") the exclusive option (the "**Option**") to purchase the Property (as defined below). SHI is the owner of the Property (as defined below). Trefzger has assigned all of its right, title and interest under the Option Agreement to Seller pursuant to that certain Assignment of Purchase Option dated July __, 2013 (the "**Option Assignment**"). Seller intends to exercise and close on the Option contemporaneously with the closing of the transaction contemplated herein.

On the terms and conditions set forth herein, Seller shall sell, assign, transfer, convey and deliver to Buyer and Buyer shall purchase from Seller its interest in the following, which are hereinafter referred to collectively as the "**Property**":

(a) The improvements located on the Real Property, consisting of one (1) assisted living facility as described in Schedule 1(a) attached hereto (the "**Facility**") currently owned by SHI, and all right, title and interest of Seller in and to the items described in (a) through (f) herein;

(b) All of the real estate on which the Facility is situated, together with all tenements, easements, appurtenances, privileges, rights of way, and other rights incident thereto, all building and improvements and any parking lot to the Facility located thereon situated in the State of North Carolina (the "**State**"), which is described in Exhibit A attached hereto and made a part hereof by this reference (collectively, the "**Real Property**");

(c) All of the tangible personal property, inventory, equipment, machinery, supplies including drugs and other supplies, spare parts, furniture, furnishings, warranty claims, contracts, including but not limited to supply contracts, contracts rights, intellectual property, including but not limited to patents, trade secrets, and all rights and title to the names under which the Facility operates, mailing lists, customer lists, vendor lists, resident files, books and records owned by the Seller, who may retain copies of same, and shall have reasonable access to such books and records after the Closing as required for paying taxes and responding to legal inquiry, as such personal property is described in Schedule 1(c) attached hereto (collectively, the "**Personal Property**");

(d) All transferable licenses, permits, certifications, assignable guaranties and warranties in favor of Seller, approvals or authorizations and all assignable intangible property not enumerated herein which is used by the Seller in connection with the Facility, and all other assets whether tangible or intangible; provided, that Seller shall retain all licenses required to be retained by Seller in order to operate the current business within the Facility;

(e) All trade names or other names commonly used to identify the Facility and all goodwill associated therewith. The intent of the parties is to transfer to Buyer only such name(s) and goodwill associated with the Facility itself and not with Seller or any affiliate of Seller, so as to avoid any interference with the unrelated business activities of Seller; and

(f) All telephone numbers used in connection with the operation of the Facility, and to the extent not described above, all goodwill of Seller associated with the Facility (the items described in clauses (e) and (f) above are collectively referred to as "**Intangibles**").

2. Excluded Assets. Seller's cash, investment securities, bank account(s) and accounts receivable, and deposits attributable and relating to the operation of the Facility, and Seller's corporate minute books and corporate tax returns, partnership records, and other corporate and partnership records shall be excluded from the Facility sold by Seller to Buyer hereunder as well as Seller's real property not identified in Schedule 1(a) (the "**Excluded Assets**").

3. Purchase Price; Deposits. The following shall apply with respect to the Purchase Price of the Property:

(a) The purchase price (the "**Purchase Price**") payable by Buyer to Seller for the Property is Four Million Five Hundred Thousand and 00/100 Dollars ($4,500,000.00).

(b) Intentionally deleted.

(c) Within three (3) business days after this Agreement is fully executed by the parties, Buyer shall deposit the sum of Twenty-Five Thousand and 00/100 Dollars ($25,000.00) as an earnest money deposit ("**Initial Deposit**") with Lawyers Title Insurance Company, at its office at 4100 Newport Place Drive, Suite 120, Newport Beach, California 92660, Attention: Debi Calmelat ("**Title Company**" or "**Escrow Agent**") and Escrow Agent will deposit it into an interest-bearing account with the interest for the benefit of Buyer. In addition, if Buyer has not terminated this Agreement on or before the expiration of the Due Diligence Period (defined below), then Buyer shall deposit with Escrow Agent an additional Twenty-Five Thousand and 00/100 Dollars ($25,000.00) ("**Additional Deposit**") within three (3) business days following the expiration of the Due Diligence Period (the Initial Deposit and the Additional Deposit are collectively referred to as the "**Deposits**"). Interest earned on the Deposit shall be paid to the party entitled to such amount as provided in this Agreement.

(d) At Closing, the Deposit shall be credited against the Purchase Price and Buyer shall deposit the balance of the Purchase Price in Cash to the Escrow Agent.

(e) Buyer shall not assume or pay, and Seller shall continue to be responsible for, any and all debts, obligations and liabilities of any kind or nature, fixed or contingent, known or unknown, of Seller not expressly assumed by Buyer in this Agreement. Specifically, without limiting the foregoing, Buyer shall not assume any obligation, liability, cost, expense, claim, action, suit or proceeding pending as of the Closing, nor shall Buyer assume or be responsible for any subsequent claim, action, suit or proceeding arising out of or relating to any such other event occurring, with respect to the manner in which Seller conducted its business at the Facility, on or prior to the date of the Closing Date. In addition, Buyer shall not assume successor liability obligations to Medicaid, HMO or any other third party payer programs or be responsible for recoupment's, fines, or penalties required to be paid to such parties as a result of the operation of the Facility prior to the Closing Date by Seller or the Facility's operator, Shelby AL Holdings, LLC (the **"Operator"**).

4. Closing. The closing of the purchase and sale transaction pursuant to this Agreement (**"Closing"**) shall occur on the date that is thirty (30) days after the expiration of the Due Diligence Period (**"Closing Date"**). The Closing shall take place through Seller's delivery of a special warranty deed and Buyer's delivery of cash or immediately available funds through an escrow agreement (the **"Escrow"**) to be established with the Escrow Agent pursuant to form escrow instructions which shall be modified to be consistent with the terms and provisions of this Agreement, and which shall be mutually agreed upon by the parties hereto.

5. Conveyance. Title to the Facility shall be conveyed by Seller to Buyer by a special warranty deed and bill of sale in form agreed to by the parties prior to the end of the Due Diligence Period, as defined herein. Fee simple indefeasible title to the Real Property and title to the Personal Property, shall be conveyed from Seller to Buyer or Buyer's nominee in "AS-IS, WHERE-IS" condition, free and clear of all liens, charges, easements and encumbrances of any kind, other than:

(a) Liens for real estate taxes or assessments not yet due and payable;

(b) The standard printed exceptions included in the PTR, as defined in Section 14(a) herein; unless objected to in writing by Buyer during the Due Diligence Period;

(c) Such exceptions that appear in the PTR and that are either waived or approved by Buyer in writing pursuant to Section 14(b) herein;

(d) Liens or encumbrances caused by the actions of Buyer but not those caused by the actions of Seller; and

(e) Those matters identified as Permitted Exceptions on the attached Exhibit B.

The items described in this Section 5 are sometimes collectively referred to as the "**Permitted Exceptions**."

6. Buyer's Due Diligence.

(a) Buyer shall have sixty (60) days from the Effective Date to complete Buyers Due Diligence (the "**Due Diligence Period**"); provided, however, that if Seller does not deliver the Due Diligence Items in the time frames set forth in Section 10(a)(v) below, the Due Diligence Period shall be extended on a day-by-day basis for each day of delay in delivery of the Due Diligence Items beyond the time periods set forth in Section 10(a)(v) below. Seller shall obtain the consent of SHI to Buyer's entry on the Real Property and the Facility as provided herein. During the Due Diligence Period, Seller shall permit the officers, employees, directors, agents, consultants, attorneys, accountants, lenders, appraisers, architects, investors and engineers designated by Buyer and representatives of Buyer (collectively, the "**Buyer's Consultants**") access to, and entry upon the Real Property and the Facility to perform its normal and customary due diligence, including, without limitation, the following (collectively, the "**Due Diligence Items**"):

(i) Review of vendor contracts ("**Contracts**") and leases ("**Leases**") to which the Facility (or the Seller, on behalf of the Facility) is a party, as set forth on Schedule 8(f) attached hereto;

(ii) Conduct environmental investigations (including a Phase 1 Environmental Audit);

(iii) Inspection of the physical structure of the Facility;

(iv) Review of current PTR, as defined in Section 14 herein, and underlying documents referenced therein;

(v) Review of ALTA Survey, as defined in Section 14 herein, for the Facility;

(vi) Inspection of the books and records of the Facility and that portion of the Seller's books and records which pertain to the Facility;

(vii) Review of the Due Diligence Items, as described in Schedule 10(a)(v) attached hereto, to be provided by Seller within five (5) business days following the Effective Date;

(viii) Conduct such other inspections or investigations as Buyer may reasonably require relating to the ownership, operation or maintenance of the Facility;

(ix) Review of resident files, agreements, and any other documentation regarding the residents of the Facility, which review shall in all events be subject to all applicable laws, rules and regulations concerning the review of medical records and other types of patient records;

(x) Review of files maintained by the State relating to the Facility;

(xi) Review of all drawings, plans and specifications and all engineering reports for the Facility in the possession of or readily available to Seller;

(xii) Seller will furnish copies of all environmental reports, property condition reports, appraisals, title reports and ALTA Survey (or surveys) that it currently has in its possession;

(xiii) Review copies of currently effective written employment manuals or written employment policies and/or procedures have been provided to or for employees; and

(xiv) Review of the Option Agreement, the Exercise Notice (as defined below) and all amendments and modifications thereto.

Notwithstanding the foregoing provisions of this Subsection, in the event Seller fails to deliver all Due Diligence Items listed in Schedule 10(a)(v) on or before the time set forth in Subsection (a)(vii) above, then the Due Diligence Period shall be deemed extended on a day-to-day basis until Seller completes such delivery of the Due Diligence Items to Buyer.

(b) Buyer agrees and acknowledges that: (i) Buyer will not disclose the Due Diligence Items or any other materials received from Seller pursuant to this Agreement (the "**Property Information**") or any of the provisions, terms or conditions thereof, or any information disclosed therein or thereby, to any party outside of Buyer's organization, other than Buyer's Consultants whom shall also not disclose the Property Information to third parties; (ii) the Property Information is delivered to Buyer solely as an accommodation to Buyer; (iii) Seller has not undertaken any independent investigation as to the truth, accuracy or completeness of any matters set out in or disclosed by the Property Information; and(iv) except as expressly contained in this Agreement, Seller has not made and does not make any warranties or representations of any kind or nature regarding the truth, accuracy or completeness of the information set out in or disclosed by the Property Information.

(c) All due diligence activities of Buyer at the Facility shall be scheduled with Seller upon two (2) business days prior notice. Reviews, inspections and investigations at the Facility shall be conducted by Buyer in such manner so as not to disrupt the operation of the Facility.

(d) Buyer may, at its sole cost, obtain third party engineering and physical condition reports and Phase I Environmental Audits covering the Facility, certified to Buyer, prepared by an engineering and/or environmental consultants acceptable to Buyer; provided, no inspection by Buyer's Consultants shall involve the taking of samples or other physically invasive procedures (such as a Phase II environmental audit) without the prior written consent of Seller, which consent shall not be unreasonably withheld or delayed. Notwithstanding anything to the contrary contained in this Agreement, Buyer shall indemnify, defend (with counsel acceptable to Seller) and hold Seller and its employees and agents, and each of them, harmless from and against any and all losses, claims, damages and liabilities, without limitation, attorneys' fees incurred in connection therewith) arising out of or resulting from Buyer' or Buyer's Consultant's exercise of its right of inspection as provided for in this Section 6; provided, however, such indemnification shall not extend to matters merely discovered by Buyer and/ or the acts or omissions of Seller or any third party. The indemnification obligation of Buyer under this Section 6 shall survive the termination of this Agreement indefinitely. Following any audit or inspection as provided for herein, Buyer shall return the Real Property and the Facility to the condition in which they existed immediately prior to such audit or inspection.

(e) If the results of the foregoing inspections and audits are not acceptable to Buyer in its sole and absolute discretion, Buyer may, upon notice to Seller given on or before 5:00 p.m. (Pacific Time) on the last day of the Due Diligence Period, terminate this Agreement, and in such event, neither party shall have any further rights and obligations under this Agreement, except for obligations which expressly survive the termination of this Agreement. Failure of Buyer to deliver written notice of approval prior to 5:00 p.m. (Pacific Time) on the last day of the Due Diligence Period shall be deemed to constitute Buyer's disapproval of the matters described in this Section 6(a). If this Agreement shall be terminated prior to Closing, upon Seller's request, Buyer shall promptly return or destroy all copies of the Due Diligence Items.

(f) During the Due Diligence Period, Buyer shall obtain, at Buyer's election, a third party inspection report with respect to each Facility (the **Inspection Report**"). If the Inspection Report recommends any critical repairs (the "**Critical Repairs**") be made to any Facility, Buyer shall provide Seller with written notice of the same prior to the expiration of the Due Diligence Period, and the Critical Repairs shall be listed on a new Schedule 6(f) to be attached to the Agreement. Seller shall make all Critical Repairs listed in the Inspection Report to such Facility at least ten (10) business days prior to the Closing, at Seller's sole cost and expense (not to exceed One Hundred Thousand Dollars ($100,000) ("**Seller's Critical Repair Cap**")). Buyer shall be responsible for any Critical Repair costs for any Facility over the Seller's Critical Repair Cap. Seller shall deliver to Buyer a completion letter or similar notice documenting the completion of the repairs (the "**Repair Completion Notice**") executed by Seller and Seller's contractor and/or architect who performed and/or supervised the construction of the repairs. The Critical Repairs shall be constructed in a workmanlike manner and in accordance with all applicable laws.

7. Prorations; Closing Costs; Possession; Post Closing Assistance.

(a) There will be no prorations at the Closing and Operator, its successors or assigns shall remain responsible for all taxes, costs and expenses relating to the Facility following the Closing pursuant to the Post Closing Lease (as defined in Section 12(a)(v)).

(b) Seller shall pay any state, county and local transfer taxes arising out of the transfer of the Real Property.

(c) Buyer shall pay the cost of the standard owner's title insurance policy, as described in this Agreement. Buyer shall also pay the cost of any lender's policy for Buyer's lender, any title endorsements requested by Buyer and its lender and the cost of updating or obtaining new Surveys. Seller and Buyer shall equally share the fees of Escrow Agent. All other costs associated with title and survey matters shall be paid in accordance with Forsyth County (and local) custom and practice.

(d) Buyer and Seller shall each pay their own attorney's fees. Buyer shall pay for all costs of review of the Due Diligence Items and its additional due diligence inspection costs including, without limitation, the cost of any environmental reports.

(e) On the Closing Date, the Operator, or its successor, Shelby House, LLC shall retain possession of the Facility pursuant to the Post Closing Lease.

8. Representations and Warranties of Seller. Seller hereby represents and warrants to Buyer that:

(a) Legality.

(i) Organization, Corporate Powers, Etc. Seller has the full power, authority and legal right (A) to execute and deliver, and perform and observe the provisions of this Agreement and each Transaction Document, as defined herein, to which he is a party, (B) to transfer good, indefeasible title to the Property to Buyer free and clear of all liens, claims and encumbrances except for Permitted Exceptions (as defined in Section 5 hereof), and (C) to carry out the transactions contemplated hereby and by such other instruments to be carried out by him. Seller is the sole owner of the right to purchase the Property pursuant to the Option Agreement, and has the full legal power and authority to perform the terms of the Option Agreement.

(ii) Due Authorization, Etc. This Agreement and the Closing Documents (collectively the "**Transaction Documents**"), and the Option Agreement have been, and each instrument provided for herein or therein to which Seller is a party will be, when executed and delivered as contemplated hereby authorized, executed and delivered by Seller and the Transaction Documents and the Option Agreement constitute, and each such instrument will constitute, when executed and delivered as contemplated hereby, legal, valid and binding obligations of Seller and enforceable in accordance with their terms.

(iii) Governmental Approvals. To the best of Seller's knowledge, no consent, approval or other authorization (other than corporate or other organizational consents which have been obtained), or registration, declaration or filing with, any court or governmental agency or commission is required for the due execution and delivery of any of the Transaction Documents to which Seller is a party or for the validity or enforceability thereof against such party other than the recording or filing for recordation of the North Carolina form Special Warranty Deed (the "**Deed**") which recordings shall be accomplished at Closing.

(iv) Other Rights. Except for the Option, no right of first refusal, option or preferential purchase or other similar rights are held by any person with respect to any portion of the Property. Neither Seller, nor SHI, has alienated, encumbered, transferred, leased, assigned or otherwise conveyed its interest in the Option Agreement, and neither party shall enter into any such agreement prior to the Close of Escrow.

(v) No Litigation. Except as set forth on Schedule 8(a)(v) attached hereto, Seller has not been served with summons with respect to any actions or proceedings pending or, to Seller's actual knowledge, no such actions or proceedings are threatened, against Seller before or by any court, arbitrator, administrative agency or other governmental authority, which (A) individually or in the aggregate, are expected, in the reasonable judgment of Seller, to materially and adversely affect Seller's ability to carry out any of the transactions contemplated by any of the Transaction Documents or (B) otherwise involve any portion of the Property including, without limitation, the Facility.

(vi) No Conflicts. Neither the execution and delivery of the Transaction Documents or the Option Agreement, to which Seller is a party, compliance with the provisions thereof, nor the carrying out of the transactions contemplated thereby will result in (A) a breach or violation of (1) any material law or governmental rule or regulation applicable to Seller now in effect, (2) any material judgment, settlement agreement, order or decree of any court, arbitrator, administrative agency or other governmental authority binding upon Seller, or (3) any material agreement or instrument to which Seller is a party or by which Seller or his respective properties are bound; (B) the acceleration of any obligations of Seller; or (C) the creation of any lien, claim or encumbrance upon any properties or assets of Seller.

(b) Property.

As of the Effective Date and the Closing Date, except as set forth on Schedule 8(b):

(i) Seller has no actual knowledge of and has not received any notice of, and to Seller's knowledge, SHI has not received any notice of, outstanding deficiencies or work orders of any authority having jurisdiction over any portion of the Property;

(ii) Seller has no actual knowledge of and has not received any notice of, and to Seller's knowledge, SHI has not received any notice of any claim, requirement or demand of any licensing or certifying agency supervising or having authority over the Facility to rework or redesign it in any material respect or to provide additional furniture, fixtures, equipment or inventory so as to conform to or comply with any law which has not been fully satisfied;

(iii) Seller has not received any notice from, and to Seller's knowledge, SHI has not received any notice from, any governmental authority of any material violation of any law applicable to any portion of the Real Property or to the Facility;

(c) Condemnation. There is no pending or, to the actual knowledge of Seller, threatened condemnation or similar proceeding or assessment affecting the Real Property, nor, to the actual knowledge of Seller, is any such proceeding or assessment contemplated by any governmental authority, and to Seller's knowledge, SHI has not received any notice with respect to any pending or threatened condemnation.

(d) Hazardous Substances. Except as disclosed on Schedule 8(d), which includes a list of all environmental reports provided by Seller to Buyer in connection with this Agreement (the "**Seller Environmental Reports**"), to Seller's actual knowledge, there has been no production, storage, manufacture, voluntary or involuntary transmission, use, generation, treatment, handling, transport, release, dumping, discharge, spillage, leakage or disposal at, on, in, under or about the Real Property of any Hazardous Substances by SHI, or any affiliate or agent thereof, except in strict compliance with all applicable Laws. To Seller's actual knowledge and except as disclosed on Schedule 8(d), there are no Hazardous Substances at, on, in, under or about the Real Property in violation of any Law, and to Seller's actual knowledge, there is no proceeding or inquiry by any federal, state or local governmental agency with respect thereto. For purposes of this Agreement, "**Hazardous Substances**" shall mean any hazardous or toxic substances, materials or wastes, including, without limitation, those substances, materials and wastes listed in the United States Department of Transportation Table (49 CFR 172.1 01) or by the Environmental Protection Agency as hazardous substances (40 CFR Part 302 and amendments thereto) or such substances, materials and wastes which are or become regulated under any applicable local, state or federal law (collectively, "**Laws**"), including, without limitation, any material, waste or substance which is (i) a hazardous waste as defined in the Resource Conservation and Recovery Act of 1976, as amended (42 U.S.C. § 6901 et seq.); (ii) a pollutant or contaminant or hazardous substance as defined in the Comprehensive Environmental Response. Compensation and Liability Act of 1980, as amended (42 U.S.C. § 9601 et seq.); (iii) a hazardous substance pursuant to § 311 of the Clean Water Act (33 U.S.C. § 1251, et seq., 33 U.S.C. § 1321) or otherwise listed pursuant to § 307 of the Clean Water Act (33 U.S.C. § 1317); (iv) a hazardous waste pursuant to § 1004 of the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.); (v) polychlorinated biphenyls (PCBs) as defined in the Federal Toxic Substance Control Act, as amended (15 U.S.C. § 2501 et seq.); (vi) hydrocarbons, petroleum and petroleum products; (vii) asbestos; (viii) formaldehyde or medical or biohazardous waste; (ix) radioactive substances; (x) flammables and explosives; (xi) any state statutory counterparts to those federal statutes listed herein; or (vii) any other substance, waste or material which could presently or at any time in the future require remediation at the behest of any governmental agency. Any reference in this definition to Laws shall include all rules and regulations which have been promulgated with respect to such Laws.

(e) Brokers. Neither Seller nor Buyer has dealt with any broker or finder in connection with the transactions contemplated hereby. Each party represents and warrants to the other party that it has not dealt with any broker, salesman, finder or consultant with respect to this Agreement or the transactions contemplated hereby. Each party agrees to indemnify, protect, defend, protect and hold the other party harmless from and against all claims, losses, damages, liabilities, costs, expenses (including reasonable attorneys' fees and disbursements) and charges resulting from such indemnifying party's breach of the foregoing representation. The provisions of this Section 8(e) shall survive the Closing or earlier termination of this Agreement.

(f) Leases and Contracts. Schedule 8(f) is a list of all Leases and Contracts relating to the Facility to which Seller or SHI is a party or by which Seller or SHI may be bound. Seller has made or will promptly make available to Buyer true, complete and accurate copies of all Leases and Contracts including, without limitation, any modifications thereto. All of the Leases and Contracts are in full force and effect without claim of material default there under, and, except as may be set forth on Schedule 8(f).

(g) Financial Statements. Schedule 8(g) contains (i) the balance sheets of the Operator for the last three (3) fiscal years ending prior to the date of this Agreement (audited if available and unaudited to the extent audited statements are not available) and the unaudited balance sheets for each of the past three (3) fiscal quarters completed prior to the date of this Agreement and (ii) the related consolidated statements of income, results of operations, changes in members' equity and changes in financial position with respect to each such period as compared with the immediately prior period (collectively, the "**Financial Statements**"). The Financial Statements taken as a whole (A) fairly present the financial condition and results of operation of the Operator for the periods indicated, (B) are true, accurate, correct and complete in all material respects, and (C) except as stated in Schedule 8(g) (or in the notes to the Financial Statements) have been prepared in accordance with the Operator's tax basis reporting, as consistently applied. Except as disclosed in Schedule 8(g), or otherwise disclosed in writing to Buyer, to Seller's actual knowledge neither Seller, as to the Facility, nor is the Facility obligated for or subject to any material liabilities, contingent or absolute, and whether or not such liabilities would be disclosed in accordance with tax basis reporting, and Schedule 8(g) sets forth all notes payable, other long term indebtedness and, to Seller's actual knowledge, all other liabilities to which the Facility and the Real Property are or at Closing (and following Closing) will be subject, other than new indebtedness obtained by Buyer in connection with its purchase of the Property. Seller has received no notice of default under any such instrument.

(h) Interests in Competitors, Suppliers and Customers. Other than the Operator and except as set forth on Schedule 8(h), or in Schedule 1(a) as constituting a part of the Facility, neither Seller nor SHI has any interest in any property used in the operation of, or holds an interest in, any competitor, supplier or customer of Seller or the Facility.

(i) No Foreign Persons. Seller is not a foreign person within the meaning of Sections 897 or 1445 of the Code, nor is Seller a U.S. Real Property Holding Company within the meaning of Section 897 of the Code.

(j) Licensure. As of the date hereof, except as set forth on Schedule 8(j) attached hereto, there is no action pending or, to the actual knowledge of Seller, recommended by the appropriate state agency to revoke, withdraw or suspend any license to operate the Facility, or certification of the Facility, or any material action of any other type with regard to licensure or certification. The Facility is operating and functioning as an assisted living and memory care facility without any waivers from a governmental agency affecting the Facility except as set forth in Schedule 8(j), and is fully licensed for an assisted living and memory care facility, as applicable, by the State for the number of beds and licensure category set forth in Schedule 1(a) hereto. Schedule 8(j) attached hereto contains a complete and accurate list of all life safety code waivers or other waivers affecting the Facility.

(k) Regulatory Compliance.

(i) Seller, SHI or the Operator has duly and timely filed all reports and other items required to be filed (collectively, the "**Reports**") with respect to any cost based or other form of reimbursement program or any other third party payor (including without limitation, Medicaid, medically indigent assistance, Blue Cross, Blue Shield, any health maintenance, preferred provider, independent practice or other healthcare related organizations, peer review organizations, or other healthcare providers or payors) (collectively, "**Payors**") and have timely paid all amounts shown to be due thereon. At the time of filing, to Seller's actual knowledge, each Report was true, accurate and complete. To Seller's actual knowledge, all rights and obligations of the Facility or Seller or SHI under such Reports are accurately reflected or provided for in the Financial Statements.

(ii) Except as set forth in Schedule 8(k) attached hereto, (A) neither Seller nor, to Seller's actual knowledge, the Operator or SHI is delinquent in the payment of any amount due under any of the Reports for the Facility, (B) there are no written or threatened proposals by any Payors for collection of amounts for which Seller, SHI or the Facility could be liable, (D) there are no current or pending claims, assessments, notice, proposal to assess or audits of Seller, SHI or Operator or the Facility with respect to any of the Reports, and, to Seller's actual knowledge, no such claims, assessments, notices, or proposals to assess or audit are threatened, and (D) neither Seller, SHI nor Operator has executed any presently effective waiver or extension of the statute of limitations for the collection or assessment of any amount due under or in connection with any of the Reports with respect to the Facility.

(iii) Except as set forth in Schedule 8(k) attached hereto, neither Seller, SHI nor the Operator has received notice of failure to comply with all applicable Laws, settlement agreements, and other agreements with any state or federal governmental body relating to or regarding the Facility (including all applicable environmental, health and safety requirements), and Seller or the Operator has and maintains all permits, licenses, authorizations, registrations, approvals and consents of governmental authorities and all health facility licenses, accreditations, Medicaid, and other Payor certifications necessary for its activities and business including the operation of the Facility as currently conducted. Each health facility license, Medicaid and other Payor certifications, Medicaid provider agreement and other agreements with any Payors is in full force and effect without any waivers of any kind (except as disclosed in Schedule 8 (k)) and has not been amended or otherwise modified, rescinded or revoked or assigned nor, to Seller's actual knowledge, (A) is there any threatened termination, modification, recession, revocation or assignment thereof, (B) no condition exists nor has any event occurred which, in itself or with the giving of notice, lapse of time or both would result in the suspension, revocation, termination, impairment, forfeiture, or non-renewal of any governmental consent applicable to Seller or to the Facility or of any participation or eligibility to participate in any Medicaid, or other Payor program and (C) there is no claim that any such governmental consent, participation or contract is not in full force and effect.

(l) Regulatory Surveys. Seller shall deliver to Buyer, in the manner required pursuant to the terms of this Agreement, complete and accurate copies of the survey or inspection reports made by any governmental authority with respect to the Facility during the calendar years 2009, 2010, 2011 and year-to-date 2012. To the best of Seller's knowledge, after diligent investigation, and except as shown on Schedule 8(l), all exceptions, deficiencies, violations, plans of correction or other indications of lack of compliance in such reports have been fully corrected and there are no bans or limitations in effect, pending or threatened with respect to admissions to the Facility nor any licensure curtailments in effect, pending or threatened with respect to the Facility. Seller shall continue to deliver all such surveys, inspection reports as and when same are received and/or filed as the case may be prior to the Closing.

(m) Licensed Bed/Current Rate Schedule. As of the Effective Date, Schedule 8(m) sets forth (i) the number of licensed beds and the number of operating beds in the Facility, (ii) the current standard private rates charged by the Facility to all of its residents, and (iii) the number of beds or units presently occupied in, and the occupancy percentage at, the Facility, including the current rates charged by the Facility for each such occupied bed or unit. Neither Seller nor the Operator has any life care arrangement in effect with any current or future resident.

(n) Operations. The Facility is adequately equipped and includes sufficient and adequate numbers of furniture, furnishings, equipment, consumable inventory, and supplies to operate the Facility as is presently operated by Seller. Personal Property used to operate the Facility and to be conveyed to Buyer is free and clear of liens, security interests, encumbrances, leases and restrictions of every kind and description, except for Permitted Encumbrances and any liens, security interests and encumbrances to be released at Closing.

(o) No Misstatements, Etc. To the best of Seller's knowledge, neither the representations and warranties of Seller stated in this Agreement, including the Exhibits and the Schedules attached hereto, nor the Due Diligence Items or any certificate or instrument furnished or to be furnished to Buyer by Seller in connection with the transactions contemplated hereby, contains or will contain any untrue or misleading statement of a material fact.

(p) Option Agreement. Seller has provided to Buyer, a true, correct and complete copy of the Option Agreement (including all amendments), and all material notices and other communications between Seller and Hemingway and/or SHI. The Option Agreement is in full force and effect, and is binding on Hemingway and Seller and has not been modified or amended. Neither Hemingway nor Seller is in breach or default under the Option Agreement, and there is no fact or circumstance existing, which, with the passage of time, giving of notice, or both, would constitute a breach of default by either party under the Option Agreement.

(q) Supplementation of Schedules; Change in Representations and Warranties. Seller shall have the continuing right and obligation to supplement and amend the Schedules herein on a regular basis including, without limitation, Schedule 8(g), and Seller's warranties and representations required hereunder, as necessary or appropriate (i) in order to make any representation or warranty not misleading due to events, circumstances or the passage of time or (ii) with respect to any matter hereafter arising or discovered up to and including the Closing Date, but Buyer shall not be deemed to have approved such supplemental Schedules unless Buyer expressly acknowledges approval of same in writing. In the event Seller amends any such Schedules, or Buyer or Seller gains actual knowledge prior to the Closing that any representation or warranty made by the other party contained in this Section 8 is otherwise untrue or inaccurate, such party shall, within five (5) days after gaining such actual knowledge but in any event prior to the Closing, provide the other party with written notice of such inaccuracy, whereupon the noticed party shall promptly commence, and use its best efforts to prosecute to completion, the cure of such matter, to the extent any such matter is curable. If any such matter is not curable within reason and is material, in Buyer's reasonable business judgment, Buyer shall have the right to terminate this Agreement upon written notice to Seller within five (5) business days of receipt or delivery of such notice, as applicable, on the same basis as set forth in Section 13(a) if during the Due Diligence Period and in Section 13(b)(i)(i) herein if after expiration of the Due Diligence Period.

(r) Survival of Representations and Warranties; Updates. The representations and warranties of Seller in this Agreement shall not be merged with the Deed at the Closing and shall survive the Closing for the period of one (1) year provided such warranties shall be deemed made as of the date provided; provided, Seller understands and agrees that the Post Closing Lease, shall provide for a lengthier period of survival with respect to certain matters referenced therein.

9. Representations and Warranties of Buyer. Buyer hereby warrants and represents to Seller that:

(a) Organization, Corporate Powers, Etc. Buyer is a limited liability company, validly existing and in good standing under the laws of the State of Delaware and is duly qualified and in good standing in each other state or jurisdiction in which the nature of its business requires the same except where a failure to be so qualified does not have a material adverse effect on the business, properties, condition (financial or otherwise) or operations of that person. Buyer has full power, authority and legal right (i) to execute and deliver, and perform and observe the provisions of this Agreement and each Transaction Document to which it is a party, and (ii) to carry out the transactions contemplated hereby and by such other instruments to be carried out by Buyer pursuant to the Transaction Documents.

(b) Due Authorization, Etc. The Transaction Documents have been, and each instrument provided for herein or therein to which Buyer is a party will be, when executed and delivered as contemplated hereby, duly authorized, executed and delivered by Buyer and the Transaction Documents constitute, and each such instrument will constitute, when executed and delivered as contemplated hereby, legal, valid and binding obligations of the Buyer enforceable in accordance with their terms.

(c) Governmental Approvals. To Buyer's actual knowledge, no consent, approval or other authorization (other than corporate or other organizational consents which have been obtained), or registration, declaration or filing with, any court or governmental agency or commission is required for the due execution and delivery of any of the Transaction Documents to which Buyer is a party or for the validity or enforceability thereof against such party.

(d) No Litigation. Except as set forth on Schedule 9(a)(iv) attached hereto, neither Buyer nor its registered agent for service of process has been served with summons with respect to any actions or proceedings pending or, to Buyer's actual knowledge, no such actions or proceedings are threatened, against Buyer before or by any court, arbitrator, administrative agency or other governmental authority, which individually or in the aggregate, are expected, in the reasonable judgment of Buyer, to materially and adversely affect Buyer's ability to carry out any of the transactions contemplated by any of the Transaction Documents.

(e) No Conflicts. Neither the execution and delivery of the Transaction Documents to which Buyer is a party, compliance with the provisions thereof, nor the carrying out of the transactions contemplated thereby to be carried out by such party will result in (i) a breach or violation of (A) any material law or governmental rule or regulation applicable to Buyer now in effect, (B) any provision of any Buyer's organizational documents, (C) any material judgment, settlement agreement, order or decree of any court, arbitrator, administrative agency or other governmental authority binding upon Buyer, or (D) any material agreement or instrument to which Buyer is a party or by which Buyer or its respective properties are bound; (ii) the acceleration of any obligations of Buyer; or (iii) the creation of any lien, claim or encumbrance upon any properties or assets of Buyer.

(f) No Misstatements, Etc. To the best of Buyer's knowledge, neither the representations and warranties of Buyer stated in this Agreement, including the Exhibits and the Schedules attached hereto, nor any certificate or instrument furnished or to be furnished to Seller by Buyer in connection with the transactions contemplated hereby, contains or will contain any untrue or misleading statement of a material fact.

(g) Survival of Representations and Warranties; Updates. The representations and warranties of Buyer in this Agreement shall not be merged with the Deed at the Closing and shall survive the Closing for the period of one (1) year.

10. Covenants of Seller. Seller covenants with respect to the Facility as follows:

(a) Pre-Closing. Between the date of this Agreement and the Closing Date, except as contemplated by this Agreement or with the prior written consent of Buyer, which shall not be unreasonably withheld, conditioned or delayed:

(i) Seller shall use its best efforts to cause the Operator to operate the Facility diligently, in accordance with the Operator's obligations under its lease or other arrangement with Seller, and only in the ordinary course of business and consistent with past practice.

(ii) Seller shall use its best efforts to prevent the Operator from making any material change in the operation of the Facility, and shall prevent the Operator from selling or agreeing to sell any items of machinery, equipment or other assets of the Facility, or otherwise entering into any agreement affecting the Facility, except in the ordinary course of business;

(iii) Seller shall use its best efforts to prevent the Operator from entering into any Lease or Contract or commitment affecting the Facility, except for Leases or Contracts entered into in the ordinary course of business;

(iv) During normal business hours and consistent with Section 6(c) herein, Seller shall provide Buyer or its designated representative with access to the Facility upon prior notification and coordination with Seller and the Operator; provided, Buyer shall not materially interfere with the operation of the Facility. At such times Seller and the Operator shall permit Buyer to inspect the books and records of the Facility;

(v) Within five (5) business days following the execution of this Agreement by the parties, Seller shall deliver to Buyer the due diligence items described on the Due Diligence List attached hereto as Schedule 10(a)(v) (the "**Due Diligence Items**"); provided, in the event certain Due Diligence Items ("**Unavailable Items**") are not readily accessible to Seller, Seller may identify the Unavailable Items by written notice to Buyer within such five (5) business day period and shall use its best efforts to deliver all Unavailable Items to Buyer as promptly as possible, but in no event more than ten (10) business days following the execution of this Agreement. If Buyer requests additional items not included on Schedule 10(a)(v), it will do so by written request delivered by Seller and Seller will use its best efforts to provide such information within five (5) business days within receipt of the request; and, provided further, Seller shall continue to cause Operator to deliver to Buyer, following the expiration of the Due Diligence Period, financial reports showing, among other things, the EBITDAR (defined below) for the Facility for the trailing six (6) month annualized operations for any given period. The term "**EBITDAR**" means "earnings before interest, taxes, depreciation, amortization and rent and reserves (reserves meaning additions to capital reserves)."

(vi) Seller shall use its best efforts to prevent the Operator from moving residents from the Facility, except (a) to any other facility which is owned by Seller and constitutes part of the Property as defined herein, (b) for health treatment purposes or otherwise at the request of the resident, family member or other guardian or (c) upon court order or the request of any governmental authority having jurisdiction over the facility;

(vii) Seller shall use commercially reasonable efforts to cause the Operator to retain the services and goodwill of the employees of the Operator until the Closing;

(viii) Seller shall maintain in force, or shall cause the Operator to maintain in force, the existing hazard and liability insurance policies, or comparable coverage, for the Facility as are in effect as of the date of this Agreement;

(ix) Seller shall, and shall cause the Operator, to file all returns, reports and filings of any kind or nature, including but not limited to, cost reports referred to in this Agreement, required to be filed by Seller or the Operator on a timely basis and shall timely pay all taxes or other obligations and liabilities or recoupments which are due and payable with respect to the Facility in the ordinary course of business with respect to the periods Seller or Operator operated the Facility;

(x) Seller shall cause the Operator (a) to maintain all required operating licenses in good standing, (b) to operate the Facility in accordance with its current business practices and (c) to promptly notify Buyer in writing of any notices of material violations or investigations received from any applicable governmental authority;

(xi) Seller shall use commercially reasonable efforts to cause the Operator to make all customary repairs, maintenance and replacements required to maintain its Facility in substantially the same condition as on the date of Buyer's inspection thereof, ordinary wear and tear excepted;

(xii) Seller shall promptly notify Buyer in writing of any Material Adverse Change, as defined herein, of which Seller becomes aware in the condition or prospects of the Facility including, without limitation, sending Buyer copies of all surveys and inspection reports of all governmental agencies received after the date hereof and prior to Closing, promptly following receipt thereof by the Operator. For purposes of this Agreement, a "**Material Adverse Change**" shall mean: (i) a decrease in the adjusted rolling six (6) month EBITDAR to less than Four Hundred Seventy-Five Thousand and 00/100 Dollars ($475,000.00), or (ii) loss of licensure, or (iii) loss of Medicaid participation, or (iv) any adverse action by a governmental agency which, with the passage of time, would reasonably be expected to materially affect in a negative manner licensure at the Facility, or any adverse action in the Facility which would reasonably be expected to materially affect in a negative manner the Facility's participation or eligibility to participate in any Medicaid, or other Payor program, unless appropriate corrective action has been taken by the Operator, in the ordinary course of business, or (v) failure to settle with the appropriate governmental authority, or to satisfy on or before the Closing (either directly with such governmental authority or by funds escrowed by Seller for such purposes) all claims for reimbursements, recoupments, taxes, fines or penalties which may be due to any governmental authority having jurisdiction over the Facility, or (vi) the occurrence of a title or survey defect occurring after the date of this Agreement which would reasonably be expected to adversely affect the ability of Buyer to operate the assisted living and memory care facility at its Facility or to obtain financing for the Facility, or (vii) the commencement of any third party litigation which interferes with Seller's ability to close the transactions contemplated by this Agreement, or (viii) any damage, destruction or condemnation affecting the Facility in which the estimate of damage exceeds $100,000 and such damage or destruction has not been repaired, or Buyer as not otherwise waived such condition prior to Closing. In the event of any occurrence described in clause (iv) above, Operator shall deliver a copy of the Plan of Correction or otherwise notify Buyer in writing of the planned action, and such Plan of Correction or other corrective action which has been approved by the applicable regulatory agency or agencies.

(xiii) Seller agrees to cause the Operator to remedy any compliance deficiency cited in any written notice from, or in any settlement agreement or other Plan of Correction or other agreement with, any state governmental body, or in the event of state proceedings against the Operator or the Facility, or receipt by the Operator of such notice prior to the Closing Date, of any condition which would affect the truth or accuracy of any representations or warranties set forth in this Agreement by Seller; provided, however, in the event a physical plant deficiency is cited which Seller has insufficient time to remedy before the Closing Date, in accordance with the approval of the appropriate state agency, then the same shall be deemed remedied when the costs of correcting said deficiency (based upon reasonable estimates from established vendors selected by Seller and Buyer and approved by Seller and by Buyer, in its sole and absolute discretion) shall be held back in the Escrow at the Closing and not released to Seller until such deficiency is corrected by Seller; and, provided further, a non-physical plant deficiency which cannot be remedied prior to the Closing, in accordance with the approval of the appropriate state agency, will be deemed to be remedied for purposes of this Section if such Operator develops a Plan of Correction addressing the deficiency(ies) and such Plan of Correction is approved by the applicable State agency. Seller shall use its best efforts to remedy any such deficiency subsequent to the Closing which is to be remedied as a result of a Plan of Correction filed by Seller or the Operator prior to the Closing, and Buyer shall cooperate with such efforts by Seller; provided, Seller shall bear all costs associated with such remedy. In the event any such Plan of Correction agreed to by Seller and Operator prior to the Closing is not approved by the applicable State agency subsequent to Closing, Seller shall promptly use its best efforts, and shall cause such Operator to use its best efforts, to amend the Plan of Correction in such a manner that is necessary to obtain acceptance by the State of the amended Plan of Correction as soon as practicable after submittal. Notwithstanding any other provision of this Agreement, the obligation of Seller pursuant to this Subsection 10(a)(xiii) shall survive the Closing for such period of time as is necessary to remedy such deficiency.

(xiv) Seller shall, at its cost and on or before Closing, obtain payoffs or other lender documentation required to obtain timely releases of financing statements and tax and judgment liens affecting or relating to the Facility which have been filed or recorded in the State with the Office of the Secretary of State and the appropriate County Recorder's Office.

(xv) Seller shall promptly comply with any notices of violations received relating to the Facility and shall deliver to Buyer a copy of any such notice received and evidence of compliance with such notice.

(xvi) Seller shall complete the Critical Repairs in accordance with Section 6(f) of this Agreement.

(xvii) Seller shall provide to Buyer immediately upon receipt copies of any and all notices of default given by Hemingway to Seller. Seller will continue to strictly comply with all terms and provisions of the Option Agreement, and Seller will not do or permit anything to be done, the doing of which, or refrain from doing anything the omission of which, will be ground for declaring a termination or forfeiture of the Option Agreement. Seller will not terminate, amend, extend, assign, transfer or otherwise modify the Option Agreement without the prior written consent of Buyer. Seller agrees that Buyer shall have the right, but not the obligation, to cure any defaults by Seller under the Option Agreement, and upon Seller's default under the Option Agreement, Buyer shall have the right to require Seller to assign to Buyer the Option Agreement, and Buyer may pursue any and all rights and remedies under this Agreement.

(b) Closing. On or before the Closing Date, Seller shall deliver the following documents to Escrow Agent relating to the Facility ("**Closing Documents**"):

(i) One (1) original executed Deed for the Facility, in recordable form;

(ii) Two (2) original executed counterparts of the Post Closing Lease;

(iii) Two (2) original executed counterparts of the bill of sale for the Personal Property ("**Bill of Sale**"), an assignment of Seller's interest in the Contracts and Leases ("**Assignment of Contracts and Leases**"), and other instruments of transfer and conveyance in form and substance to be agreed upon prior to the expiration of the Due Diligence Period transferring and assigning to Buyer the Real Property, Personal Property and the Intangibles to be transferred as provided herein with respect to the Facility ("**Instruments of Assignment**");

(iv) One (1) original of the executed Repair Completion Notice for the Facility to the extent not previously delivered to Buyer.

(v) One (1) original executed certificate executed by Seller confirming that Seller's representations and warranties continue to be true and correct in all material respects, or stating how such representations and warranties are no longer true and correct ("**Seller's Confirmation**");

(vi) All contractor's and manufacturer's guaranties and warranties, if any, in Seller's possession relating to the Facility (collectively, the "**Warranties**"), which delivery will be made by leaving such materials at the Facility; and

(vii) Two (2) original executed counterparts of each of the FIRPTA Certificate, escrow agreements and other documents required by the Title Company in connection with the transactions contemplated by this Agreement (collectively, the "**Title Company Documents**").

(viii) A copy of the fully executed deed and other documents (including a bill of sale and assignment of contracts and leases) evidencing the transfer of the Property from SHI to Seller (the "**SHI Transfer Documents**").

(ix) A copy of the notice by which Seller exercises its right to purchase the Property pursuant to the Option Agreement (the "**Exercise Notice**").

11. Covenants of Buyer. Buyer hereby covenants as follows:

(a) Pre-Closing. Between the date hereof and the Closing Date, except as contemplated by this Agreement or with the consent of Seller, Buyer agrees that Buyer shall not take any action inconsistent with its obligations under this Agreement or which could hinder or delay the consummation of the transaction contemplated by this Agreement. Between the date hereof and the Closing Date, Buyer agrees that Buyer shall not (i) make any commitments to any governmental authority, (ii) enter into any agreement or contract with any governmental authority or third parties, or (iii) alter, amend, terminate or purport to terminate in any way any governmental approval or permit affecting the Real Property, Personal Property or the Facility, which would be binding upon Seller, the Real Property, the Facility or Personal Property after any termination of this Agreement.

(b) Closing. On or before the Closing Date, Buyer shall deposit the following with Escrow Agent:

(i) The Purchase Price in accordance with the requirements of this Agreement;

(ii) Two (2) original executed counterparts of the Post Closing Lease;

(iii) Two (2) original executed counterparts of each of the Instruments of Assignment requiring Buyer's signature;

(iv) One (1) original executed certificate executed by Buyer confirming that Buyer's representations and warranties continue to be true and correct in all material respects, or stating how such representations and warranties are no longer true and correct ("**Buyer's Confirmation**"); and

(v) Two (2) original executed counterparts of each of the Title Company Documents requiring Buyer's signature.

12. Conditions to Closing.

(a) Conditions to Buyer's Obligations. All obligations of Buyer under this Agreement are subject to the reasonable satisfaction and fulfillment, prior to the Closing Date, of each of the following conditions. Anyone or more of such conditions may be waived in writing by Buyer.

(i) Seller's Representations, Warranties and Covenants. Seller's representations, warranties and covenants contained in this Agreement or in any certificate or document delivered in connection with this Agreement or the transactions contemplated herein, shall be true at the date hereof and as of the Closing Date as though such representations, warranties and covenants were then again made, except to the extent that Buyer has discovered, or Seller has provided Buyer with written notice (the "**Supplemental Notice**") prior to Closing that Seller has just become aware, that a representation is untrue or inaccurate, and Buyer nevertheless elects not to terminate this Agreement at the expiration of the Due Diligence Period, or, if the Supplemental Notice is delivered after the Due Diligence Period, Buyer elects to proceed with closing the transaction despite such inaccuracy, whereupon Buyer will be deemed to have waived any right of recourse or damages against Seller resulting from such inaccuracy disclosed in the Supplemental Notice. Upon receipt of a Supplemental Notice from Seller after the expiration of the Due Diligence Period, Buyer shall have the right to (a) terminate this Agreement upon written notice to Seller within five (5) days after receipt of the Supplemental Notice, or (b) elect to proceed with closing the transaction as set forth in this Agreement. If Seller provides Buyer with a Supplemental Notice within ten (10) business days of Closing, then Buyer shall have the right, at its option and upon written notice to Seller, to extend the Closing Date for up to ten (10) business days in order to analyze and review the issues disclosed in the Supplemental Notice.

(ii) Seller's Performance. Seller shall have performed all of its obligations and covenants under this Agreement that are to be performed prior to or at Closing.

(iii) Damage and Condemnation. Prior to the Closing Date, no portion of the Facility shall have been damaged or destroyed by fire or other casualty where the estimate of damage to the Facility exceeds 10% of the Purchase Price, or proceedings be commenced or threatened to take or condemn any material part of the Real Property or improvements comprising a Facility by any public or quasi-public authority under the power of eminent domain. A proceeding shall be deemed to be "material" if such condemnation or taking (i) relates to the material taking or closing of any right of access to any Real Property or the Facility, (ii) cause the Real Property or the Facility to become non-conforming with then current legal requirements governing such Real Property or Facility, (iii) results in the loss of parking that is material to the operation of the Facility, or (iv) result in the loss of value in excess of 10% of the Purchase Price, in Buyer's reasonable judgment. If the Facility shall have been so damaged or destroyed, Seller shall deliver prompt written notice of such condemnation, damage or destruction to Buyer. In the event Buyer waives this condition, by written notice to Seller within fifteen (15) business days of receipt of notice of such proceeding, and the Closing occurs, Seller shall assign to Buyer all its right to any insurance proceeds in connection therewith. If proceedings shall be so commenced or threatened to take or condemn the Real Property or the Facility or portion thereof prior to Closing, and if Buyer waives this condition and the Closing occurs, Seller shall pay or assign to Buyer all Seller's right to the proceeds of any condemnation award in connection thereof.

(iv) Absence of Litigation. No action or proceeding shall have been instituted, threatened or, in the reasonable opinion of Buyer, is likely to be instituted before any court or governmental body or authority the result of which could prevent or make illegal the acquisition by Buyer of the Facility, or the consummation of the transaction contemplated hereby, or which could materially and adversely affect the Facility or the business or prospects of the Facility.

(v) Form of Post Closing Lease. Prior to the expiration of the Due Diligence Period, Operator and Buyer shall have agreed upon the form of the post closing lease (the "**Post Closing Lease**") between Buyer, as landlord, and Shelby House, LLC, as tenant. The Post Closing Lease shall be in substantially the form attached hereto and incorporated herein by reference as Exhibit C.

(vi) No Material Adverse Change. No Material Adverse Change shall have occurred in the Facility.

(vii) Removal of Personal Property Liens. Seller shall have removed (or shall have sufficient payoff or other documents to remove such liens) all personal property liens which are related to the Facility and the Facility shall be free and clear of all liens, claims and encumbrances other than Permitted Exceptions once such payoffs are made at Closing.

(viii) Title Insurance Policies. Title Company shall be prepared to issue the (i) Owners Title Insurance Policy for the Facility as of the Closing Date, with coverage in the amount of the Purchase Price for the Facility, insuring Buyer as owner of the Facility subject only to the Permitted Exceptions, and (ii) ALTA Title Insurance Policy for the Facility as of the Closing Date, with coverage in the amount of the allocable portion of Buyer's loan from Buyer's lender ("**Lender**"), insuring Lender's lien against the Facility subject only to such exceptions as may be approved by Lender, and with such endorsements as may be required by Lender.

(ix) Close of Escrow Under Option Agreement. All conditions under the Option Agreement shall have been satisfied, Seller shall have closed escrow under the Option Agreement, and Seller shall be prepared to convey title to the Property to Buyer as provided in this Agreement.

(x) Close of Escrow Under Purchase Agreement for Hamlet House and Carteret. Concurrently herewith, Buyer, as buyer, and certain affiliates of Seller, as seller, are entering into a Purchase and Sale Agreement (the "**Hamlet/Newport Purchase Agreement**") with respect to the purchase and sale of certain assisted living and memory care facilities located at (i) 632 Freeman Mill Road, Hamlet, NC, (the "**Hamlet Facility**") and (ii) 3020 Market Street, Newport, NC 28570 (the "**Newport Facility**"). The close of escrow under the Hamlet/Newport Purchase Agreement shall be an express condition to Buyer's obligation to close under this Agreement.

(b) Conditions to Seller's Obligations. All obligations of Seller under this Agreement are subject to the fulfillment, prior to the Closing Date, of each of the following conditions. Any one or more of such conditions may be waived by Seller in writing.

(i) Buyer's Representations, Warranties and Covenants. Buyer's representations, warranties and covenants contained in this Agreement or in any certificate or document delivered in connection with this Agreement or the transactions contemplated herein shall be true at the date hereof and as of the Closing Date as though such representations, warranties and covenants were then again made.

(ii) Buyer's Performance. Buyer shall have performed its obligations and covenants under this Agreement that are to be performed prior to or at Closing.

(iii) Absence of Litigation. No action or proceeding shall have been instituted, threatened or, in the reasonable opinion of Seller, is likely to be instituted before any court or governmental body or authority the result of which could prevent or make illegal the acquisition by Buyer of the Facility, or the consummation of the transaction contemplated hereby, or which could materially and adversely affect the Facility or the business or prospects of the Facility.

(iv) No Actions. There shall be no action pending or recommended by the appropriate state agency to revoke, withdraw or suspend any license to operate the Facility or the certification of the Facility, or any action of any other type with regard to licensure or certification or with respect to Medicaid provider billing agreements necessary to operate the Facility.

(v) Execution of Post Closing Lease and Form of Post Closing Lease. Prior to the expiration of the Due Diligence Period, Operator and Buyer shall have agreed upon the form of the Post Closing Lease. Further, it shall be a condition to Closing that Operator and Buyer execute the Post Closing Lease simultaneously with Closing.

(vi) Purchase of Property by Seller. Seller shall have successfully exercised and closed on the Option.

13. Termination; Defaults.

(a) Termination For Failure of Condition. Either party may terminate this Agreement for non-satisfaction or failure of a condition to the obligation of either party to consummate the transaction contemplated by this Agreement (including, without limitation, Buyer's election to disapprove the condition of the title or the Survey pursuant to Section 14 herein), unless such matter has been satisfied or waived by the date specified in this Agreement or by the Closing Date (as same may be extended by the parties to allow the parties to satisfy or waive conditions to close in the manner provided in this Agreement). In the event of such a termination, Escrow Agent shall promptly return (i) to Buyer, all funds of Buyer in its possession, including the Deposit and all interest accrued thereon, and (ii) to Seller and Buyer, all documents deposited by them respectively, which are then held by Escrow Agent. Thereafter, neither party shall have any continuing obligation or liability to the other party except for any such matters that expressly survive the Closing or termination of this Agreement, as provided herein. The provisions of this Section 13(a) are intended to apply only in the event of a failure of condition, as set forth herein, which is not the result of a default by either party, but which shall not apply in the event the non-terminating party is in default of its obligations under this Agreement.

(b) Termination For Cause.

(i) If the Agreement is terminated by Seller because Buyer fails to consummate the Closing as a result of a default by Buyer under this Agreement, Seller's sole and exclusive remedy prior to the Closing Date shall be to terminate this Agreement by giving written notice of termination to Buyer and Escrow Agent, whereupon (A) Escrow Agent shall promptly release to Seller the Deposit, and all interest accrued thereon, (B) Escrow Agent shall return to Buyer and Seller all documents deposited by them respectively, which are then held by Escrow Agent, (C) the parties shall be released and relieved of all obligations to each other under this Agreement, except for provisions that expressly survive termination as provided herein (including without limitation, indemnification provisions), (D) Buyer shall return to Seller all documents received by it during the course of its Due Diligence and (E) Buyer shall have no further right to purchase the Property or legal or equitable claims against Seller (except for any breach by Seller of provisions that survive termination) and/or the Property. Buyer shall have no liability to Seller under any circumstances for any speculative, consequential or punitive damages. Without limiting the other provisions of this Agreement, Buyer acknowledges that the provisions of this Subsection are a material part of the consideration being given to Seller for entering into this Agreement and that Seller would be unwilling to enter into this Agreement in the absence of the provisions of this Subsection. The provisions of this Subsection shall survive any termination of this Agreement. With respect to any action by Seller against Buyer or by Buyer against Seller commenced after the Closing Date, Seller and Buyer expressly waive any right to any speculative, consequential, or punitive damages. The parties acknowledge and agree that Seller's actual damages as a result of Buyer's default would be difficult or impossible to ascertain and that the deliveries and payments provided for in this paragraph constitute reasonable compensation for its actual damages. Seller and Buyer acknowledge that they have read and understand the provisions of this Section 13(b)(i) and by their initials below agree to be bound by its terms.

________________________ Sellers' Initials

________________________ Buyer's Initials

(ii) Buyer shall have the right to terminate this Agreement in the event Seller defaults in the performance of its obligations under this Agreement, or in the event Hamlet Health Investors, LLC and/or Newport Health Investors, LLC, defaults in the performance of their respective obligations under the Hamlet/Newport Purchase Agreement. If this Agreement is terminated by Buyer because Seller has defaulted in the performance of its obligations under this Agreement, and/or a default by Hamlet Health Investors, LLC and/or Newport Health Investors, LLC, under the Hamlet/Newport Purchase Agreement, Buyer's sole and exclusive remedies prior to the Closing Date shall be either: (A) to terminate this Agreement by giving written notice of termination to Seller and Escrow Agent and pursue any and all remedies for Buyer's out-of-pocket costs (including attorneys' fees and court costs), attributable to the termination of this Agreement and supported by documentary evidence, excluding any speculative or punitive damages, whereupon (i) Escrow Agent shall promptly return to Buyer the Deposit, and all interest accrued thereon, and (ii) Escrow Agent shall return to Seller and Buyer all documents deposited by them respectively, which are then held by Escrow Agent, or (B) to pursue the remedy of specific performance of Seller's obligation to perform its obligations under this Agreement. Seller shall have no liability to Buyer under any circumstances for any speculative, consequential or punitive damages. Without limiting the other provisions of this Agreement, Seller acknowledges that the provisions of this Subsection are a material part of the consideration being given to Buyer for entering into this Agreement and that Buyer would be unwilling to enter into this Agreement in the absence of the provisions of this Subsection. The provisions of this Subsection shall survive any termination of this Agreement. With respect to any action by Buyer against Seller or by Seller against Buyer commenced after the Closing Date, Buyer and Seller expressly waive any right to any speculative, consequential, punitive or special damages including, without limitation, lost profits. Seller and Buyer acknowledge that they have read and understand the provisions of this Section 13.2(b) and by their initials below agree to be bound by its terms.

________________________ Sellers' Initials

________________________ Buyer's Initials

(c) General. In the event a party elects to terminate this Agreement such party shall deliver a notice of termination to the other party.

14. Surveys and PTR.

(a) Buyer has previously obtained a preliminary title report (the "**PTR**") covering the Real Property and the Facility dated prior to the date of this Agreement, together with legible copies of any and all instruments referred to in the PTR as constituting exceptions to title of the Real Property (the "**Title Documents**").

(b) Seller shall have delivered to Buyer a copy of the existing survey, if any, in Seller's possession for the Facility ("**Survey**") in accordance with Section 10(a)(v) herein. Buyer shall be responsible for obtaining an update of the Survey or new Survey, at Buyer's sole cost ("**New Survey**"). On or before ten (10) business days prior to the expiration of the Due Diligence Period, Buyer shall notify Seller and the Title Company ("**Buyer's Title Notice**") of any objections which Buyer may have to the PTR and/or Survey. If Buyer objects to any matters (other than the Permitted Exceptions, as defined herein) which, in Buyer's determination, might adversely affect the ability of Buyer to operate the Facility, Seller shall use its reasonable business efforts to cure same, but shall not be obligated to cure matters other than to obtain the release (at Closing) of the existing mortgage and other monetary liens caused by Seller which may be released by payment of the mortgage payoff or lien amount from Seller's Closing proceeds (collectively, "**Monetary Liens**"). If Seller delivers written notice to Buyer ("**Seller's Title Notice**"), on or before the expiration of the Due Diligence Period that Seller is willing to remove any exceptions objected to by Buyer, then Seller shall be obligated to remove such exceptions on or prior to the Closing and such exceptions shall not be Permitted Exceptions. If Seller does not provide Buyer with Seller's Title Notice or Seller's Title Notice does not provide for Seller's agreement to remove all exceptions objected to by Buyer, then Buyer shall have the right to terminate this Agreement prior to the expiration of the Due Diligence Period or waive Buyer's objection to any exceptions Seller has not agreed to remove with such exceptions becoming Permitted Exceptions upon Buyer waiving its due diligence contingency. Buyer shall, promptly following the execution of this Agreement, commence to use its best efforts to obtain the New Survey as soon as practicable. Notwithstanding the foregoing provisions of this Subsection (b), Buyer shall have the right to object, promptly upon learning of any such new matters during the Due Diligence Period, to any matters raised in the New Survey which were not addressed in the Survey, and the parties shall cooperate with the Title Company, during the Due Diligence Period and as promptly as possible following the delivery of Buyer's objections to such new matters in the New Survey, to resolve any such matters to Buyer's satisfaction. The Due Diligence Period shall not be extended for resolution of any such matters in the New Survey.

15. Cooperation. Following the execution of this Agreement, Buyer and Seller agree that if any event should occur, either within or without the knowledge or control of Buyer or Seller, which would prevent fulfillment of the conditions to the obligations of any party hereto to consummate the transaction contemplated by this Agreement, each such party shall use reasonably commercial efforts to cure or to cause the cure of the same as expeditiously as possible. In addition, each party shall cooperate fully with each other in preparing, filing, prosecuting, and taking any other actions with respect to, any applications, requests, or actions which are or may be reasonable and necessary to obtain the consent of any governmental instrumentality or any third party or to accomplish the transaction contemplated by this Agreement.

16. Indemnification.

(a) Indemnification Provisions.

(i) Subject to the limitation on damages contained in Section 13(b)(ii) hereof, Seller hereby agrees to indemnify, protect, defend and hold harmless Buyer and its officers, directors members shareholders tenants, successors and assigns harmless from and against any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including interest, penalties and reasonable attorneys' fees, costs and expenses) which any of them may suffer as a result of: (A) any material breach of or material inaccuracy in the representations and warranties, or breach, non-fulfillment or default in the performance of any of the conditions, covenants and agreements, of Seller contained in this Agreement or in any certificate or document delivered by Seller pursuant to any of the provisions of this Agreement, unless Seller cures such matter in the manner provided in Section 8(p) herein or (B) the failure to discharge any federal, state or local tax liability, or to pay any other assessments, recoupments, claims, fines, penalties or other amounts or liabilities accrued or payable with respect to any activities of SHI prior to the Closing Date (whether brought before or after the Closing Date), or (C) any obligation which is expressly the responsibility of Seller under this Agreement, or (D) any amounts required to cure citation violations issued by any state health or human services authority on the Facility relating to any period prior to the Closing Date (whether brought before or after the Closing Dates), or (E) any claim by any employee of SHI or Operator relating to any period of employment prior to the Closing Date (whether brought before or after the Closing Date), or (F) the existence against the Real Property of any mechanic's or materialmen's claims resulting from the action or inaction of SHI or anyone acting under authority of SHI, including Operator, or (G) any other cost, claim or liability arising out of or relating to events (other than as a result of the actions of Buyer or Buyer's Consultants) or SHI's ownership, operation or use of the Facility prior to the Closing Date. Any amount due under the aforesaid indemnity shall be due and payable by Seller within 30 days after demand thereof. Seller shall have the right to contest any such claims, liabilities or obligations as provided herein.

(ii) Subject to the limitation on damages contained in Section 13(b)(i) hereof, Buyer hereby agrees to indemnify, protect, defend and hold harmless Seller and its officers, directors, members, shareholders and tenants harmless from and against any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including interest, penalties and reasonable attorneys' fees, costs and expenses) which any of them may suffer as a result of: (A) any material breach of or material inaccuracy in the representations and warranties, or breach, non-fulfillment or default in the performance of any of the conditions, covenants and agreements, of Buyer contained in this Agreement or in any certificate or document delivered by Buyer pursuant to any of the provisions of this Agreement, unless Buyer cures such matter in the manner provided in Section 8(p) herein, or (B) the existence against the Real Property of any mechanic's or materialmen's claims arising from actions of Buyer or Buyer's Consultants prior to the Closing, or (C) any claim by any employee of Buyer relating to any period after the Closing Date, or (D) any other cost, claim or liability arising out of or relating to events (other than as a result of Seller, Operator, Seller's lessee or Seller's consultants) of Buyer's ownership, operation or use of the Facility after the Closing Date, or (E) any obligation which is expressly the responsibility of Buyer under this Agreement. Any amount due under the aforesaid indemnity shall be due and payable by Buyer within thirty (30) days after demand therefor. Buyer shall have the right to contest any such claims, liabilities or obligations as provided herein or any other cost, claim or liability arising out of or relating to events or Buyer's ownership, operation or use of the Facility after the Closing Date.

(iii) The parties intend that all indemnification claims be made as promptly as practicable by the party seeking indemnification (the "**Indemnified Party**"). Whenever any claim shall arise for indemnification hereunder, the Indemnifying Party shall promptly notify the party from whom indemnification is sought (the "**Indemnitor**") of the claim, and the facts constituting the basis for such claim (the "**Indemnification Claim**"). Failure to notify the Indemnitor will not relieve the Indemnitor of any liability that it may have to the Indemnified Party, except to the extent the defense of such action is materially and irrevocably prejudiced by the Indemnified Party's failure to give such notice.

(iv) An Indemnitor shall have the right to defend against an Indemnification Claim, with counsel of its choice reasonably satisfactory to the Indemnified Party, if (a) within fifteen (15) days following the receipt of notice of the Indemnification Claim the Indemnitor notifies the Indemnified Party in writing that the Indemnitor will indemnify the Indemnified Party from and against the entirety of any damages the Indemnified Party may suffer resulting from, relating to, arising out of, or attributable to the Indemnification Claim, (b) the Indemnitor provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnitor will have the financial resources to defend against the Indemnification Claim and pay, in cash, all damages the Indemnified Party may suffer resulting from, relating to, arising out of, or attributable to the Indemnification Claim, (c) the Indemnification Claim involves only money damages and does not seek an injunction or other equitable relief, (d) settlement of, or an adverse judgment with respect to, the Indemnification Claim is not in the good faith judgment of the Indemnified Party likely to establish a precedential custom or practice materially adverse to the continuing business interests of the Indemnified Party, and (e) the Indemnitor continuously conducts the defense of the Indemnification Claim actively and diligently.

(v) So long as the Indemnitor is conducting the defense of the Indemnification Claim in accordance with Section 16(a)(iv), then (A) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Indemnification Claim, (B) the Indemnified Party shall not consent to the entry of any order or finalization of any tentative settlement, the only condition of which is the consent of the Indemnified Party thereto, with respect to the Indemnification Claim without the prior written consent of the Indemnitor (not to be withheld unreasonably), and (C) the Indemnitor will not consent to the entry of any order or finalization of any tentative settlement, the only condition of which is the consent of the Indemnified Party thereto, with respect to the Indemnification Claim without the prior written consent of the Indemnified Party (not to be unreasonably withheld or delayed, provided that it will not be deemed to be unreasonable for an Indemnified Party to withhold its consent with respect to (i) any breach of any law, order or permit, (ii) any violation of the rights of any person, or (iii) any matter which Indemnified Party believes could have a material adverse effect on any other actions to which the Indemnified Party or its Affiliates are party or to which Indemnified Party has a good faith belief it may become party. Notwithstanding the foregoing provisions of this Subsection (v), if Indemnified Party refuses its consent to any of the matters set forth in clauses (i) through (iii) above, the indemnity amount shall be determined as if such consent had been given and Indemnitor shall pay over to the Indemnified Party such amount and be absolved from any further obligation as to that particular claim; Indemnified Party may then resolve the claim in the manner it sees fit without further recourse against Indemnitor.

(vi) Each party hereby consents to the non-exclusive jurisdiction of any governmental body, arbitrator, or mediator in which an action is brought against any Indemnified Party for purposes of any Indemnification Claim that an Indemnified Party may have under this Agreement with respect to such action or the matters alleged therein, and agrees that process may be served on such party with respect to such claim anywhere in the world, provided however, that any venue relating to any claim or proceeding arising out of this Agreement or any other agreement between Sellers and Buyer shall be the State and the laws of the State shall apply.

(b) Insurance Proceeds. In determining the amount of damages for which either party is entitled to assert an Indemnification Claim, the amount of any such claims or damages shall be determined after deducting therefrom the amount of any insurance coverage or proceeds or other third party recoveries received by such other party in respect of such damages. If an indemnification payment is received by the Indemnified Party in respect of any damages and the Indemnified Party later receives insurance proceeds or other third party recoveries in respect of such damages, the Indemnified Party shall immediately pay to the Indemnifying Party a sum equal to the lesser of the actual amount of net insurance proceeds or other third party recoveries (remaining after recovery costs and expenses) or the actual amount of the indemnification payment previously paid by or on behalf of the Indemnified Party.

(c) No Incidental, Consequential and Certain Other Damages. An Indemnitor shall not be liable to an Indemnified Party for incidental, consequential, enhanced, punitive or special damages unless such damages are included in a third-party claim and such Indemnified Party is liable to the third party claimant for such damages.

(d) Indemnification if Negligence of Indemnity; No Waiver of Rights or Remedies.

Each Indemnified Party's rights and remedies set forth in this Agreement shall survive the Closing or other termination of this Agreement, shall not be deemed waived by such Indemnified Party's consummation of the Closing of the sale transactions (unless the Indemnified Party has knowledge of the existence of an Indemnification Claim at Closing and decides to proceed with Closing) and will be effective regardless of any inspection or investigation conducted by or on behalf of such Indemnified Party or by its directors, officers, employees, or representatives or at any time (unless such inspection or investigation reveals the existence of an Indemnified Claim and such party proceeds with Closing), whether before or after the Closing Date.

(e) Other Indemnification Provisions. A claim for any matter not involving a third party may be asserted by notice to the Party from whom indemnification is sought.

(f) Dispute Resolution. Any dispute arising out of or relating to claims for indemnification pursuant to this Article 16 or any other dispute hereunder, shall be resolved in accordance with the procedures specified herein, which shall be the sole and exclusive procedure for the resolution of any such disputes.

17. Notices. Any notice, request for consent or approval, election or other communication provided for or required by this Agreement shall be in writing and shall be delivered by hand, by air courier service, postage prepaid (certified with return receipt requested), fax transmission or electronic transmission followed by delivery of the hard copy of such communication by air courier service or mail as aforesaid, addressed to the person to whom such notice is intended to be given at such address as such person may have previously furnished in writing to the such party's last known address. Until receipt of written notice to the contrary, the parties' addresses for notices shall be:

To Buyer:

Cornerstone Core Properties REIT, Inc.
c/o Cornerstone Healthcare Properties
1920 Main Street, Suite 400
Irvine, CA 92614
Attention: Kent Eikanas
Phone: (949) 812-4335
Email: KEikanas@crefunds.com

With a Copy to:

Heffernan Seubert & French LLP
1075 Curtis Street
Menlo Park, CA 94025
Attention: Rachel Rosati Warner
Phone: (650) 322-2919
Email: rwarner@hsfllp.com

To Seller:

WPC Salem, LLC
Attn: Charles E. Trefzger, Jr.
P.O. Box 2568
Hickory, NC 28603
Phone: (828) 322-5535
Email: CET@meridiansenior.com

With a Copy to:

John A. Cocklereece, Jr.
Bell, Davis & Pitt, P.A.
100 North Cherry Street, Suite 600
Winston-Salem, NC 27101
Phone: (336) 722-3700
E-mail:jcockelreece@belldavispitt.com

18. Sole Agreement. This Agreement constitutes the entire understanding between the parties with respect to the transactions contemplated herein, and all prior or contemporaneous oral agreements, understandings representations and statement, and all prior written agreements, understandings, letters of intent and proposals are merged into this Agreement. Neither this Agreement nor any provisions hereof may be waived, modified, amended, discharged or terminated except by an instrument in writing signed by the party against which the enforcement of such waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in such instrument.

19. Assignment; Successors. Neither party shall assign this Agreement without the prior written consent of the other; provided, however, Buyer may assign all of its rights, title, liability, interest and obligation pursuant to this Agreement to one or more entities owned, controlled by or under common control with Buyer. Subject to the limitations on assignment set forth above, all the terms of this Agreement shall be binding upon and inure to the benefit of and be enforceable by and against the heirs, successors and assigns of the parties hereto.

20. Severability. Should any one or more of the provisions of this Agreement be determined to be invalid, unlawful or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby and each such provision shall be valid and remain in full force and effect.

21. Risk of Loss. Until the Closing Date, Seller shall bear the risk of loss for the Facility and after the Closing Date, the risk of loss of the Facility shall be governed by the Post Closing Lease.

22. Holidays. If any date herein set forth for the performance of any obligations by Seller or Buyer or for the delivery of any instrument or notice as herein provided should be on a Saturday, Sunday or legal holiday, the compliance with such obligations or delivery shall be deemed acceptable on the next business day following such Saturday, Sunday or legal holiday. As used herein, the term “legal holiday” means any state or federal holiday for which financial institutions or post offices are generally closed in the State for observance thereof.

23. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, and all of which together shall be deemed to constitute one and the same instrument. Facsimile signature pages or electronically transmitted signature pages shall constitute original counterparts for all purposes.

24. Covenant Not to Compete; Non-Solicitation of Employees. For a period of three (3) years following the Closing Date, Seller agrees (i) not to own, or operate a long term assisted living facility which is located within a ten (10) mile radius of the Facility and (ii) not to solicit the transfer of patients or residents of the Facility to any long term assisted living facility which is managed, leased or operated by any entity owned and/or controlled by any entity owned and/or controlled by any entities of Seller within a ten (10) mile radius of the Facility.

25. Exhibits and Schedules. To the extent that one or more Exhibits or Schedules are not attached to this Agreement at the time this Agreement is executed, Seller and Buyer agree that this Agreement is not rendered unenforceable by reason of such fact. Seller shall provide such exhibits to Buyer during the Due Diligence Period as promptly as possible in order to allow the parties to agree upon such Exhibits and Schedules and to afford Buyer adequate time in which to complete its due diligence review prior to the expiration of the Due Diligence Period.

26. Prevailing Party. Subject to the limitations as otherwise set forth in this Agreement, if an action shall be brought on account of any breach of or to enforce or interpret any of the terms, covenants or conditions of this Agreement, the prevailing party shall be entitled to recover from the other party, as part of the prevailing party's costs, reasonable attorney's fees, the amount of which shall be fixed by the court and shall be made a part of any judgment rendered.

27. Time is of the Essence. Time is of the essence of this Agreement.

28. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State.

[Signatures on Following Pages]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement by parties legally entitled to do so as of the day and year first set forth above.

"SELLER":

WPC SALEM, LLC, a
North Carolina limited liability company

By: /s/ Charles E. Trefzger, Jr.
Name: Charles E. Trefzger, Jr.
Its: Manager

"BUYER":

CORNERSTONE CORE PROPERTIES REIT, INC., a Maryland corporation

By: /s/ Kent Eikanas
Kent Eikanas, President

TERM LOAN AND SECURITY AGREEMENT

This **TERM LOAN AND SECURITY AGREEMENT** (this "Agreement"), dated as of October 4, 2013, is by and among HP Carteret, LLC, a Delaware limited liability company ("Carteret"), HP Hamlet, LLC, a Delaware limited liability company ("Hamlet"), HP Shelby, LLC, a Delaware limited liability company ("Shelby" and together with Carteret and Hamlet, the "Borrowers" and each a "Borrower") and The PrivateBank and Trust Company, an Illinois banking corporation (together with its successors and assigns, the "Lender").

RECITALS:

A. Pursuant to the Closing Date Purchase Documents, the Borrowers desire to purchase the Properties from the Closing Date Acquisition Sellers.

B. The Borrowers desire that the Lender extend the Loan to allow Borrower to pay a portion of the purchase price payable to the Closing Date Acquisition Sellers under the Closing Date Purchase Documents.

C. The Borrower desires to secure all of the Liabilities by granting to the Lender, a security interest in and lien upon all of its tangible and intangible assets, including the Real Property, the Sinking Fund Account and the Lease Deposit Account.

NOW THEREFORE, in consideration of the mutual agreements contained herein, and of any loans or other financial accommodations now or hereafter made to or for the benefit of the Borrower by the Lender, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto (intending to be legally bound) hereby agree as follows:

1. DEFINITIONS.

1.1 General Terms. When used herein, the following terms shall have the following meanings:

"Affiliate" means, with respect to any Person, any other Person (including, without limitation, to the extent applicable, shareholders, members, directors, partners, managers, and officers of such Person) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person. A Person shall be deemed to control another Person if such first Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such other Person, whether through ownership of voting securities, by contract or otherwise.

"Agreement" means this Term Loan and Security Agreement as the same may be amended, restated, supplemented or otherwise modified from time to time.

"Applicable Libor Margin" means an amount equal to four-hundred twenty-five (425) basis points.

"Assignments of Representations and Warranties" means, collectively, the Hamlet/Carteret Assignment of Representations and Warranties and the Shelby Assignment of Representations and Warranties.

"Assignments of Rents and Leases" means, collectively, the Carteret House Assignment of Rents and Leases, the Hamlet House Assignment of Rents and Leases and the Shelby House Assignment of Rents and Leases, as the same may be amended, supplemented or modified from time to time.

"Asset Disposition" shall mean the sale, lease, assignment or other transfer for value (each a "Disposition") by any Person of any asset or right of such Person (including, the loss, destruction or damage of any thereof or any actual or threatened (in writing to such Person) condemnation, confiscation, requisition, seizure or taking thereof), other than (a) the Disposition of any asset which is to be replaced, and is in fact replaced, within thirty (30) days with another asset performing the same or a similar function and (b) the sale or lease of inventory in the ordinary course of business.

"Bank Product Agreements" shall mean those certain agreements entered into from time to time by the Borrower with the Lender or any Affiliate of the Lender concerning Bank Products.

"Bank Product Obligations" shall mean all obligations, liabilities, contingent reimbursement obligations, fees, and expenses owing by the Borrower to the Lender or any Affiliate of the Lender pursuant to or evidenced by the Bank Product Agreements and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising.

"Bank Products" shall mean any service or facility extended to the Borrower by the Lender or any Affiliate of the Lender including: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) purchase cards, (e) automated clearing house or ACH transactions, (f) cash management, including controlled disbursement, accounts or services or (g) Interest Rate Protection Agreements.

"Base Rate" means the corporate base rate of interest per annum identified from time to time by the Lender, as its base or prime rate, which rate shall not necessarily be the lowest rate of interest which the Lender charges its customers plus 200 basis points. Any change in the Base Rate shall be effective as of the effective date of such change. Notwithstanding anything to the contrary contained herein, for purposes of calculating the rate of interest in this Agreement and the Note, in no event shall the Base Rate be below 5.25%.

"Base Rate Loan" means a Loan that bears interest at an interest rate based on the Base Rate.

"Borrowing Notice" shall have the meaning ascribed to such term in Section 2.10 hereof.

"Business Day" means (a) with respect to any borrowing, payment or rate selection of Libor Loans, a day other than Saturday or Sunday on which banks are open for business in Chicago, Illinois and on which dealings in United States dollars are carried on in the London interbank market and (b) for all other purposes, a day other than Saturday or Sunday on which banks are open for business in Chicago, Illinois.

"Capital Expenditures" means, as to any Person, any and all expenditures of such Person for fixed or capital assets, including, without limitation, the incurrence of Capitalized Lease Obligations, all as determined in accordance with GAAP, except that Capital Expenditures shall not include expenditures for fixed or capital assets to the extent such expenditures are paid for or reimbursed from the proceeds of insurance or the sale of other fixed or capital assets, to the extent permitted hereunder.

"Capital Securities" shall mean, as to any Person, all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person's capital, whether now outstanding or issued or acquired after the date hereof, including common shares, preferred shares, membership interests in a limited liability company, limited or general partnership interests in a partnership or any other equivalent of such ownership interest.

"Capitalized Lease Obligations" means any amount payable with respect to any lease of any tangible or intangible property (whether real, personal or mixed), however denoted, which either (i) is required by GAAP to be reflected as a liability on the face of the balance sheet of the lessee thereunder or (ii) based on actual circumstances existing and ascertainable, either at the commencement of the term of such lease or at any subsequent time at which any property becomes subject thereto, can reasonably be anticipated to impose on such lessee substantially the same economic risks and burdens, having regard to such lessee's obligations and the lessor's rights thereunder both during and at the termination of such lease, as would be imposed on such lessee by any lease which is required to be so reflected or by the ownership of the leased property.

"Carteret House Assignment of Rents and Leases" means that certain Assignment of Rents and Leases made by the Carteret, dated of even date herewith, as the same may be amended, supplemented or modified from time to time.

"Carteret House Deed of Trust" means that certain Deed of Trust, Security Agreement, Assignment of Rents and Fixture Filing made by Carteret, dated of even date herewith, granting and conveying to the Lender a first mortgage Lien on that certain Real Property commonly identified as the Carteret House located at 3020 Market Street, Newport, North Carolina, 28750, as the same may be amended, restated, supplemented or otherwise modified from time to time.

"Carteret House Facility" means the thirty-two (32) unit assisted living facility known as the Carteret House located at 3020 Market Street, Newport, North Carolina, 28750 operated by the Carteret House Operating Company.

"Carteret House Real Estate Lease" means that certain Lease dated as of the Closing Date between Carteret and the Carteret House Operating Company regarding the Carteret House Facility, pursuant to which Carteret leases the Real Property owned by Carteret to the Carteret House Operating Company.

"Carteret House Operating Company" means Newport AL Holdings, LLC, a North Carolina limited liability company.

"CERCLA" means the Comprehensive Environmental Response Compensation and Liability Act of 1980, 42 U.S.C. § 9601 et seq., as amended.

"CHAMPVA" means, collectively, the Civilian Health and Medical Program of the Department of Veteran Affairs, a program of medical benefits covering dependents of disabled veterans or dependents of certain deceased veterans not covered by TRICARE, and all laws, rules, regulations, manuals, orders, guidelines or requirements pertaining to such program including, without limitation, (a) all federal statutes (whether set forth in 38 U.S.C. §1781 or elsewhere) affecting such program or, to the extent applicable to CHAMPVA and (b) all rules, regulations, manuals, orders and administrative, reimbursement and other guidelines of all governmental authorities promulgated in connection with such program (whether or not having the force of law), in each case as the same may be amended, supplemented or otherwise modified from time to time.

"Change of Control" shall mean the occurrence of any of the following events: (a) Cornerstone Operating Partnership, LP or one of its Affiliates shall cease to control the Parent or (b) the Parent shall cease to, directly or indirectly, own and control 100% of each class of the outstanding Capital Securities of the Borrower. For the purpose hereof, the terms "control" or "controlling" shall mean the possession of the power to direct, or cause the direction of, the management and policies of the Borrower by contract or voting of securities or ownership interests.

"Closing Date" means October 4, 2013.

"Closing Date Acquisition Sellers" means, collectively, the Hamlet/Carteret House Seller and the Shelby House Seller.

"Closing Date Acquisitions" means, collectively, the Hamlet/Carteret House Purchase and the Shelby House Purchase.

"Closing Date Purchase Documents" means, collectively, the Hamlet/Carteret House Purchase Documents and the Shelby House Purchase Documents.

"CMS" means the Centers for Medicare and Medicaid Services of HHS and any Person succeeding to the functions thereof.

"Code" means the Uniform Commercial Code as adopted in the State of Illinois; provided, that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection of the security interests in any Collateral or the availability of any remedy hereunder is governed by the Uniform Commercial Code as in effect on or after the date hereof in any other jurisdiction, "Code" means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection or availability of such remedy.

"Collateral" shall have the meaning ascribed to such term in Section 6.1 hereof.

"Commitment" shall have the meaning ascribed to such term in Section 2.1 hereof.

"Conversion Date" means a date on which any portion of the Loan is converted from a Base Rate Loan to a Libor Loan.

"Credit Parties" means the Parent and the Borrowers.

"Deeds of Trust" means collectively, the Carteret House Deed of Trust, the Hamlet House Deed of Trust and the Shelby House Deed of Trust.

"Default" means an event, circumstance or condition which through the passage of time or the service of notice or both would (assuming no action is taken to cure the same) mature into an Event of Default.

"Default Rate" shall have the meaning ascribed to such term in Section 2.5(a) hereof.

"Deposit Accounts" means any deposit, securities, operating, lockbox, cash collateral and blocked account, together with any funds, instruments or other items credited to any such account from time to time, and all interest earned thereon, including, without limitation, the Lease Deposit Account.

"Depreciation" shall mean the total amounts added to depreciation, amortization, obsolescence, valuation and other proper reserves, as reflected on any Person's financial statements and determined in accordance with GAAP.

"Duly Authorized Person" means (i) the manager of any Credit Party or any duly authorized person of such Credit Party designated by such manager.

"EBITDA" means with respect to any Person, for any period of determination, the sum for such period of: (i) Net Income for such period, plus (ii) Interest Charges for such period, plus (iii) federal and state income taxes paid in cash during such period, plus (iv) Depreciation, consistently applied.

"EBITDAR" means with respect to the Operating Companies on a consolidated basis, but limited, however, to the Operating Companies' operation of the Facilities, for any period of determination, the sum for such period of: (i) Net Income for such period, plus (ii) Interest Charges for such period, plus (iii) federal and state income taxes paid in cash during such period, plus (iv) Depreciation, consistently applied plus (v) Rent Expense; provided, however, that for purposes of calculating EBITDAR of the Operating Companies, the aggregate expenses associated with management fees paid by the Operating Companies during any period of determination shall be deemed to be equal to the greater of (y) five (5%) of the gross revenues of the Operating Companies or (z) the actual amount paid by the Operating Companies in respect of management fees during such period.

"Environmental Indemnity Agreement" means that certain Environmental Indemnity Agreement of even date herewith made by the Borrowers in favor of the Lender, in form and substance acceptable to the Lender, as the same may be amended or modified from time to time

"Environmental Laws" means all applicable federal, state, local and foreign laws, statutes, ordinances, codes, rules, standards, regulations and common law, now or hereafter in effect, and any applicable judicial or administrative interpretation thereof, including any applicable judicial or administrative order, consent decree, order or judgment, imposing liability or standards of conduct for or relating to the regulation and protection of human health, safety, the environment and natural resources (including ambient air, surface water, groundwater, wetlands, land surface or subsurface strata, wildlife, aquatic species and vegetation). Without limiting the generality of the foregoing, Environmental Laws include CERCLA, the Hazardous Materials Transportation Authorization Act of 1994 (49 U.S.C. §§ 5101 *et seq.*), the Federal Insecticide, Fungicide, and Rodenticide Act (7 U.S.C. §§ 136 *et seq.*), the Solid Waste Disposal Act (42 U.S.C. §§ 6901 *et seq.*), the Toxic Substance Control Act (15 U.S.C. §§ 2601 *et seq.*), the Clean Air Act (42 U.S.C. §§ 7401 *et seq.*), the Federal Water Pollution Control Act (33 U.S.C. §§ 1251 *et seq.*), the Occupational Safety and Health Act (29 U.S.C. §§ 651 *et seq.*), and the Safe Drinking Water Act (42 U.S.C. §§ 300(f) *et seq.*), and any rules and regulations promulgated thereunder, and all analogous state, local and foreign counterparts or equivalents and any transfer of ownership notification or approval statutes, and all common law relating to Hazardous Substances, or protection or restoration of, or liability for damage to, human health, the environment or natural resources.

"Environmental Notice" means any summons, citation, written directive, written information request, written notice of potential responsibility, notice of deficiency or violation, written order, written claim, written complaint, investigation, proceeding, judgment, or letter to any Borrower or any officer thereof from the United States Environmental Protection Agency or other federal, state or local agency or authority, or any other Person concerning any intentional or unintentional act or omission that involves Management of Hazardous Substances on or off the Real Property that could reasonably be expected to result in such Borrower incurring a material liability or that could reasonably be expected to have a Material Adverse Effect, or the imposition of any Lien on any property of a Borrower, or any alleged violation of or responsibility under Environmental Laws that is reasonably likely to result in a Borrower incurring a material liability or that is reasonably likely to have a Material Adverse Effect, and, after reasonable inquiry, any knowledge of any facts that is reasonably likely to give rise to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, together with the regulations thereunder.

"ERISA Affiliate" means any corporation, trade or business, which together with any Credit Party would be treated as a single employer under Section 4001 of ERISA.

"Event of Default" shall have the meaning ascribed to such term in Section 10.1 hereof.

"Facilities" means, collectively, the Carteret House Facility, the Hamlet House Facility and the Shelby House Facility. "Facility" means any one of the Facilities.

“Financing Agreements” means the Note, the Pledge Agreement, the Deeds of Trust, the Assignments of Rents and Leases, the Environmental Indemnity Agreement, the Assignments of Representations and Warranties, any Interest Rate Protection Agreement, any Bank Product Agreement, and any other instrument, document or agreement executed or delivered in connection with this Agreement or any of the foregoing, in each case evidencing, securing or relating to the Loans and the Liabilities, whether heretofore, now, or hereafter executed by or on behalf of any Credit Party, any Affiliate of the Credit Parties, or any other Person, and delivered to or in favor of the Lender, together with all agreements and documents referred to therein or contemplated thereby, as each may be amended, modified, replaced, restated or supplemented from time to time.

“Fiscal Quarter” means the three (3) month period ending on each March 31, June 30, September 30 and December 31 of each calendar year.

“Fiscal Year” means the twelve (12) month period commencing on January 1 and ending on December 31 of each calendar year.

“Fixed Charge Coverage Ratio” means, for any period of determination, on a trailing twelve-month basis, the ratio of (a) EBITDA of the Borrowers, to (b) Fixed Charges of the Borrowers; *provided, however*, that (i) with respect to the calculation for the Fiscal Quarter ended December 31, 2013, the Fixed Charge Coverage Ratio will be calculated for the three (3) month period then ended, (ii) with respect to the calculation for the Fiscal Quarter ended March 31, 2014, the Fixed Charge Coverage Ratio will be calculated for the six (6) month period then ended, (iii) with respect to the calculation for the Fiscal Quarter ended June 30, 2014, the Fixed Charge Coverage Ratio will be calculated for the nine (9) month period then ended and (iv) with respect to the calculation for the Fiscal Quarter ended September 30, 2014 and for the calculation as of each Fiscal Quarter thereafter, the Fixed Charge Coverage Ratio will be calculated for the twelve (12) month period then ended.

“Fixed Charges” means, for any period of determination, the sum of, without duplication, (a) the aggregate amount of any and all advances and distributions made by any Borrower to any Person, including, without limitation, to any Affiliate of a Borrower during such period, (b) Interest Charges of the Borrowers for Indebtedness that is paid or becomes due during such period, (c) regularly scheduled principal payments made by the Borrowers for Indebtedness during such period, (d) unfinanced Capital Expenditures of the Borrowers made during such period and (e) payments made by the Borrowers in respect of federal, state and local taxes during such period, including taxes assessed in connection with Real Property.

“GAAP” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or any successor authority) that are applicable to the circumstances as of the date of determination.

"General Intangibles" means "general intangibles" as defined in the Code, including, without limitation, any and all general intangibles, choses in action, causes of action, rights to the payment of money (other than accounts receivable), and all other intangible personal property of each Borrower of every kind and nature wherever located and whether currently owned or hereafter acquired by such Borrower (other than accounts receivable), including, without limitation, corporate or other business records, inventions, designs, patents, patent applications, service marks, service mark applications, trademark applications, brand names, tradenames, trademarks and all goodwill symbolized thereby and relating thereto, tradestyles, trade secrets, registrations, computer software, advertising materials, distributions on certificated and uncertificated securities, investment property, securities entitlements, goodwill, operational manuals, product formulas for industrial processes, blueprints, drawings, copyrights, copyright applications, rights and benefits under contracts, licenses, license agreements, permits, approvals, authorizations which are associated with the operation of such Borrower's business and granted by any Person, franchises, customer lists, deposit accounts, tax refunds, tax refund claims, and any letters of credit, guarantee claims, security interests or other security held by or granted to such Borrower to secure payment by an account debtor of any of such Borrower's accounts receivable, and, to the maximum extent permitted by applicable law, any recoveries or amounts received in connection with any litigation or settlement of any litigation.

"Hamlet House Assignment of Rents and Leases" means that certain Assignment of Rents and Leases made by the Hamlet, dated of even date herewith, as the same may be amended, supplemented or modified from time to time.

"Hamlet House Deed of Trust" means that certain Deed of Trust, Security Agreement, Assignment of Rents and Fixture Filing made by Hamlet, dated of even date herewith, granting and conveying to the Lender a first mortgage Lien on that certain Real Property commonly identified as the Hamlet House located at 632 Freeman Mill Road, Hamlet, North Carolina, 28345, as the same may be amended, restated, supplemented or otherwise modified from time to time.

"Hamlet House Operating Company" means Hamlet AL Holdings, LLC, a North Carolina limited liability company.

"Hamlet House Facility" means the forty (40) unit assisted living facility known as the Hamlet House located at 632 Freeman Mill Road, Hamlet, North Carolina, 28345 operated by the Hamlet House Operating Company.

"Hamlet House Real Estate Lease" means that certain Lease dated as of the Closing Date between Hamlet and the Hamlet House Operating Company regarding the Hamlet House Facility, pursuant to which Hamlet leases the Real Property owned by Hamlet to the Hamlet House Operating Company.

"Hamlet/Carteret Assignment of Representations and Warranties" shall mean that certain Assignment of Representations and Warranties executed by Hamlet and Carteret in favor of Lender and acknowledged by the Hamlet/Carteret House Seller dated as of the Closing Date.

"Hamlet/Carteret House Purchase" means the transactions represented by the purchase of the assets of the Hamlet/Carteret House Seller by Hamlet and Carteret**,** pursuant to, and together with the other transactions described in, the Hamlet/Carteret Purchase Documents.

"Hamlet/Carteret House Purchase Agreement" shall mean that certain Purchase and Sale Agreement by and among Cornerstone Core Properties REIT, Inc., a Maryland corporation, or its assignee and the Hamlet/Carteret House Seller dated as of July 30, 2013, as such Purchase and Sale Agreement has been assigned by Cornerstone Core Properties REIT, Inc. to Hamlet and Carteret pursuant to that certain Assignment and Assumption of Purchase Agreement dated as of the Closing Date.

"Hamlet/Carteret House Purchase Documents" shall mean the Hamlet/Carteret House Purchase Agreement and all agreements, certificates, schedules, exhibits and other documents executed and/or delivered in connection therewith, including, without limitation, the Hamlet/Carteret Real Estate Lease.

"Hamlet/Carteret House Seller" shall mean, collectively, Hamlet Health Investors, LLC, a North Carolina limited liability company and Newport Health Investors, LLC, a North Carolina limited liability company.

"Hazardous Substances" means any substance, material or waste that is regulated by, or forms the basis of liability now or hereafter under, any Environmental Laws, including any material or substance that is (a) defined as a "solid waste," "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste," "restricted hazardous waste," "pollutant," "contaminant," "hazardous constituent," "special waste," "toxic substance," "medical wastes" or other similar term or phrase under any Environmental Laws, or (b) petroleum or any fraction or by-product thereof, asbestos, polychlorinated biphenyls (PCB's), or any radioactive substance.

"Healthcare Laws" means all applicable laws relating to the possession, control, warehousing, marketing, sale and distribution of pharmaceuticals, the operation of medical or senior housing facilities (such as, but not limited to, nursing homes, skilled nursing facilities, rehabilitation hospitals, intermediate care facilities, assisted living and adult care facilities and other long-term care facilities), patient healthcare, patient healthcare information, patient abuse, the quality and adequacy of medical care, rate setting, equipment, personnel, operating policies, fee splitting, including, without limitation, (a) all federal and state fraud and abuse laws, including, but not limited to the federal Anti-Kickback Statute (42 U.S.C. §1320a-7b(6)), the Stark Law (42 U.S.C. §1395nn), the civil False Claims Act (31 U.S.C. §3729 et seq.); (b) HIPAA, (c) Medicare; (d) Medicaid; (e) TRICARE and CHAMPVA; (f) quality, safety and accreditation standards and requirements of all applicable state laws or regulatory bodies; (g) all laws, policies, procedures, requirements and regulations pursuant to which licenses, approvals and accreditation certificates are issued in order to operate medical or senior housing facilities; and (h) any and all other applicable health care laws (whether federal, state/commonwealth, or otherwise), regulations, manual provisions, policies and administrative guidance, as each of the foregoing may be amended from time to time.

"HHS" means the United States Department of Health and Human Services and any Person succeeding to the functions thereof.

"HIPAA" means the Health Insurance Portability and Accountability Act of 1996, as the same may be amended, modified or supplemented from time to time, and any successor statute thereto, and any and all rules or regulations promulgated from time to time thereunder

"Indebtedness" with respect to any Person means, as of the date of determination thereof, (a) all of such Person's indebtedness for borrowed money, (b) all indebtedness of such Person or any other Person secured by any Lien with respect to any property or asset owned or held by such Person, regardless whether the indebtedness secured thereby shall have been assumed by such Person or such Person has become liable for the payment thereof, (c) all Capitalized Lease Obligations, or conditional sale or other title retention agreement with respect to property used and/or acquired by such Person even though the rights and remedies of the lessor, seller and/or lender thereunder are limited to repossession of such property, (d) all unfunded pension fund obligations and liabilities, (e) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (f) all obligations in respect of letters of credit, whether or not drawn, and bankers' acceptances issued for the account of such Person, (g) deferred and/or accrued taxes, (h) all guarantees by such Person, or any undertaking by such Person to be liable for, the debts or obligations of any other Person and (i) all other indebtedness of such Person, now or hereafter owing, due or payable, however evidenced, created, incurred or owing and however arising, which is customarily identified as indebtedness on a balance sheet or financial statement.

"Indemnified Parties" shall have the meaning ascribed to such term in Section 11.16 hereof.

"Interest Charges" shall mean, as to any Person, for any period, the sum of: (a) all interest, charges and related expenses payable with respect to that fiscal period to a lender in connection with borrowed money or the deferred purchase price of assets that are treated as interest in accordance with GAAP, plus (b) the portion of Capitalized Lease Obligations with respect to that fiscal period that should be treated as interest in accordance with GAAP, plus (c) all charges paid or payable (without duplication) during that period with respect to, in the case of a Borrower or an Operating Company, any Interest Rate Protection Agreements.

"Interest Rate Protection Agreement" means any interest rate, currency or commodity swap agreement, cap agreement or collar agreement or any other so-called "swap" agreement, or similar arrangement entered into at any time with the intent of protecting against fluctuations in interest rates, between any Credit Party and the Lender (or any Affiliate of the Lender) relating to any of the Liabilities, as the same may be amended, restated, supplemented or otherwise modified from time to time.

"Lease Deposit Account" has the meaning set forth in Section 8.9 of this Agreement.

"Liabilities" means any and all of any Credit Party's liabilities, obligations and Indebtedness to the Lender of any and every kind and nature, whether heretofore, now or hereafter owing, arising, due or payable and howsoever evidenced, created, incurred, acquired, or owing, whether primary, secondary, direct, indirect, contingent, absolute, fixed or otherwise (including, without limitation, payments of or for principal, interest, default interest, fees, costs, expenses, and/or indemnification, and obligations of performance, and any interest that accrues after commencement of any insolvency or bankruptcy proceeding regardless of whether allowed or allowable in whole or in part as a claim in any such insolvency or bankruptcy proceeding), under, evidenced by or relating to this Agreement (including, without limitation, the Loan or the Bank Product Obligations) or the other Financing Agreements to which any Credit Party is a party (including, without limitation, any Interest Rate Protection Agreement), and any refinancings, substitutions, extensions, renewals, replacements and modifications for or of any or all of the foregoing.

"Libor Base Rate" means a rate of interest equal to (a) the per annum rate of interest at which United States dollar deposits for a period equal to the relevant Libor Interest Period are offered in the London Interbank Eurodollar market at 11:00 a.m. (London time) two Business Days prior to the commencement of such Libor Interest Period (or three Business Days prior to the commencement of such Libor Interest Period if banks in London, England were not open and dealing in offshore United States dollars on such second preceding Business Day), as displayed in the Bloomberg Financial Markets system (or other authoritative source selected by the Lender in its sole discretion), divided by (b) a number determined by subtracting 1.00 from the then stated maximum reserve percentage for determining reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency funding or liabilities as defined in Regulation D (or any successor category of liabilities under Regulation D). The Lender's determination of the Libor Base Rate shall be conclusive, absent manifest error. Notwithstanding anything to the contrary contained herein, for purposes of calculating the rate of interest in this Agreement and any Note, in no event shall the Libor Base Rate be below one percent (1.00%).

"Libor Interest Period" means, with respect to a Libor Loan, a period of one month commencing on a Business Day. Such Libor Interest Period shall end on (but exclude) the day which corresponds numerically to the date one month thereafter; provided, however, that if a Libor Interest Period would otherwise end on a day that is not a Business Day, such Libor Interest Period shall end on the next succeeding Business Day; provided, further, that if such next succeeding Business Day occurs after the applicable period, such Libor Interest Period shall end on the immediately preceding Business Day.

"Libor Loan" means a Loan which bears interest at a Libor Rate.

"Libor Rate" means, with respect to a Libor Loan for the relevant Libor Interest Period, the sum of the Libor Base Rate applicable to that Libor Interest Period, plus the Applicable Libor Margin.

"Lien" means any lien, security interest, mortgage, pledge, hypothecation, collateral assignment, or other charge, encumbrance or preferential arrangement, including, without limitation, the retained security title of a conditional vendor or lessor.

"Loan Account" shall have the meaning ascribed to such term in Section 2.3 hereof.

"Loan" shall have the meaning ascribed to such term in Section 2.1 hereof.

"Manage" or "Management" means to generate, handle, manufacture, process, treat, store, use, re-use, refine, recycle, reclaim, blend or burn for energy recovery, incinerate, accumulate speculatively, transport, transfer, dispose of, release, threaten to release or abandon Hazardous Substances.

"Management Agreements" means, as applicable, the Management Agreement by and between each Operating Company and the Management Company, with respect to the provision of certain services for each Facility.

"Management Company" means, collectively, Meridian Senior Living, LLC and its Affiliates.

"Material Adverse Change" or "Material Adverse Effect" means either (a) the termination of any Operating Company's continued participation in Medicaid reimbursement program for any reason, or (b) any other change, event, action, condition or effect which, individually or in the aggregate, either (i) impairs the legality, validity or enforceability of this Agreement or any Financing Agreement, (ii) impairs the fully perfected first priority status of the Liens granted hereunder and under the Financing Agreements in favor of the Lender in the Collateral or any other assets pledged in favor of Lender to secure the Liabilities or any portion thereof (subject only to the Permitted Liens) or (iii) materially and adversely affects the business, property or assets (whether real or personal), operations, performance, or condition (financial or otherwise) of any Borrower or any or all of the Collateral, or the ability of any Borrower to repay the Liabilities when due or declared due or the ability of any Credit Party's ability to perform the obligations under this Agreement and the Financing Agreements to which it is a party.

"Maturity Date" means, the earlier of (i) October 4, 2016, (ii) such other date on which the Commitment shall terminate pursuant to Section 10.2 hereof, or (iii) such other date as is mutually agreed in writing among the Borrowers and the Lender.

"Maximum Facility" means, as of the Closing Date, an amount equal to the lesser of (i) Eleven Million Four Hundred Thousand and No/100 Dollars ($11,400,000.00), (ii) 75% of the loan-to-value ratio using an income approach of the Real Property as set forth on the most recent appraisal prepared and delivered to Lender in accordance with the terms hereof or (iii) 75% of the purchase price required to be paid by the Borrowers under the Closing Date Purchase Documents in connection with the Closing Date Acquisitions.

"Medicaid" means the medical assistance programs administered by state agencies and approved by CMS pursuant to the terms of Title XIX of the Social Security Act, codified at 42 U.S.C. 1396 *et seq.*

"Medicare" means the program of health benefits for the aged and disabled administered by CMS pursuant to the terms of Title XVIII of the Social Security Act, codified at 42 U.S.C. 1395 *et seq.*

"Multiemployer Plan" shall have the meaning ascribed to such term in Section 7.19 hereof.

"Net Income" shall mean, with respect to any Person for any period, the net income (or loss) of such Person for such period as determined in accordance with GAAP, excluding any gains from Asset Dispositions, any extraordinary gains and any gains from discontinued operations.

“Note” shall have the meaning ascribed to such term in Section 2.1 hereof.

“Operating Companies” means, collectively, the Carteret House Operating Company, the Hamlet House Operating Company and the Shelby House Operating Company. “Operating Company” means any of the Operating Companies.

“Parent” means NHP Holding Co., LLC, a Delaware limited liability company.

“PBGC” shall have the meaning ascribed to such term in Section 7.19 hereof.

“Permitted Liens” shall have the meaning ascribed to such term in Section 9.1 hereof.

“Permitted Prepayment” means the refinancing of the Liabilities in full in cash through the U.S. Department of Housing and Urban Development.

“Person” means any individual, sole proprietorship, partnership, joint venture, trust, limited liability company, unincorporated organization, association, corporation, institution, entity, party, or government (whether national, federal, state, provincial, county, city, municipal or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof).

“Plan” shall have the meaning ascribed to such term in Section 7.19 hereof.

“Pledge Agreement” means the Pledge Agreement dated of even date herewith executed by Parent, in favor of the Lender, pursuant to which the Parent has pledged all of the Capital Securities of each Borrower to Lender as security for the Liabilities, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Prepayment Premium” means, with respect to prepayment of the Loan: (i) three percent (3%) of the amount of the outstanding principal balance of the Loan prepaid if such prepayment occurs on or prior to the first (1st) year anniversary of the Closing Date; (ii) two percent (2%) of the amount of the outstanding principal balance of the Loan prepaid if such prepayment occurs on or prior to the second (2nd) year anniversary of the Closing Date but after the first anniversary of the Closing Date; and (iii) one percent (1%) of the amount of the outstanding principal balance of the Loan prepaid if such prepayment occurs on or prior to the third (3rd) year anniversary of the Closing Date but after the second year anniversary of the Closing Date; provided, however, that, to the extent any prepayment of the Loan occurs in connection with the Permitted Prepayment, the Prepayment Premium shall be 0%.

“Prohibited Transaction” shall have the meaning ascribed to such term in ERISA.

“Property” means, as applicable, any and all real property owned, leased, sub-leased or used at any time by any Borrower, including, without limitation, the Real Property.

“Rate Option” means the Libor Rate or the Base Rate.

"Real Estate Leases" means, collectively, the Carteret House Real Estate Lease, the Hamlet House Real Estate Leases and the Shelby House Real Estate Lease. "Real Estate Lease" means any of the Real Estate Leases.

"Real Property" means the any real estate on which any Facility is located.

"Release" means any actual or threatened spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing of Hazardous Substances into the environment, as "environment" is defined in CERCLA.

"Rent Expense" shall mean all rental or lease expense of the Operating Companies in connection with Real Property leased by any Borrower to any Operating Company.

"Respond" or "Response" means any action taken pursuant to Environmental Laws to correct, remove, remediate, cleanup, prevent, mitigate, monitor, evaluate, investigate or assess the Release of a Hazardous Substance.

"Shelby Assignment of Representations and Warranties" shall mean that certain Assignment of Representations and Warranties executed by Shelby in favor of Lender and acknowledged by the Shelby House Seller dated as of the Closing Date.

"Shelby House Assignment of Rents and Leases" means that certain Assignment of Rents and Leases made by the Shelby, dated of even date herewith, as the same may be amended, supplemented or modified from time to time.

"Shelby House Deed of Trust" means that certain Deed of Trust, Security Agreement, Assignment of Rents and Fixture Filing made by Shelby, dated of even date herewith, granting and conveying to the Lender a first mortgage Lien on that certain Real Property commonly identified as the Shelby House located at 950 Hardin Drive, Shelby, North Carolina, 28150, as the same may be amended, restated, supplemented or otherwise modified from time to time.

"Shelby House Facility" means the sixty (60) unit assisted living facility known as the Shelby House located at 950 Hardin Drive, Shelby, North Carolina, 28150 operated by the Shelby House Operating Company.

"Shelby House Real Estate Lease" means that certain Lease dated as of the Closing Date between Shelby and the Shelby House Operating Company regarding the Shelby House Facility, pursuant to which Shelby leases the Real Property owned by Shelby to the Shelby House Operating Company.

"Shelby House Purchase" means the transactions represented by the purchase of the assets of the Shelby House Seller by Shelby**,** pursuant to, and together with the other transactions described in, the Shelby House Purchase Documents.

"Shelby House Purchase Agreement" shall mean that certain Purchase and Sale Agreement by and between Cornerstone Core Properties REIT, Inc., a Maryland corporation, or its assignee and the Shelby House Seller dated as of July 30, 2013, as such Purchase and Sale Agreement has been assigned by Cornerstone Core Properties REIT, Inc. to Shelby pursuant to that certain Assignment and Assumption of Purchase Agreement dated as of the Closing Date.

"Shelby House Purchase Documents" shall mean the Shelby House Purchase Agreement and all agreements, certificates, schedules, exhibits and other documents executed and/or delivered in connection therewith, including, without limitation, the Shelby House Real Estate Lease.

"Shelby House Operating Company" means Shelby House, LLC, a North Carolina limited liability company.

"Shelby House Seller" shall mean, WPC Salem, LLC, a North Carolina limited liability company.

"Sinking Fund Account" shall have the meaning ascribed to such term in Section 6.8 hereof.

"Subordinated Debt" means any and all Indebtedness owing by any Borrower to a third party that has been subordinated to the Liabilities in writing on terms and conditions satisfactory to the Lender in its sole and absolute determination.

"Tax Code" shall have the meaning ascribed to such term in Section 7.19 hereof.

"Tax Liability Amount" shall have the meaning ascribed to such term in Section 9.9 hereof.

"Taxes" shall have the meaning ascribed to such term in Section 3.3 hereof.

"TRICARE" means the medical program for active duty members, qualified family members, CHAMPUS eligible retirees and their family members and survivors, of all uniformed services.

1.2 Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined herein shall have the meanings customarily given to such terms in accordance with GAAP. If changes in GAAP shall be mandated by the Financial Accounting Standards Board or shall be recommended by the Borrowers' certified public accountants, and such changes would materially modify the interpretation or computation of the financial covenants set forth in Section 9.12 hereof at the time of execution hereof, then in such event such changes shall not be followed in calculating such financial covenants.

1.3 Others Defined in Code. All terms contained in this Agreement (and which are not otherwise specifically defined herein) shall have the meanings provided by the Code to the extent the same are used or defined therein.

1.4 Other Interpretive Provisions.

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms. Whenever the context so requires, the neuter gender includes the masculine and feminine, the single number includes the plural, and vice versa.

(b) Section and Schedule references are to this Agreement unless otherwise specified. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(c) The term "including" is not limiting, and means "including, without limitation".

(d) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including".

(e) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement and the other Financing Agreements) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, supplements and other modifications thereto, but only to the extent such amendments, restatements, supplements and other modifications are not prohibited by the terms of this Agreement or any Financing Agreement, and (ii) references to any statute or regulation shall be construed as including all statutory and regulatory provisions amending, replacing, supplementing or interpreting such statute or regulation.

2. COMMITMENT; INTEREST; FEES.

2.1 Loan. On the terms and subject to the conditions set forth in this Agreement, and provided there does not then exist an Event of Default, the Lender shall, following the execution of this Agreement by the Borrowers and the Lender, extend in one (1) advance a term loan (the "Loan") to the Borrowers in an aggregate principal amount equal to the lesser of (y) Eleven Million Four Hundred Thousand and No/100 Dollars ($11,400,000.00) or (z) the Maximum Facility. The Borrowers agree to deposit with the Lender (for further deposit into the Sinking Fund Account), payments in respect of the Loan based on a twenty-five (25) year amortization schedule in consecutive monthly installments as follows:

Year 1: $230,000 annually ($19,167/month)
Year 2: $240,000 annually ($20,000/month)
Year 3: $260,000 annually ($21,667/month)

, together with interest accrued thereon, each payable on the first day of each calendar month, commencing on November 1, 2013, and otherwise in accordance with Section 2.5 hereof, with a final installment of the aggregate unpaid principal balance of the Loan, together with interest accrued thereon, payable on the Maturity Date. Monthly interest payments on the Loan shall be computed using the interest rate then in effect and based on the outstanding principal balance of the Loan. Any amounts paid or applied to the principal balance of the Loan (whether by mandatory prepayment or otherwise) may not be reborrowed hereunder. The Lender's commitment hereunder to make the Loan is hereinafter called the "Commitment". At the Maturity Date, the outstanding principal balance of the Loan shall be immediately due and payable, together with any remaining accrued interest thereon, to Lender by Borrowers. At the Maturity Date, the Borrowers hereby authorize and direct the Lender to apply all amounts deposited in the Sinking Fund Account to the outstanding amount of the Loan. The Loan shall be evidenced by a promissory note (hereinafter, as the same may be amended, modified or supplemented from time to time, and together with any renewals or extensions thereof or exchanges or substitutions therefor, called the "Note"), duly executed and delivered by the Borrowers, in form and substance reasonably satisfactory to the Lender, with appropriate insertions, dated the Closing Date, payable to the order of the Lender in the principal amount of Eleven Million Four Hundred Thousand and No/100 Dollars ($11,400,000.00). THE PROVISIONS OF THE NOTE NOTWITHSTANDING, THE LOAN SHALL BECOME IMMEDIATELY DUE AND PAYABLE UPON THE EARLIEST TO OCCUR OF (X) THE MATURITY DATE; (Y) THE ACCELERATION OF THE LIABILITIES PURSUANT TO SECTION 10.2 HEREOF; AND (Z) THE TERMINATION OF THIS AGREEMENT (WHETHER BY PREPAYMENT OR OTHERWISE) IN ACCORDANCE WITH ITS TERMS.

2.2 Reserved.

2.3 The Borrowers' Loan Account. The Lender shall maintain a loan account (the "Loan Account") on its books for the Borrowers in which shall be recorded (a) all advances of the Loan made by the Lender to the Borrowers pursuant to this Agreement, (b) all payments made by the Borrowers on or with respect to such Loan, and (c) all other appropriate debits and credits as provided in this Agreement, including, without limitation, all fees, charges, expenses and interest. All entries in the Loan Account shall be made in accordance with the Lender's customary accounting practices as in effect from time to time. The Borrowers, jointly and severally, promise to pay the amount reflected as owing by Borrowers under their Loan Account and all of their other obligations hereunder as such amounts become due or are declared due pursuant to the terms of this Agreement. Notwithstanding the foregoing, the failure so to record any such amount or any error in so recording any such amount shall not limit or otherwise affect the Borrowers' joint and several obligations under this Agreement or under the Note to repay the outstanding principal amount of the Loan together with all interest accruing thereon.

2.4 Statements. The Loan to the Borrowers, and all other debits and credits provided for in this Agreement, shall be evidenced by entries made by the Lender in its internal data control systems showing the date, amount and reason for each such debit or credit. Until such time as the Lender shall have rendered to the Borrowers written statements of account as provided herein, the balance in the Loan Account, as set forth on the Lender's most recent computer printout, shall be rebuttably presumptive evidence of the amounts due and owing the Lender by the Borrowers. From time to time the Lender shall render to the Borrowers a statement setting forth the balance of the Loan Account, including principal, interest, expenses and fees. Each such statement shall be subject to subsequent adjustment by the Lender but shall, absent manifest errors or omissions, be presumed correct and binding upon the Borrowers.

2.5 Interest. (a) The Borrowers agree to pay to the Lender interest on the daily outstanding principal balance of (i) the Base Rate Loans at the Base Rate from time to time in effect and (ii) the Libor Loans at the Libor Rate; provided, however, that immediately following the occurrence and during the continuance of an Event of Default, and notwithstanding any other provisions of this Agreement to the contrary, the Borrowers agree to pay to the Lender interest on the outstanding principal balance of the Loans at the per annum rate of three percent (3%) plus the rate otherwise payable hereunder with respect to such Loans (the "Default Rate").

(b) Accrued interest on each Base Rate Loan shall be payable in arrears on the first calendar day of each month and at maturity, such payments to commence on November 1, 2013; provided, however, accrued interest on each Libor Loan shall be payable on the last day of the Libor Interest Period relating to such Libor Loan and at maturity, commencing with the first such last day of the initial Libor Interest Period. Monthly interest payments on the Loans shall be computed using the interest rate then in effect and based on the outstanding principal balance of the Loans. At the Maturity Date, the outstanding principal balance of the Loan shall be immediately due and payable, together with any remaining accrued interest thereon. Interest shall be computed on the basis of a year of three hundred sixty (360) days for the actual number of days elapsed. If any payment of principal of, or interest on, the Note falls due on a day that is not a Business Day, then such due date shall be extended to the next following Business Day, and additional interest shall accrue and be payable for the period of such extension.

2.6 Method for Making Payments; Authorization to Debit Lease Deposit Account. All payments that the Borrowers are required to make to the Lender under this Agreement or under any of the other Financing Agreements shall be made in immediately available funds not later than 1:00 p.m. (Chicago time) on the date of payment at the Lender's office at 120 S. LaSalle St., Chicago, Illinois 60603, or at such other place as the Lender directs in writing from time to time, or, in the Lender's sole and absolute discretion, by appropriate debits to the Loan Account and/or Lease Deposit Account. Each Borrower hereby irrevocably authorizes and instructs Lender to direct debit any of such Borrower's operating accounts with Lender, including, without limitation, the Lease Deposit Account, for all principal, interest, fees and expenses due hereunder with respect to the Loan and the Liabilities or as otherwise is required to be deposited into the Sinking Fund Account. Payments made after 1:00 p.m. (Chicago time) shall be deemed to have been made on the next succeeding Business Day.

2.7 Term of this Agreement. The Borrowers shall have the right to terminate this Agreement following prepayment of all of the Liabilities as provided under Section 2.8 hereof; provided, however, that all of the Lender's rights and remedies under this Agreement and the Liens created under Section 6.1 hereof and under any of the other Financing Agreements, shall survive such termination until all of the Liabilities have been indefeasibly paid in full (including, without limitation, all default interest and all interest accrued after commencement of any insolvency or bankruptcy proceeding, whether or not the foregoing would be or is allowed or disallowed in whole or in part in any such insolvency or bankruptcy proceeding), and termination of the Lender's Commitment hereunder. In addition, the Liabilities may be accelerated as set forth in Section 10.2 hereof. Upon the effective date of termination, all of the Liabilities shall become immediately due and payable without notice or demand. Notwithstanding any termination, until all of the Liabilities shall have been indefeasibly paid and satisfied, the Lender shall be entitled to retain its Liens in and to all existing and future Collateral.

2.8 Optional Prepayment of Loan. The Borrowers may, at their option, permanently prepay, at any time during the term of this Agreement all of the Loan or any portion thereof but in minimum amounts of no less than One Hundred Thousand Dollars ($100,000), subject to the following conditions: (i) not less than ten (10) days prior to the date upon which the Borrower desires to make any such prepayment, Borrower shall deliver to the Lender a written notice of its intention to prepay all or such portion of the Loan, which notice shall be irrevocable and state the type of Loan to be prepaid, the amount of the prepayment and the prepayment date, and (ii) the Borrower shall pay (A) the Prepayment Premium, if applicable, (in view of the impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Lender's lost profits as a result of such prepayment), (B) any amount due pursuant to Section 3.4 hereof, and (C) any amounts due in connection with such prepayment or due under any Interest Rate Protection Agreement. Any such Prepayment Premium shall constitute a part of the Liabilities and be secured by the Collateral. Prepayments of the Loan shall be applied against installments payable under such applicable Note in the inverse order of maturity. Amounts prepaid on account of any of the Loan may not be reborrowed. The parties agree that the Prepayment Premium is not a penalty.

2.9 Limitation on Charges. It being the intent of the parties that the rate of interest and all other charges to the Borrowers be lawful, if for any reason the payment of a portion of the interest or other charges otherwise required to be paid under this Agreement would exceed the limit which the Lender may lawfully charge the Borrowers, then the obligation to pay interest or other charges shall automatically be reduced to such limit and, if any amounts in excess of such limit shall have been paid, then such amounts shall at the sole option of the Lender either be refunded to the Borrowers or credited to the principal amount of the Liabilities (or any combination of the foregoing) so that under no circumstances shall the interest or other charges required to be paid by the Borrowers hereunder exceed the maximum rate allowed by applicable law, and Borrowers shall not have any action against Lender for any damages arising out of the payment or collection of any such excess interest.

2.10 Method of Selecting Rate Options; Additional Provisions Regarding Libor Loans. The Borrowers may select a Libor Rate with respect to a Loan as provided in this Section 2.10; provided, however, that with respect to each and all Libor Loans made hereunder (i) the amount shall be in an amount not less than One Hundred Thousand Dollars ($100,000) and in integral multiples of Fifty Thousand Dollars ($50,000) thereafter; and (ii) there shall not exist at any one time outstanding more than three (3) separate tranches of Libor Loans. Subject to the first proviso in Section 2.5(a) hereof, Loans shall bear interest at the Base Rate unless the Borrowers provide a Borrowing Notice to the Lender in form and substance reasonably acceptable to the Lender, signed by a Duly Authorized Officer on behalf of the Borrower, irrevocably electing that all or a portion of the Loans are to bear interest at a Libor Rate (the "Borrowing Notice"). The Borrowing Notice shall be delivered to the Lender not later than two (2) Business Days before the Borrowing Date for each Libor Loan, specifying:

(a) The Conversion Date, which shall be a Business Day, of such Loan;

(b) The type and aggregate amount of such Loan;

(c) The Rate Option selected for such Loan; and

(d) The Libor Interest Period applicable thereto.

Each Libor Loan shall bear interest from and including the first day of the Libor Interest Period applicable thereto to (but not including) the last day of such Libor Interest Period at the interest rate determined as applicable to such Libor Loan. At the end of a Libor Interest Period for an outstanding Libor Loan, as long as no Event of Default exists at any time, such Loan will automatically be continued for successive Libor Interest Periods (unless and until such time as the Borrowers otherwise notify the Lender in writing and the Borrowers are in compliance with the other terms and conditions of this Agreement (including payment of such Libor Loan and any required payment pursuant to Section 3.4 hereof), and otherwise subject to the first proviso in Section 2.5(a) hereof). An outstanding Base Rate Loan may be converted to a Libor Loan at any time subject to the notice provisions applicable to the type of Loan selected. The Borrowers may not select a Libor Rate for a Loan if there exists an Event of Default. The Borrowers shall select Libor Interest Periods with respect to Libor Loans so that such Libor Interest Period does not expire after the end of the Maturity Date.

2.11 Setoff. (a) Each Borrower agrees that Lender has all rights of setoff and banker's liens provided by applicable law. Each Borrower agrees that, if at any time (i) any amount owing by it under this Agreement or any Financing Agreement is then due and payable to the Lender or (ii) an Event of Default shall have occurred and be continuing, then the Lender or the holder of the Note issued hereunder, in its sole discretion, may set off against and apply to the payment of any and all Liabilities, any and all balances, credits, deposits, accounts or moneys of the Borrowers then or thereafter with the Lender or such holder.

(b) Without limitation of Section 2.11(a) hereof, each Borrower agrees that, upon and after the occurrence and during the continuance of any Event of Default, the Lender is hereby authorized, at any time and from time to time, without prior notice to any Credit Party, (i) to set off against and to appropriate and apply to the payment of any and all Liabilities any and all amounts which the Lender is obligated to pay over to any Borrower (whether matured or unmatured, and, in the case of deposits, whether general or special, time or demand and however evidenced), and (ii) pending any such action, to the extent necessary, to deposit such amounts with the Lender as Collateral to secure such Liabilities and to dishonor any and all checks and other items drawn against any deposits so held as the Lender in its sole discretion may elect.

(c) The rights of the Lender under this Section 2.11 are in addition to all other rights and remedies which the Lender may otherwise have in equity or at law.

2.12 Termination of Commitment by the Lender. On the date on which the Commitment terminates pursuant to Section 10.2 hereof, the Loan and other Liabilities shall become immediately due and payable, without presentment, demand or notice of any kind.

2.13 Commitment Fee. On the Closing Date, the Borrowers shall pay to the Lender a one-time commitment fee in the amount of One Hundred Fourteen Thousand and 00/100 ($114,000.00), which shall be deemed fully earned as of the Closing Date.

2.14 Late Charge. If any installment of principal or interest due hereunder shall become overdue for five (5) days after the date when due, the Borrowers shall pay to the Lender on demand a "late charge" of five cents ($.05) for each dollar so overdue in order to defray part of the increased cost of collection occasioned by any such late payment, as liquidated damages and not as a penalty.

3. CHANGE IN CIRCUMSTANCES.

3.1 Yield Protection. If, after the date of this Agreement, the adoption of any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any change therein, or any change in the interpretation or administration thereof, or the compliance of the Lender therewith, or Regulation D of the Board of Governors of the Federal Reserve System,

(a) subjects the Lender to any tax, duty, charge or withholding on or from payments due from any Borrower (excluding taxation of the overall net income of the Lender), or changes the basis of taxation of payments to the Lender in respect of the Loan or other amounts due it hereunder, or

(b) imposes, modifies, or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, the Lender (other than reserves and assessments taken into account in determining the interest rate applicable to Libor Loans), or

(c) imposes any other condition the result of which is to increase the cost to the Lender of making, funding or maintaining advances or reduces any amount receivable by the Lender in connection with advances, or requires the Lender to make any payment calculated by reference to the amount of advances held or interest received by it, by an amount deemed material by the Lender, or

(d) affects the amount of capital required or expected to be maintained by the Lender or any corporation controlling the Lender and the Lender determines the amount of capital required is increased by or based upon the existence of this Agreement or its obligation to make the Loan hereunder or of commitments of this type,

then, within three (3) Business Days of demand by the Lender, the Borrowers agree to pay the Lender that portion of such increased expense incurred (including, in the case of clause (d), any reduction in the rate of return on capital to an amount below that which it could have achieved but for such law, rule, regulation, policy, guideline or directive and after taking into account the Lender's policies as to capital adequacy) or reduction in an amount received which the Lender determines is attributable to making, funding and maintaining the Loan.

3.2 Availability of Rate Options. If the Lender determines that maintenance of any of its Libor Loans would violate any applicable law, rule, regulation or directive of any government or any division, agency, body or department thereof, whether or not having the force of law, the Lender shall suspend the availability of the Libor Rate option and require any Libor Loans outstanding to be promptly converted to a Base Rate Loan subject to the Borrowers' compliance with Section 3.4 hereof; or if the Lender determines that (i) deposits of a type or maturity appropriate to match fund Libor Loans are not available, the Lender shall suspend the availability of the Libor Rate after the date of any such determination, or (ii) the Libor Rate does not accurately reflect the cost of making a Libor Loan, then, if for any reason whatsoever the provisions of Section 3.1 hereof are inapplicable, the Lender shall, at its option, suspend the availability of the Libor Rate after the date of any such determination or permit (solely in the case of clause (ii)) the Borrower to pay the Lender for any increased cost it may incur.

3.3 Taxes. All payments by the Borrowers under this Agreement shall be made free and clear of, and without deduction for, any present or future income, excise, stamp or other taxes, fees, levies, duties, withholdings or other charges of any nature whatsoever, now or hereafter imposed by any taxing authority, other than franchise taxes and taxes imposed on or measured by the Lender's net income or receipts (such non-excluded items being called "Taxes"). If any withholding or deduction from any payment to be made by a Borrower hereunder is required in respect of any Taxes pursuant to any applicable law, rule or regulation, then the Borrowers shall:

(a) pay directly to the relevant authority the full amount required to be so withheld or deducted;

(b) promptly forward to the Lender an official receipt or other documentation satisfactory to the Lender evidencing such payment to such authority; and

(c) pay to the Lender such additional amount or amounts as is necessary to ensure that the net amount actually received by the Lender will equal the full amount the Lender would have received had no such withholding or deduction been required.

Moreover, if any Taxes are directly asserted against the Lender with respect to any payment received by the Lender hereunder, the Lender may pay such Taxes and the Borrowers agree to promptly pay such additional amounts (including, without limitation, any penalties, interest or expenses) as is necessary in order that the net amount received by the Lender after the payment of such Taxes (including, without limitation, any Taxes on such additional amount) shall equal the amount the Lender would have received had not such Taxes been asserted. Notwithstanding the foregoing, if the Lender fails to timely pay any such Taxes after the Lender receives prior written notice of such Taxes being due prior to the date such Taxes are due, then any penalty directly resulting from the failure to timely pay such Taxes shall not be borne by the Borrowers.

3.4 Funding Indemnification. If any payment of a Libor Loan occurs on a date that is not the last day of the applicable Libor Interest Period, whether because of acceleration, prepayment or otherwise, or a Libor Loan is not made on the date specified by the Borrowers, the Borrowers shall, jointly and severally, indemnify the Lender for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits acquired to fund or maintain the Libor Loan.

3.5 Lender Statements. The Lender shall deliver a written statement to the Borrowers as to the amount due, if any, under Sections 3.1, 3.3 or 3.4 hereof. Such written statement shall set forth in reasonable detail the calculations upon which the Lender determined such amount and shall be final, conclusive and binding on the Borrowers in the absence of manifest error. Unless otherwise provided herein, the amount specified in the written statement shall be payable within five (5) days after receipt by the Borrowers of the written statement.

3.6 Basis for Determining Interest Rate Inadequate or Unfair. If with respect to any Libor Interest Period: (a) Lender determines (which determination shall be binding and conclusive on the Borrowers) that by reason of circumstances affecting the interlender Libor Base market adequate and reasonable means do not exist for ascertaining the applicable Libor Base Rate; or (b) Lender determines that the Libor Base Rate will not adequately and fairly reflect the cost to Lender of maintaining or funding the Loan for such Libor Interest Period, or that the making or funding of Libor Loans has become impracticable as a result of an event occurring after the date of this Agreement which in the opinion of Lender adversely affects such Libor Loans, then, in either case, so long as such circumstances shall continue: (i) Lender shall not be under any obligation to make, convert into or continue Libor Loans and (ii) on the last day of the then current Libor Interest Period for each Libor Loan, each such Loan shall, unless then repaid in full, automatically convert to a Base Rate Loan. Lender shall promptly give the Borrowers written notice of any determination made by it under this Section accompanied by a statement setting forth in reasonable detail the basis of such determination.

3.7 Illegality. If any applicable law or regulation, or any interpretation thereof by any court or any governmental or other regulatory body charged with the administration thereof, should make it unlawful for Lender or its lending office to make, maintain or fund any Libor Loan, then the obligation of Lender to make, convert into or continue such Libor Loan shall, upon the effectiveness of such event, be suspended for the duration of such unlawfulness, and on the last day of the current Libor Interest Period for such Libor Loan (or, in any event, if Lender so requests, on such earlier date as may be required by the relevant law, regulation or interpretation), the Libor Loans shall, unless then repaid in full, automatically convert to Base Rate Loans.

4. ATTORNEY-IN-FACT.

4.1 Appointment of the Lender as the Borrowers' Attorney-in-Fact. Each Borrower hereby irrevocably designates, makes, constitutes and appoints the Lender (and all Persons designated by the Lender in writing to the Borrowers) as such Borrower's true and lawful attorney-in-fact, and authorizes the Lender, in such Borrower's or the Lender's name to do all acts and things which are necessary, in the Lender's reasonable discretion, to fulfill the Borrowers' obligations under this Agreement. Each Borrower hereby ratifies and approves all acts under such power of attorney and neither Lender nor any other Person acting as any Borrower's attorney hereunder will be liable for any acts or omissions or for any error of judgment or mistake of fact or law made in good faith. The appointment of Lender (and any of the Lender's officers, employees or agents designated by the Lender) as each Borrower's attorney, and each and every one of Lender's rights and powers, being coupled with an interest, are irrevocable until all of the Liabilities have been fully repaid and this Agreement shall have expired or been terminated in accordance with the terms hereunder.

5. CONDITIONS OF THE LOAN.

The Lender's obligation to make the Loan hereunder is subject to the satisfaction of each of the following conditions precedent:

(a) Fees and Expenses. The Borrowers shall have paid all fees owed to the Lender and reimbursed the Lender for all reasonable costs, disbursements, fees and expenses due and payable hereunder on or before the Closing Date, including, without limitation, the Lender's counsel fees provided for in Section 11.2(a) hereof.

(b) Documents. The Lender shall have received all of the following, each duly executed and delivered and dated the Closing Date, or such earlier date as shall be satisfactory to the Lender, each in form and substance reasonably satisfactory to the Lender in its sole determination:

(1) Financing Agreements. This Agreement, the Note, the Deeds of Trust, the Assignments of Rents and Leases, the Environmental Indemnity Agreement, the Pledge Agreement, the Assignments of Representations and Warranties and such other Financing Agreements as the Lender may reasonably require.

(2) Resolutions; Incumbency and Signatures. Copies of the resolutions or written consent of the manager of each Credit Party authorizing or ratifying the execution, delivery and performance by such Credit Party of this Agreement, the Financing Agreements to which such Credit Party is a party and any other document provided for herein or therein to be executed by such Credit Party, certified by a Duly Authorized Person of such Credit Party and, in each case, to the extent applicable. A certificate of a Duly Authorized Person certifying the names of the officers of each Borrower authorized to make a borrowing request on behalf of the Borrowers and sign this Agreement and the Financing Agreements to which such Borrower is a party, together with a sample of the true signature of each such officer; the Lender may conclusively rely on each such certificate until formally advised by a like certificate of any changes therein.

(3) Consents. Certified copies of all documents evidencing any necessary consents and governmental approvals, if any, with respect to this Agreement, the Financing Agreements, and any other documents provided for herein or therein to be executed by Borrower.

(4) Opinion of Counsel. An opinion of Hanson Bridgett, LLP and Poyner Spruill the legal counsel to the Credit Parties, in form and substance reasonably satisfactory to Lender.

(5) Constitutive Documents. A copy (certified by a Duly Authorized Person) of each Credit Party's (i) Certificate of Formation, certified by the Secretary of State of the State of Delaware as of a date acceptable to the Lender, together with a good standing certificate from such governmental entity or department and, if and to the extent applicable, a good standing certificate (or the equivalent thereof) from the Secretaries of State (or the equivalent thereof) of each other State in which any Credit Party is required to be qualified to transact business and (ii) a true, correct and complete copy of the Limited Liability Company Agreement of the Borrowers and the Parent.

(6) UCC Financing Statements; Termination Statements; UCC Searches. UCC Financing Statements, as requested by the Lender, naming each Credit Party as debtor and the Lender as secured party with respect to the Collateral, together with such UCC termination statements necessary to release all Liens (other than Permitted Liens) and other rights in favor of any Person in any of the Collateral except the Lender, and other documents as the Lender deems necessary or appropriate, shall have been filed in all jurisdictions that the Lender deems necessary or advisable. UCC tax, lien, pending suit and judgment searches for the Borrowers (and, if and to the extent applicable, under any of its trade or assumed names, if any), each dated a date reasonably near to the Closing Date in all jurisdictions reasonably deemed necessary by the Lender, the results of which shall be satisfactory to the Lender in its sole and absolute determination.

(7) Insurance Certificates. Certificates from the Borrowers' insurance carriers evidencing that all insurance coverage required hereunder and under the Mortgage and other Financing Agreements is in effect, which designate the Lender as "Lender's Loss Payee" under the personal property insurance, additional insured under the liability insurance and mortgagee, as applicable.

(8) Real Estate Leases. True, correct and complete copies of the fully-executed Real Estate Leases, and all amendments, assignments, modifications and other supplements in connection therewith, together with a Subordination, Non-Disturbance and Attornment Agreements with respect to each Facility, in each case, in a form and substance acceptable to Lender, including, without limitation, evidence that the Rent Expense associated with the Real Estate Leases on an annual basis is not less than One Million Three Hundred Thousand and 00/100 Dollars ($1,300,000) in the aggregate.

(9) Reserved.

(10) Environmental Assessment. Phase I environmental reports of the Real Property on which each Facility is located prepared by an environmental audit firm reasonably acceptable to the Lender, the results of which shall be satisfactory to the Lender in its sole and absolute determination.

(11) Title Insurance. Title insurance policies in the form of ALTA Form Mortgagee Title Insurance Policy shall be issued by an insurer (acceptable to the Lender) in favor of the Lender for the Real Property on which each Facility is located, together with copies of all documents of record concerning all such Real Property as identified on the commitment thereof. Each title insurance policy shall contain such endorsements as deemed appropriate by the Lender.

(12) Survey. ALTA plats of survey shall be prepared on the Real Property on which each Facility is located.

(13) Appraisal. Appraisals prepared by an independent appraiser of the Real Property, which appraisal shall satisfy the requirements of the Financial Institutions Reform, Recovery and Enforcement Act, if applicable, and shall evidence compliance with the supervisory loan-to-value limits set forth in the Federal Deposit Insurance Corporation Improvement Act of 1991 (including a loan-to-value ratio using an income-approach basis not to exceed 75%). Such appraisal (and the results thereof) shall be satisfactory to the Lender in its sole and reasonable determination.

(14) Flood Insurance. Flood insurance policies, if applicable, concerning the Real Property, reasonably satisfactory to the Lender, if required by the Flood Disaster Protection Act of 1973.

(15) Permits. Certified copies of all licenses, permits and governmental approvals necessary for the use or operation of the Facilities, together with a certificate of occupancy with respect to the Facilities issued in the name of the applicable Operating Company.

(16) Closing Date Purchase Documents. True, correct and complete copies of the fully-executed Closing Date Purchase Documents and of the governmental approvals delivered in connection therewith.

(17) Other. Such other documents, certificates and instruments as the Lender may reasonably request.

(c) Field Examination; Site Visit. The Lender shall have completed its site visit and field examinations of the Borrowers' books and records, assets, and operations which examinations will be satisfactory to the Lender in its sole and absolute discretion.

(d) No Material Adverse Change. There shall be no material adverse change in the business, assets, liabilities, properties, condition (financial or otherwise) or results of operations of any Borrower or any Operating Company.

(e) Representations and Warranties. All representations or warranties of the Credit Parties contained herein or in any Financing Agreement shall be true and correct as of the Closing Date.

(f) Acknowledgement of Operating Companies. Evidence reasonably acceptable to the Lender that the each Operating Company has acknowledged the obligations of the Borrowers under Section 8.9 hereof and that the Borrowers have notified such Operating Company that all amounts payable to any Borrower under any Real Estate Lease shall be paid directly to the Lease Deposit Account and that such Operating Company has agreed to comply with such arrangement.

(g) Certificate. The Lender shall have received a certificate signed by a Duly Authorized Person on behalf of the Borrowers and dated the Closing Date certifying satisfaction of the conditions specified in Sections 5.1 and 5.2 hereof.

(h) Financial Statements. The Lender shall have received financial statements of each Operating Company (showing results of the operation of the Facility) for the fiscal year ended December 31, 2012 and such financial statements shall be in form and substance reasonably acceptable to the Lender.

(i) Commitment Fee. The Borrowers shall have paid to Lender the commitment fee referenced in Section 2.13 hereof.

6. COLLATERAL.

6.1 Security Interest. As security for the prompt and complete payment and performance of all of the Liabilities when due or declared due in accordance with the terms hereof, each Borrower hereby grants, pledges, conveys and transfers to the Lender (in addition to the security interests, assignments and mortgages on the Real Property as contemplated by the Deeds of Trust and the other Financing Agreements) a continuing security interest in and to any and all assets and personal property of such Borrower, of any kind or description, tangible or intangible, wheresoever located and whether now existing or hereafter arising or acquired, including the following (all of which property, along with the products and proceeds therefrom, are individually and collectively referred to as the "Collateral"): (a) all of such Borrower's accounts receivable, including, without limitation, Accounts and Health-Care-Insurance Receivables (each as defined in the Code), (b) all of such Borrower's General Intangibles, including, without limitation General Intangibles related to accounts receivable and money; (c) all of such Borrower's Deposit Accounts and other deposit accounts (general or special) with, and credits and other claims against, the Lender, or any other financial institution with which such Borrower maintains deposits; (d) all of such Borrower's contracts, licenses, chattel paper, instruments, notes, letters of credit, bills of lading, warehouse receipts, shipping documents, contracts, tax refunds, documents and documents of title, and all of such Borrower's Tangible Chattel Paper, Documents, Electronic Chattel Paper, Letter-of-Credit Rights, letters of credit, Software, Supporting Obligations, Payment Intangibles, and Goods (each as defined in the Code); (e) all of such Borrower's Inventory and Equipment (each as defined in the Code) and motor vehicles and trucks; (f) all of such Borrower's monies, and any and all other property and interests in property of such Borrower, including, without limitation, Investment Property, Instruments, Security Entitlements, Uncertificated Securities, Certificated Securities, Chattel Paper, and Financial Assets (each as defined in the Code), now or hereafter coming into the actual possession, custody or control of the Lender or any agent or Affiliate of the Lender in any way or for any purpose (whether for safekeeping, deposit, custody, pledge, transmission, collection or otherwise), and, independent of and in addition to the Lender's rights of setoff, the balance of any account or any amount that may be owing from time to time by the Lender to such Borrower; (g) all insurance proceeds of or relating to any of the foregoing property and interests in property, and any key man life insurance policy covering the life of any officer or employee of such Borrower; (h) all proceeds and profits derived from the operation of such Borrower's business; (i) all of the other assets and personal property of such Borrower; (j) the Sinking Fund Account and the funds relating thereto; (k) all of such Borrower's books and records, computer printouts, manuals and correspondence relating to any of the foregoing and to such Borrower's business; (k) all cash of such Borrower; and (l) all accessions, improvements and additions to, substitutions for, and replacements, products, profits and proceeds of any of the foregoing.

6.2 Preservation of Collateral and Perfection of Security Interests Therein. The Borrowers agree that they shall execute and deliver to the Lender, concurrently with the execution of this Agreement, and at any time or times hereafter at the request of the Lender, all financing statements (and the Borrowers shall pay the cost of filing or recording the same in all public offices deemed necessary by the Lender) or other instruments and documents as the Lender may reasonably request, in a form satisfactory to the Lender, to perfect and keep perfected the Liens in the Collateral or to otherwise protect and preserve the Collateral and the Lender's Liens therein. If the Borrowers fail to do so, the Lender is authorized to sign any such financing statements (or, if no signature is required in the filing jurisdiction, file such financing statements without any Borrower's signature) as the Borrowers' agent. The Borrowers further agree that a carbon, photographic, photostatic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement.

6.3 Loss of Value of Collateral. Each Borrower agrees to immediately notify the Lender of any material loss or depreciation of over $50,000 in the value of the Collateral or any portion thereof.

6.4 Right to File Financing Statements. Notwithstanding anything to the contrary contained herein, the Lender may at any time and from time to time file financing statements, continuation statements and amendments thereto that describe the Collateral in particular, and which contain any other information required by the Code for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, including whether a Borrower is an organization, the type of organization and any organization identification number issued to such Borrower. Each Borrower agrees to furnish any such information to the Lender promptly upon request. Any such financing statements, continuation statements or amendments may be signed by the Lender on behalf of such Borrower and may be filed at any time with or without signature and in any jurisdiction as reasonably determined by the Lender.

6.5 Third Party Agreements. Each Borrower shall at any time and from time to time take such steps as the Lender may reasonably require for the Lender: (i) to obtain an acknowledgment, in form and substance reasonably satisfactory to the Lender, of any third party having possession of any of the Collateral that the third party holds for the benefit of the Lender, (ii) to obtain "control" (as defined in the Code) of any Deposit Accounts, with any agreements establishing control to be in form and substance reasonably satisfactory to the Lender, and (iii) otherwise to ensure the continued perfection and priority of the Lender's security interest in any of the Collateral and of the preservation of its rights therein.

6.6 All Advances One Obligation. Payment of all Liabilities shall be secured by the Collateral and pursuant to certain of the terms of this Agreement and the Financing Agreements. All loans or advances made to Borrower under this Agreement shall constitute one Loan, and all of the Borrowers' Liabilities shall constitute one general obligation secured by Lender's Lien on all of the Collateral and by all other Liens heretofore, now, or at any time or times granted to Lender to secure the Liabilities. Each Borrower agrees that all of the rights of Lender set forth in this Agreement shall apply to any amendment, restatement or modification of, or supplement to, this Agreement, any supplements or exhibits hereto and the Financing Agreements, unless otherwise agreed in writing by the Lender.

6.7 Commercial Tort Claims. If any Borrower shall at any time hereafter acquire a Commercial Tort Claim (as defined in the Code), such Borrower shall promptly notify the Lender of same in a writing signed by such Borrower (describing such claim in reasonable detail) and grant to the Lender in such writing (at the sole cost and expense of the Borrowers) a continuing, first-priority security interest therein and in the proceeds thereof, with such writing to be in form and substance satisfactory to the Lender in its sole and absolute determination.

6.8 Sinking Fund Account. Prior to the funding of the Loan on the Closing Date, the Borrowers agree to establish and hereby grants the Lender a security interest in a restricted account (the "Sinking Fund Account") held by the Lender to provide funds to reimburse the Lender for amounts outstanding under the Loan. The Sinking Fund Account established with the Lender shall be invested in such a manner as shall be mutually agreed upon among the Lender and the Borrowers; and, in the event there shall be no agreement, then as shall be determined by the Lender in its sole discretion. The Lender shall have sole access to the Sinking Fund Account, provided, however, that the Lender may use such funds solely to repay amounts owed under the Loan upon maturity of the Loan and to apply such funds to other Liabilities as and when the same become due and payable. Any and all interest on the Sinking Fund Account shall be added to the Sinking Fund Account and shall be property of the Borrowers subject to the security interests granted herein and, upon repayment in full of the Liabilities and the termination of this Agreement, such interest shall be paid to the Borrowers; provided, however, that at any time an Event of Default has occurred and continuing, the Borrowers acknowledge and agree that such interest may be applied to the Liabilities by the Lender. The failure of Borrowers to comply with the provisions of this paragraph shall be considered an Event of Default and immediately entitle the Lender to any of the remedies provided in this Agreement. Nothing in this Section shall mitigate, limit or otherwise affect any of the Borrower's obligations under this Agreement.

7. REPRESENTATIONS AND WARRANTIES.

The Borrowers, jointly and severally, represent and warrant that as of the date of this Agreement, and continuing as long as any Liabilities remain outstanding, and (even if there shall be no such Liabilities outstanding) as long as this Agreement remains in effect:

7.1 Existence. Each Borrower is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware. Each Borrower is duly qualified and in good standing as a foreign limited liability company authorized to do business in the State of North Carolina and each jurisdiction where such qualification is required because of the nature of its activities or properties. Each Borrower has all requisite limited liability company power to carry on its business as now being conducted and as proposed to be conducted.

7.2 Authority. The execution and delivery by each Borrower of this Agreement and all of the other Financing Agreements to which such Borrower is a party and the performance of its obligations hereunder and thereunder: (i) are within its limited liability company powers; (ii) are duly authorized by the manager of such Borrower and, if applicable, the member of such Borrower; and (iii) are not in contravention of the terms of its limited liability company agreement, or of any indenture, agreement or undertaking to which it is a party or by which it or any of its property is bound. The execution and delivery by each Borrower of this Agreement and all of the other Financing Agreements to which it is a party and the performance of its obligations hereunder and thereunder: (i) do not require any governmental consent, registration or approval; (ii) do not contravene any contractual or governmental restriction binding upon it; and (iii) will not, except in favor of Lender, result in the imposition of any Lien upon any property of such Borrower under any existing indenture, mortgage, deed of trust, loan or credit agreement or other material agreement or instrument to which it is a party or by which it or any of its property may be bound or affected.

7.3 Binding Effect. This Agreement and all of the other Financing Agreements to which any Credit Party is a party are the legal, valid and binding obligations of such Credit Party and are enforceable against such Credit Party in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditor's rights and remedies generally.

7.4 Financial Data.

(a) All income statements, balance sheets, cash flow statements, statements of operations, financial statements, and other financial data which have been or shall hereafter be furnished to the Lender for the purposes of or in connection with this Agreement do and will present fairly in all material respects in accordance with GAAP, consistently applied, the financial condition of the Credit Parties and the Operating Companies, as applicable, as of the dates thereof and the results of its operations for the period(s) covered thereby.

(b) Since December 31, 2012, there has been no Material Adverse Change with respect to any Credit Party or any Operating Company.

7.5 Collateral. Except for the Permitted Liens, all of the Borrowers' assets and property (including, without limitation, the Collateral and the Real Property) are and will continue to be owned by the applicable Borrower (except for items of inventory disposed of in the ordinary course of business), have been or will be fully paid for, and are free and clear of all Liens. No financing statement or other document similar in effect covering all or any part of the Collateral is on file in any recording or filing office, other than those identifying the Lender as the secured creditor. The organizational number assigned by the State of Delaware upon (i) Carteret's formation is: 5377380, (ii) Hamlet's formation is: 5377383 and (iii) Shelby's formation is: 5377379.

7.6 Solvency. Each Credit Party is solvent, is able to pay such Credit Party's debts as they mature or become due, has capital sufficient to carry on its business and all businesses in which it is about to engage, and now owns assets and property having a value both at fair valuation and at present fair saleable value on a going concern basis (as determined in a manner and based upon assumptions satisfactory to the Lender in its reasonable determination) greater than the amount required to pay all of its debts and liabilities, including, without limitation, all of the Liabilities. No Credit Party will be rendered insolvent by the execution and delivery of this Agreement or any Financing Agreement, or by completion of the transactions contemplated hereunder or thereunder.

7.7 Principal Place of Business; State of Formation. The principal place of business and chief executive office of each Borrower is located at 1920 Main Street, Suite 400, Irvine California, 92614. The books and records of the Borrowers and all records of account are located at the principal place of business and chief executive office of the Borrowers. Each Borrower's state of formation is the State of Delaware.

7.8 Other Names. No Borrower has used, and no Borrower shall hereafter use, any name (including, without limitation, any tradename, tradestyle, assumed name, division name or any similar name) other than the name set forth in the introductory paragraph of this Agreement.

7.9 Tax Liabilities. Each of each Credit Party and, to the Borrowers' knowledge, each Operating Company has filed all federal, state and local tax reports and returns required by any law or regulation to be filed by it, except for extensions duly obtained or except as permitted under Section 8.4, and has either duly paid all taxes, duties and charges indicated due on the basis of such returns and reports, or made adequate provision for the payment thereof, and the assessment of any material amount of additional taxes in excess of those paid and reported is not reasonably expected.

7.10 Loans. Except as otherwise permitted by Section 9.2 hereof, no Borrower is obligated on any loans or other Indebtedness.

7.11 Margin Securities. No Credit Party owns any margin securities and none of the Loan advanced hereunder will be used for the purpose of purchasing or carrying any margin securities or for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase any margin securities or for any other purpose not permitted by Regulation U of the Board of Governors of the Federal Reserve System.

7.12 Subsidiaries. No Borrower has any subsidiaries.

7.13 Litigation and Proceedings. No judgments are outstanding against any Credit Party or, to the knowledge of Borrowers, any Operating Company, nor is there as of any such date pending or, to the Borrower's knowledge, threatened, any litigation, suit, action, contested claim, or federal, state or municipal governmental proceeding by or against any Credit Party or the Operating Company or any of its property, in each case, involving an aggregate amount of Fifty Thousand Dollars ($50,000) or more.

7.14 Other Agreements. Neither any Credit Party, nor, to the Borrowers' knowledge, any Operating Company is in material default under or in breach of any material agreement, contract, lease, or commitment to which it is a party or by which it is bound. No Borrower knows of any dispute regarding any agreement, contract, instrument, lease or commitment which could reasonably be expected to have a Material Adverse Effect.

7.15 Compliance with Laws and Regulations. The execution and delivery by each Borrower of this Agreement and by each Credit Party of all of the other Financing Agreements to which any Credit Party is a party and the performance of such Person's obligations hereunder and thereunder are not in contravention of any material law, rule or regulation, including, without limitation, Healthcare Laws. Each Credit Party and, to the Borrowers' knowledge, each Operating Company has all licenses, authorizations, approvals and permits necessary in connection with the operation of its business (including, without limitation, all certificates needed for each Operating Company to participate in the Medicaid program). The Facility is operated as an assisted living facility and its licensed bed capacity is as set forth on Schedule 7.15. The licenses, authorizations, permits and other approvals listed on Schedule 7.15 constitute all the licenses, authorizations, permits and other approvals required by each Operating Company to operate the Facility at such licensed bed capacities applicable for such Operating Company. Each Credit Party and, to the Borrowers' knowledge, each Operating Company has obtained all licenses, authorizations, approvals, licenses and permits necessary in connection with the operation of its business, including, without limitation, licenses with respect to the Facility issued by the North Carolina Division of Health Service Regulation Health and Human Services Commission designated as an assisted living facility. All such licenses, authorizations, approvals and permits are in full force and effect and each Credit Party shall keep such items in full force and effect during the term of this Agreement. Each Real Estate Lease shall at all times during the term of this Agreement require that the Operating Company party to such Real Estate Lease keep such licenses, authorizations, approval and permits in full force and effect. Each Credit Party is in compliance with all laws, orders, rules, regulations and ordinances of all federal, foreign, state and local governmental authorities applicable to it and its business, operations, property, and assets, except to the extent any such non-compliance could not reasonably be expected to result in a Material Adverse Effect. No Facility is subject to any proceeding for revocation, suspension or issuance of a probationary license or any certificate of need issued by any governmental authority and any Person succeeding to the functions thereof, and there has not been instituted any Medicaid termination action by such commission. Neither any Credit Party nor, to the Borrowers' knowledge, any Operating Company has received any notice from any governmental authority that such governmental authority has imposed or intends to impose any enforcement actions, fines or penalties for any failure or alleged failure to comply with HIPAA.

7.16 Intellectual Property. No Credit Party owns or otherwise possess any registered patents, patent applications, copyrights, trademarks, trademark applications, trade names, or service marks. To the Borrowers' knowledge, none of any Credit Party's intellectual property infringes on the rights of any other Person.

7.17 Environmental Matters. Neither any Credit Party nor, to the knowledge of the Borrowers, any Operating Company, has Managed Hazardous Substances on or off its Property other than in compliance with Environmental Laws, except to the extent any such non-compliance could not reasonably be expected to result in a Material Adverse Effect. Each Credit Party and, to the knowledge of Borrowers, the Operating Company, has complied in all material respects with Environmental Laws regarding transfer, construction on and operation of its business at the Property, including, but not limited to, notifying authorities, observing restrictions on use, transferring, modifying or obtaining permits, licenses, approvals and registrations, making required notices, certifications and submissions, complying with financial liability requirements, Managing Hazardous Substances and Responding to the presence or Release of Hazardous Substances connected with operation of its business or Property. Neither any Credit Party nor, to the knowledge of the Borrowers, any Operating Company, has any contingent liability with respect to the Management of any Hazardous Substance that could reasonably be expected to result in a Material Adverse Effect. During the term of this Agreement, the Borrowers shall not permit (and shall cause the Operating Companies not to permit) others to, Manage, whether on or off any Borrower's Property, Hazardous Substances. The Borrowers shall take prompt action in material compliance with Environmental Laws to Respond to the on-site or off-site Release of Hazardous Substances connected with operation of its business or Property. Neither any Credit Party nor, to the knowledge of the Borrowers, any Operating Company, has received any Environmental Notice.

7.18 Disclosure. None of the representations or warranties made by any Credit Party herein or in any Financing Agreement to which such Credit Party is a party and no other written information provided by the Credit Parties or their respective representatives to the Lender contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Borrowers have disclosed to the Lender all facts of which the Borrowers have knowledge which at any time hereafter might result in a Material Adverse Effect.

7.19 Pension Related Matters. If applicable, each employee pension plan (other than a multiemployer plan within the meaning of Section 3(37) of ERISA and to which any Credit Party or any ERISA Affiliate has or had any obligation to contribute (a "Multiemployer Plan")) maintained by any Credit Party or any of their respective ERISA Affiliates to which Title IV of ERISA applies, if any, and (a) which is maintained for employees of any Credit Party or any of their respective ERISA Affiliates or (b) to which any Credit Party or any of their ERISA Affiliates made, or was required to make, contributions at any time within the preceding five (5) years (a "Plan"), complies, and is administered in accordance, with its terms and all material applicable requirements of ERISA and of the Internal Revenue Code of 1986, as amended, and any successor statute thereto (the "Tax Code"), and with all material applicable rulings and regulations issued under the provisions of ERISA and the Tax Code setting forth those requirements. No "Reportable Event" or "Prohibited Transaction" (as each is defined in ERISA) or withdrawal from a Multiemployer Plan caused by any Credit Party has occurred and no funding deficiency described in Section 302 of ERISA caused by any Credit Party exists with respect to any Plan or Multiemployer Plan which could have a Material Adverse Effect. If and to the extent applicable, the Credit Parties and each ERISA Affiliate have satisfied all of their respective funding standards applicable to such Plans and Multiemployer Plans under Section 302 of ERISA and Section 412 of the Tax Code and the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA ("PBGC") has not instituted any proceedings, and there exists no event or condition caused by any Credit Party which would constitute grounds for the institution of proceedings by PBGC, to terminate any Plan or Multiemployer Plan under Section 4042 of ERISA which could have a Material Adverse Effect.

7.20 Perfected Security Interests. The Lien in favor of the Lender provided pursuant to Section 6.1 hereof is a valid and, when properly perfected by the timely filings, deliveries, notations and other actions contemplated by the Financing Agreements in the appropriate jurisdictions, will constitute the first priority security interest in the Collateral (subject only to the Permitted Liens).

7.21 Real Estate. As of the Closing Date, no Borrower owns or leases any Property other than the Real Property owned by such Borrower. The Borrowers own good and marketable fee simple title to all of the Real Property. The Borrowers have delivered true, correct and complete copies of the fully-executed Real Estate Leases and all material instruments, agreements and documents entered into in connection therewith (including all Exhibits and Schedules thereto) to the Lender on the Closing Date.

7.22 Ownership; Consideration. Schedule 7.22 sets forth the correct legal name, jurisdiction of organization and, if applicable, the organizational identification number assigned by the applicable jurisdiction of organization of the Credit Parties. The authorized Capital Securities of each of the Credit Parties is as set forth on Schedule 7.22. All issued and outstanding Capital Securities of each of the Credit Parties is duly authorized and validly issued, and if the Capital Securities of a corporate entity, fully paid, nonassessable, and in each case is free and clear of all Liens other than those in favor of the Lender, and such Capital Securities were issued in compliance with all applicable laws. The identity of the holders of the Capital Securities of each of the Credit Parties and the percentage of their fully diluted ownership of the Capital Securities of each of the Credit Parties as of the Closing Date is set forth on Schedule 7.22. As of the Closing Date there are no preemptive or other outstanding rights, options, warrants, conversion rights or similar agreements or understandings for the purchase or acquisition from any Credit Party of any Capital Securities of any such entity.

7.23 Broker's Fees. No Credit Party has any obligation to any Person in respect of any finder's, brokers or similar fee in connection with the Loan or this Agreement.

7.24 Investment Company Act. No Credit Party is an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

7.25 Business of Borrowers. The sole business of the Borrowers is to own the Real Property leased to the applicable Operating Company. No Borrower is party to any management agreement or similar type of management contract, other than the Real Estate Lease.

7.26 Offenses and Penalties Under the Medicaid Program. Neither any Credit Party nor, to the Borrowers' knowledge, any Operating Company and/or officers of such Credit Party or, to the Borrowers' knowledge, any Operating Company is currently under investigation or prosecution for, nor has any Credit Party, or to the Borrowers' knowledge, any Operating Company or any Affiliate or officer of such Person been convicted of: (a) any offense related to the delivery of an item or service under the Medicaid program; (b) a criminal offense related to neglect or abuse of patients in connection with the delivery of a health care item or service; (c) fraud, theft, embezzlement or other financial misconduct; (d) the obstruction of an investigation of any crime referred to in subsections (a) through (c) of this Section; or (e) unlawful manufacture, distribution, prescription, or dispensing of a controlled substance. Neither any Credit Party nor, to the Borrowers' knowledge, any Operating Company and/or officers of such Credit Party or Operating Company have been required to pay any civil money penalty under applicable laws regarding false, fraudulent or impermissible claims or payments to induce a reduction or limitation of health care services to beneficiaries of any state or federal health care program, nor, is any such Credit Party, such Operating Company or and/or officer of such Person currently the subject of any investigation or proceeding that may result in such payment. Neither any Credit Party nor any Operating Company and/or officers of such Credit Party or such Operating Company have been excluded from participation in the Medicaid program or any program funded under the "Block grants" to States for Social Services (Title XX) Program.

7.27 Medicaid/Medicare. Neither any Credit Party nor, to the Borrowers' knowledge, any Operating Company nor any officer or director of such Person has engaged in any of the following: (a) knowingly and willfully making or causing to be made a false statement or representation of a material fact in any application for any benefit or payment under Medicaid; (b) knowingly and willfully making or causing to be made any false statement or representation of a material fact for use in determining rights to any benefit or payment under Medicaid; (c) failing to disclose knowledge by a claimant of the occurrence of any event affecting the initial or continued right to any benefit or payment under Medicaid on its own behalf or on behalf of another, with intent to secure such benefit or payment fraudulently; (d) knowingly and willfully soliciting or receiving any remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind or offering to pay such remuneration: (i) in return for referring any individual to a Person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by Medicaid; or (ii) in return for purchasing, leasing or ordering or arranging for or recommending the purchasing, leasing or ordering of any good, facility, service or item for which payment may be made in whole in part by Medicaid. Neither any Credit Party nor any Operating Company has participated a Medicare reimbursement program for any reason in connection with the operation of the Facility.

7.28 Absence of Foreign or Enemy Status. Neither any Credit Party nor any Affiliate of such Credit Party is an "enemy" or an "ally of the enemy" within the meaning of Section 2 of the Trading with the Enemy Act (50 U.S.C. App. §§ 1 et seq.), as amended. Neither any Credit Party nor any Affiliate of such Credit Party is in violation of, nor will the use of the Loan violate, the Trading with the Enemy Act, as amended, or any executive orders, proclamations or regulations issued pursuant thereto, including, without limitation, regulations administered by the Office of Foreign Asset Control of the Department of the Treasury (31 C.F.R. Subtitle B, Chapter V).

7.29 Labor Matters. There are no strikes or other labor disputes pending or, to the knowledge of Borrower, threatened against any Credit Party. All payments due from any Credit Party on account of wages and employee and retiree health and welfare insurance and other benefits have been paid or accrued as a liability on its books.

7.30 USA Patriot Act. Neither any Credit Party nor any of their Affiliates is identified in any list of known or suspected terrorists published by any United States government agency (collectively, as such lists may be amended or supplemented from time to time, referred to as the "Blocked Persons Lists") including, without limitation, (a) the annex to Executive Order 13224 issued on September 23, 2001, and (b) the Specially Designated Nationals List published by the Office of Foreign Assets Control.

7.31 Closing Date Acquisitions.

(a) The Closing Date Acquisitions have been consummated contemporaneously with the execution and delivery of this Agreement in accordance with the terms of the Closing Date Purchase Agreements, subject to such modifications, supplements and waivers as the Lender shall have approved.

(b) No party to any Closing Date Purchase Documents has waived, without the consent of the Lender, any condition precedent to the obligations of any such party to close as set forth in the Closing Date Purchase Documents.

(c) The aggregate consideration payable under the Closing Date Purchase Documents is equal to $15,300,000.

(d) True and complete copies of all of the Closing Date Purchase Documents have been delivered to the Lender, together with a true and complete copy of each document to be delivered at the closing of the Closing Date Acquisitions.

(e) Except as set forth in the Closing Date Purchase Documents delivered to the Lender prior to the date hereof, there are no other agreements, oral or written, with respect to which any Credit Party thereof has any obligation or liability with respect to the Closing Date Acquisitions.

(f) No Credit Party nor, to the knowledge of any Borrower, any other Person party to the Closing Date Purchase Documents is in default in the performance or compliance with any provisions thereof.

(g) The Closing Date Purchase Documents comply with, and the Closing Date Acquisitions have been consummated in accordance with, all applicable laws, including, without limitation, all Healthcare Laws.

(h) The Closing Date Purchase Documents are in full force and effect as of the date hereof and have not been terminated, rescinded or withdrawn.

(i) All material requisite approvals by governmental authorities having jurisdiction over the Closing Date Acquisition Sellers, the Credit Parties and other Persons referenced therein with respect to the transactions contemplated by the Closing Date Purchase Documents have been obtained, and no such approvals impose any conditions to the consummation of the transactions contemplated by the Closing Date Acquisition Documents or to the conduct by any Credit Party of its business thereafter which have not been satisfied within the time periods specified therein.

(j) To the knowledge of the Borrowers, none of the Closing Date Acquisition Seller's respective representations or warranties in the Closing Date Purchase Documents contains any untrue statement of a material fact or omits any material fact necessary to make the statements therein made, in the context in which made, not misleading.

8. AFFIRMATIVE COVENANTS.

The Borrowers, jointly and severally, covenant and agree that, as long as any Liabilities remain outstanding, and (even if there shall be no such Liabilities outstanding) as long as this Agreement remains in effect:

8.1 Reports, Certificates and Other Information. The Borrowers shall deliver or cause to be delivered to the Lender:

(a) Credit Party Annual Financial Statements. On or before the one hundred twentieth (120th) day after each Fiscal Year of the Borrower, a copy of the annual consolidated and consolidating audited financial statements for the Borrower, prepared by an independent certified public accountants selected by the Credit Parties (and reasonably approved by the Lender), together with, at least, balance sheets and statements of income and cash flow for such period, prepared in conformity with GAAP.

(b) Operating Company Annual Financial Statements. On or before the one hundred twentieth (120th) day after each fiscal year of the Operating Companies commencing with the Fiscal Year ending December 31, 2013, a copy of the annual audited financial statements for the Operating Companies, prepared by independent certified public accountants selected by the Borrowers (and reasonably approved by the Lender), together with, at least, balance sheets and statements of income and cash flow for such period, prepared in conformity with GAAP.

(c) Quarterly Reports. On or before the forty-fifth (45th) day after the end of each Fiscal Quarter (1) a copy of internally prepared financial statements of the Borrowers prepared in accordance with GAAP and in a manner substantially consistent with the financial statements referred to in Section 8.1 (a) hereof, signed on behalf of the Borrowers by a Duly Authorized Person and consisting of, at least, an income statement, a balance sheet, and statement of cash flow as at the close of such Fiscal Quarter and statements of earnings for such Fiscal Quarter and for the period from the beginning of such Fiscal Year to the close of such Fiscal Quarter and (2) a copy of internally prepared financial statements of the Operating Companies prepared in accordance with GAAP and in a manner substantially consistent with the financial statements referred to in Section 8.1(b) hereof but specific to the operations of Operating Companies at the Facilities consisting of, at least, an income statement, a balance sheet, and statement of cash flow as at the close of such Fiscal Quarter and statements of earnings for such Fiscal Quarter and for the period from the beginning of such Fiscal Year to the close of such Fiscal Quarter.

(d) Monthly Reports. On or before the thirtieth (30th) day after the end of each month, copies of all financial statements for the Facilities for the preceding calendar month specific to the operations of Operating Companies at the respective Facilities as such financial statements are required under to be prepared and delivered pursuant to the Real Estate Lease.

(e) Certificates. Contemporaneously with the furnishing of each annual financial statement and within forty-five (45) calendar days of each Fiscal Quarter, a duly completed compliance certificate with appropriate insertions, in form and substance reasonably satisfactory to the Lender (a "Compliance Certificate"), dated the date of such annual financial statement or such Fiscal Quarter and signed on behalf of the Borrower by a Duly Authorized Person, which Compliance Certificate shall state that no Default or Event of Default has occurred and is continuing, or, if there is any such event, describes it and the steps, if any, being taken to cure it. In addition, each Compliance Certificate shall contain a computation of, and show compliance with, the financial ratios and restrictions set forth in Section 9.12 hereof. The computation and calculation of the financial ratios in each Compliance Certificate shall be in form and substance reasonably acceptable to the Lender.

(f) Real Estate Taxes. As paid, evidence of timely payment of real estate taxes owed on the Real Property.

(g) Tax Returns. As soon as available, but not later than ten (10) days after the filing of any Credit Party's or any Operating Company's annual tax returns each year, a copy of the annual tax returns for such Person for such tax year, all in reasonable detail as requested by Lender.

(h) Notice of Default, Regulatory Matters, Litigation Matters or Adverse Change in Business. Promptly upon learning of the occurrence of any of the following, written notice thereof which describes the same and the steps being taken by the Borrowers with respect thereto: (i) the occurrence of a Default or an Event of Default; (ii) except for actions described in clause (iv) below, the institution or threatened institution of, or any adverse determination in, any litigation, arbitration proceeding or governmental proceeding in which any injunctive relief is sought or in which money damages in excess of Fifty Thousand Dollars ($50,000) in the aggregate are sought; (iii) the receipt of any written notice from any governmental agency concerning any material violation or potential material violation of any regulations, rules or laws applicable to any Borrower; (iv) the occurrence of any personal injury or other action that is not covered by insurance (or if presumably covered by insurance, the applicable insurance company has not confirmed coverage or liability for payment in writing) that could reasonably be expected to give rise to a tort claim against any Borrower for an amount equal to or in excess of Fifty Thousand Dollars ($50,000); or (v) any Material Adverse Change.

(i) Insurance Reports. (i) At any time after a Default and upon the request of the Lender, a certificate signed by a Duly Authorized Person that summarizes the property, casualty, liability and malpractice insurance policies carried by the Borrowers and that certifies that the Lender is the named additional insured and lender's loss payee of all property and casualty insurance policies (such certificate to be in form and substance satisfactory to the Lender), and (ii) written notification of any material change in any such insurance by the Borrowers within five (5) Business Days after receipt of any notice (whether formal or informal) of such change by any of its insurers.

(j) Interim Reports. Promptly upon receipt thereof, copies of any management letters and interim and supplemental reports submitted to any Credit Party by the independent accountants in connection with any interim audit of the books of the Borrowers and copies of each management control letter provided to the Borrowers by independent accountants.

(k) Affiliate Transactions. Upon the Lender's request from time to time, a reasonably detailed description of each of the transactions between any Borrower and any of its Affiliates during the time period requested by the Lender, which shall include, without limitation, the amount of money either paid or received, as applicable, by the Borrowers in such transactions.

(j) Annual Budgets. As soon as available following the end of each Fiscal Year, but in any event not later than thirty (30) days after the end of such Fiscal Year, an annual operating plan for the Facility for the following Fiscal Year, which (i) includes a statement of all of the material assumptions on which such plan is based, (ii) includes monthly balance sheets, income statements and statements of cash flows for the following year, (iii) integrates sales, gross profits, operating expenses, operating profit and cash flow projections, and (iv) includes a description of estimated restructuring expenses to be incurred for the following year, all prepared on the same basis and in similar detail as that on which operating results are reported (and in the case of cash flow projections, representing management's good faith estimates of future financial performance based on historical performance), and including plans for Capital Expenditures.

(k) Lease Reports. Promptly upon receipt, copies of any material reports or notifications required to be delivered by any Operating Company to any Borrower pursuant to the terms of any Real Estate Lease.

(l) Other Information. Such other information, certificates, schedules, exhibits or documents (financial or otherwise) concerning the Facility, the Credit Parties, the Operating Companies and their respective operations, business, properties, condition or otherwise as the Lender may reasonably request from time to time.

8.2 Inspection; Audit Fees. Each Borrower will keep proper books of record and account in accordance with GAAP in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities. The Lender, or any Person designated by the Lender in writing from time to time, shall have the right: (a) from time to time hereafter (but no more than two (2) times per calendar year prior to an Event of Default), to call and visit at any Borrower's place or places of business (or any other place where the Collateral or any information relating thereto is kept or located) during ordinary business hours and, prior to any Event of Default, upon reasonable advance notice (and after any Event of Default, at any time during normal business hours without the requirement of any advance notice), (i) to inspect, audit, check and make copies of and extracts from such Borrower's books, records, journals, orders, receipts and any correspondence and other data relating to its business or to any transactions between the parties hereto, and (ii) to discuss the affairs, finances and business of the Credit Parties with any of the Duly Authorized Persons, and (b) to make such verification concerning the Collateral as the Lender may consider reasonable under the circumstances. The Borrowers agree to pay on demand all costs, expenses and reasonable fees incurred by Lender in connection with any inspections or audits of the Borrowers performed by the Lender under this Section. All such amounts incurred by the Lender hereunder shall bear interest hereunder and shall be additional Liabilities of the Borrowers to the Lender, secured by the Collateral, if not promptly paid upon the request of the Lender.

8.3 Conduct of Business. Each Borrower shall maintain its limited liability company existence, shall maintain in full force and effect all licenses, permits, authorizations, bonds, franchises, leases, patents, trademarks and other intellectual property, contracts and other rights necessary to the conduct of its business, shall continue in, and limit its operations to, the same general line of business as that currently conducted and shall comply with all applicable laws, orders, regulations and ordinances of all federal, foreign, state and local governmental authorities, including, without limitation, Healthcare Laws, except to the extent any such non-compliance could reasonably be expected to result in a Material Adverse Effect. Each Borrower shall keep proper books of record and account in which full and true entries will be made of all dealings or transactions of or in relation to the business and affairs of such Borrower, in accordance with GAAP, consistently applied.

8.4 Claims and Taxes. The Borrowers agree, jointly and severally, to indemnify and hold the Lender harmless from and against any and all claims, demands, liabilities, losses, damages, penalties, costs and expenses (including, without limitation, reasonable attorneys' fees) relating to or in any way arising out of the possession, use, operation or control of any Borrower's property and assets, including, without limitation, the Collateral. The Borrowers agree, jointly and severally, to pay or cause to be paid all license fees, bonding premiums and related taxes and charges and shall pay or cause to be paid all of each Borrower's real and personal property taxes, including taxes with respect to the Real Property, assessments and charges and all of each Borrower's franchise, income, unemployment, use, excise, old age benefit, withholding, sales and other taxes and other governmental charges assessed against any Borrower, or payable by any Borrower, at such times and in such manner as to prevent any penalty from accruing or any Lien from attaching to its property, provided that the Borrowers shall have the right to contest in good faith, by an appropriate proceeding promptly initiated and diligently conducted, the validity, amount or imposition of any such tax, assessment or charge, and upon such good faith contest to delay or refuse payment thereof, if (a) the Borrowers established adequate reserves to cover such contested taxes, assessments or charges, and (b) such contest could not be expected to result in a Material Adverse Effect.

8.5 State of Formation. The State of Delaware shall remain each Borrower's State of formation, unless: (a) such Borrower provides the Lender with at least thirty (30) days prior written notice of any proposed change, (b) no Event of Default then exists or will exist immediately after such proposed change, and (c) such Borrower provides the Lender with, at the Borrowers' sole cost and expense, such financing statements, and if applicable, landlord waivers, bailee letters and processor letters, and such other agreements and documents as the Lender shall reasonably request in connection therewith.

8.6 Liability Insurance. The Borrowers shall maintain or cause the Operating Companies to maintain, at their expense, general liability insurance and environmental liability insurance in such amounts and with such deductibles as are acceptable to the Lender in its reasonable determination and shall deliver to the Lender the original (or a certified) copy of each policy of insurance and evidence of the payment of all premiums therefor. In addition, the Borrowers shall maintain, or cause the Operating Companies to maintain, at their expense, business interruption insurance in such amounts and with such deductibles as are acceptable to the Lender in its reasonable determination and shall deliver to the Lender the original (or a certified) copy of each policy of insurance and evidence of the payment of all premiums therefor. Such policies of insurance shall contain an endorsement showing the Lender as additional insured thereunder and providing that the insurance company will give the Lender at least thirty (30) days prior written notice before any such policy or policies of insurance shall be altered or canceled.

8.7 Property Insurance. The Borrowers shall, or shall cause the Operating Companies, at their expense, to keep and maintain their respective assets insured against loss or damage by fire, theft, explosion, spoilage, and all other hazards and risks ordinarily insured against by other owners or users of such properties in similar businesses in an amount at least equal to the full insurable value of all such property. All such policies of insurance shall be in form and substance reasonably satisfactory to the Lender. The Borrowers shall deliver to the Lender the original (or a certified) copy of each policy of insurance and evidence of payment of all premiums therefor. Such policies of insurance shall contain an endorsement, in form and substance satisfactory to the Lender, showing the Lender as "Lender's Loss Payee" and all loss payable to the Lender, as its interests may appear, as provided in this Section 8.7. Such endorsement shall provide that such insurance company will give the Lender at least thirty (30) days prior written notice before any such policy or policies of insurance shall be altered or canceled and that no act or default of the Borrowers or any other Person shall affect the right of the Lender to recover under such policy or policies of insurance in case of loss or damage. The Borrowers hereby direct all insurers under such policies of insurance to pay all proceeds of insurance policies directly to the Lender and the Lender shall absent an Event of Default permit the Borrowers to use such proceeds to restore or rebuild the damaged property as the Borrowers shall determine in their reasonable and good faith determination. Upon the occurrence and during the continuance of an Event of Default, the Borrowers irrevocably make, constitute and appoint the Lender (and all officers, employees or agents designated by the Lender in writing to the Borrowers) as the Borrowers' true and lawful attorney-in-fact for the purpose of making, settling and adjusting claims under all such policies of insurance, endorsing the name of the Borrowers on any check, draft, instrument or other item of payment received by the Borrowers or the Lender pursuant to any such policies of insurance and for making all determinations and decisions with respect to such policies of insurance.

UNLESS THE BORROWERS PROVIDE THE LENDER WITH EVIDENCE OF THE INSURANCE COVERAGE REQUIRED BY THIS AGREEMENT WITHIN FIVE BUSINESS DAYS FOLLOWING LENDER'S WRITTEN REQUEST, THE LENDER MAY PURCHASE INSURANCE AT THE BORROWERS' EXPENSE TO PROTECT THE LENDER'S INTERESTS IN THE COLLATERAL. THIS INSURANCE MAY, BUT NEED NOT, PROTECT THE INTERESTS IN THE COLLATERAL. THE COVERAGE PURCHASED BY THE LENDER MAY NOT PAY ANY CLAIMS THAT THE BORROWERS MAKE OR ANY CLAIM THAT IS MADE AGAINST THE BORROWERS IN CONNECTION WITH THE COLLATERAL. THE BORROWERS MAY LATER CANCEL ANY SUCH INSURANCE PURCHASED BY THE LENDER, BUT ONLY AFTER PROVIDING THE LENDER WITH EVIDENCE THAT THE BORROWERS HAVE OBTAINED INSURANCE AS REQUIRED BY THIS AGREEMENT. IF THE LENDER PURCHASES INSURANCE FOR THE COLLATERAL, THE BORROWERS WILL BE RESPONSIBLE FOR THE COSTS OF THAT INSURANCE, INCLUDING INTEREST AND ANY OTHER CHARGES THAT THE LENDER MAY IMPOSE IN CONNECTION WITH THE PLACEMENT OF THE INSURANCE, UNTIL THE EFFECTIVE DATE OF THE CANCELLATION OR EXPIRATION OF THE INSURANCE. THE COSTS OF THE INSURANCE MAY BE ADDED TO THE OBLIGATIONS SECURED HEREBY. THE COSTS OF THE INSURANCE MAY BE MORE THAN THE COST OF INSURANCE THE BORROWERS MAY BE ABLE TO OBTAIN ON ITS OWN.

8.8 Environmental. The Borrowers shall promptly notify and furnish Lender with a copy of any and all Environmental Notices which are received by it or any Credit Party in connection with the Property. The Borrowers shall take, or shall cause the Operating Companies to take, prompt and appropriate action in response to any and all such Environmental Notices and shall promptly furnish Lender with a description of the Borrowers' or such Credit Party's Response thereto. The Borrowers shall (a) obtain and maintain all permits required under all applicable federal, state, and local Environmental Laws, except as to which the failure to obtain or maintain would not have a Material Adverse Effect; and (b) keep and maintain the Property and each portion thereof in compliance with, and not cause or permit the Property or any portion thereof to be in violation of, any Environmental Law, except as to which the failure to comply with or the violation of which, would not have a Material Adverse Effect.

8.9 Banking Relationship. Commencing as reasonably practicable as possible hereafter (but in no event later than thirty (30) calendar days of the Closing Date), the Borrowers shall at all times thereafter maintain all of their primary deposit and operating accounts and all other banking accounts (other than payroll, tax and trust accounts) with the Lender and the Borrowers shall cause all rent and other payments owed to any Borrower by any Operating Company under any Real Estate Lease to be paid by such Operating Company directly into a designated lease deposit account maintained with the Lender (the "Lease Deposit Account"). The Borrowers shall use the Lender as the primary cash management bank for all of its cash management activities (other than payroll, tax and trust accounts), including, without limitation, the Lender acting as the principal depository and remittance agent for the Borrowers.

8.10 Intellectual Property. If after the Closing Date any Borrower shall own or otherwise possess any registered patents, copyrights, trademarks, trade names, or service marks (or file an application to attempt to register any of the foregoing), such Borrower shall promptly notify the Lender in writing of same and execute and deliver any documents or instruments (at the Borrowers' sole cost and expense) reasonably required by Lender to perfect a security interest in and lien on any such federally registered intellectual property in favor of the Lender and assist in the filing of such documents or instruments with the United States Patent and Trademark Office and/or United States Copyright Office/Library of Congress or other applicable registrar.

8.11 Change of Location; Etc. No Collateral may be moved to another location within the continental United States unless: (a) the Borrowers provide the Lender with at least thirty (30) days prior written notice, (b) no Event of Default then exists, and (c) the Borrowers provide the Lender with, at Borrowers' sole cost and expense, such financing statements, landlord waivers, bailee and processor letters and other such agreements and documents as the Lender shall reasonably request. The Borrowers shall or shall cause the Operating Companies to defend and protect the Collateral against and from all claims and demands of all Persons (other than the holders of Permitted Liens) at any time claiming any interest therein adverse to the Lender. If the Borrowers desire to change its principal place of business and chief executive office, the Borrowers shall notify the Lender thereof in writing no later than thirty (30) days prior to such change and the Borrowers shall provide the Lender with, at Borrowers' sole cost and expense, such financing statements and other documents as the Lender shall reasonably request in connection with such change. If the Borrowers shall decide to change the location where its books and records are maintained, the Borrowers shall notify the Lender thereof in writing no later than thirty (30) days prior to such change.

8.12 Health Care Related Matters. Each Operating Company shall continue to be duly licensed by the State of North Carolina to operate the Facility and shall otherwise maintain Medicaid provider status. The Borrowers shall cause each Operating Company to maintain all licenses, permits, certificates of need, reimbursement contracts and programs, and any other agreements necessary for the use and operation of the respective Facilities or as may be necessary for participation of such Operating Company in Medicaid and other applicable reimbursement programs, to remain in full force and effect at all times. Each Operating Company shall at all times maintain in full force and effect a Medicaid certification and a Medicaid provider agreement. Each Credit Party and each Operating Company shall at all times be in material compliance with all rules and regulations of the CMS and shall take all necessary steps to protect personally identifiable health information for each patient substantially in accordance with the CMS laws and regulations.

8.13 US Patriot Act. Each Borrower covenants to Lender that if any Borrower becomes aware that any Credit Party or its respective Affiliates is identified on any Blocked Persons List (as identified in Section 7.30 hereof), such Borrower shall immediately notify Lender in writing of such information. Each Borrower further agrees that in the event that it or any Affiliate is at any time identified on any Blocked Persons List, such event shall be an Event of Default, and shall entitle Lender to exercise any and all remedies provided in any Financing Agreements or otherwise permitted by law. In addition, in response to any such notice Lender may immediately contact the Office of Foreign Assets Control and any other government agency Lender deems appropriate in order to comply with its obligations under any law, regulation, order or decree regulating or relating to terrorism and international money laundering.

8.14 Further Assurances. The Borrowers will, at their own cost and expense, cause to be promptly and duly taken, executed, acknowledged and delivered all such further acts, documents and assurances as may from time to time be necessary or as the Lender may from time to time reasonably request in order to carry out the intent and purposes of this Agreement and the other the Financing Agreements and the transactions contemplated thereby, including all such actions to establish, create, preserve, protect and perfect a first-priority Lien in favor of the Lender on the Collateral (including Collateral acquired after the date hereof), subject to Permitted Liens, including, as set forth in Section 8.16 of this Agreement.

8.15 Single Purpose Entity Provisions. The business and purposes of each Borrower is and will continue to be limited to the following:

(i) to acquire, own, hold, lease, operate, manage, maintain, develop and/or improve the applicable Real Property;

(ii) to enter into and perform its obligations under the Financing Agreements;

(iii) to sell, transfer, service, convey, dispose of, pledge, assign, borrow money against, finance or otherwise deal with the Real Property to the extent permitted hereunder and under the Financing Agreements;

(iv) to lease the applicable Real Property to the applicable Operating Company; and

(v) to engage in any lawful act or activity and to exercise any powers permitted to entities of its type pursuant to the laws of its state of organization that are related or incidental to and necessary, convenient or advisable for the accomplishment of the above mentioned purposes.

Each Borrower agrees and covenants that it shall:

(i) not own any asset or property other than (A) a fee interest in the applicable Real Property, and (B) incidental personal property necessary for the ownership or operation of such Real Property;

(ii) remain solvent and pay its debts and liabilities (including, as applicable, shared personnel and overhead expenses) from its assets, to the extent of its assets, as the same shall become due;

(iii) do or cause to be done all things necessary or desirable to observe organizational formalities of such Borrower and preserve its existence; and

(iv) to the extent of cash flow available from operations, maintain adequate capital for the normal obligations reasonably foreseeable in a business of its size and character and in light of its contemplated business operations.

9. NEGATIVE COVENANTS.

The Borrowers, jointly and severally, covenant and agree that as long as any (other than contingent indemnification obligations) remain outstanding, and (even if there shall be no such Liabilities outstanding) as long as this Agreement remains in effect (unless the Lender shall give its prior written consent thereto):

9.1 Encumbrances. No Borrower shall create, incur, assume or suffer to exist any Lien of any nature whatsoever on any of its assets or property, including, without limitation, the Collateral, other than the following ("Permitted Liens"): (a) Liens securing the payment of taxes, either not yet due or the validity of which is being contested in good faith by appropriate proceedings, and as to which the Borrowers shall, if appropriate under GAAP, has set aside on its books and records adequate reserves, provided, that such contest does not have a Material Adverse Effect; (b) deposits under workmen's compensation, unemployment insurance, social security and other similar laws; (c) Liens in favor of the Lender; (d) liens imposed by law, such as mechanics', materialmen's, landlord's, warehousemen's, carriers' and other similar liens, securing obligations incurred in the ordinary course of business that are not past due for more than ten (10) Business Days or that are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established or that are not yet due and payable; and (e) purchase money security interests upon or in any property acquired or held by the Borrowers in the ordinary course of business to secure the purchase price of such property so long as: (i) the aggregate indebtedness relating to such purchase money security interests and Capitalized Lease Obligations does not at any time exceed Fifty Thousand Dollars ($50,000) in the aggregate at any time, (ii) each such lien shall only attach to the property to be acquired; and (iii) the indebtedness incurred shall not exceed one hundred percent (100%) of the purchase price of the item or items purchased.

9.2 Indebtedness. No Borrower shall incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any Indebtedness, except (a) the Liabilities, and (b) the indebtedness not to at any time exceed Fifty Thousand Dollars ($50,000) relating to the purchase money security interests and Capitalized Lease Obligations permitted pursuant to Section 9.1(e) hereof.

9.3 Consolidations, Mergers or Acquisitions. Without the prior written consent of the Lender, no Borrower shall be a party to any merger, consolidation, or exchange of stock or other equity, or purchase or otherwise acquire all or substantially all of the assets or stock of any class of, or any other evidence of an equity interest in, or any partnership, limited liability company, or joint venture interest in, any other Person, or sell, transfer, convey or lease all or any substantial part of its assets or property, or sell or assign, with or without recourse, any receivables. No Borrower shall form or establish any subsidiary without the Lender's prior written consent.

9.4 Investments or Loans. No Borrower shall make, incur, assume or permit to exist any loans or advances, or any investments in or to any other Person, except (a) investments in short-term direct obligations of the United States Government, (b) investments in negotiable certificates of deposit issued by the Lender or by any other bank satisfactory to the Lender, payable to the order of the Borrower or to bearer, and (c) investments in commercial paper rated at least A-1 by Standard & Poor's Corporation or P-1 by Moody's Investors Service, Inc., or carrying an equivalent rating by a nationally recognized rating agency if both of the two named rating agencies cease publishing ratings of investments.

9.5 Guarantees. No Borrower shall guarantee, endorse or otherwise in any way become or be responsible for obligations of any other Person, whether by agreement to purchase the Indebtedness of any other Person or through the purchase of goods, supplies or services, or maintenance of working capital or other balance sheet covenants or conditions, or by way of stock purchase, capital contribution, advance or loan for the purpose of paying or discharging any Indebtedness or obligation of such other Person or otherwise, except endorsements of negotiable instruments for collection in the ordinary course of business.

9.6 Disposal of Property. No Borrower shall sell, assign, lease, transfer or otherwise dispose of any of its properties, assets and rights to any Person except (i) sales of Inventory in the ordinary course of business, and (ii) sales of obsolete Equipment being replaced in the ordinary course of business with other Equipment with a fair market value and orderly liquidation value equal to or greater than the Equipment being replaced.

9.7 Use of Proceeds. No Borrower shall use the proceeds of the Loan and the Loan for any purpose other than to pay a portion of the purchase price under the Closing Date Purchase Documents.

9.8 Loans to Officers; No Consulting and Management Fees. No Borrower shall make any loans to its members, managers, officers, employees, Affiliates, or to any other Person, and no Borrower shall declare, make or pay any consulting, management fees, investment banking fees, or similar fees or payments to its members, managers, officers, employees, agents, or Affiliates or any other Person, whether for services rendered to the Borrowers or otherwise.

9.9 Distributions and Equity Redemptions. No Borrower shall (i) declare, make or pay any dividend or other distribution (whether in cash, property or rights or obligations) to or for the benefit of any officer, manager, member, Affiliate or any other Person or (ii) purchase or redeem any of the membership interests or units of any Borrower or any options or warrants with respect thereto, or set aside any funds for any such purpose; provided, however, that the Borrowers may make (y) during each Fiscal Quarter, distributions in cash to Parent in an amount estimated by the manager(s) of the Borrowers to equal the amount necessary for the respective members of Parent to pay their actual state and United States federal income tax liabilities in respect of income earned by the Borrower (the "Tax Liability Amount"); *provided, however*, that any such distributions shall be net of any prior year loss carry-forward; provided, further that any distributions made to Parent as permitted under this Section 9.9(y) during any Fiscal Year which exceed the actual Tax Liability Amount of the members of Parent as calculated at the end of such Fiscal Year shall be contributed back to the Borrower by the Parent promptly, but in any event, within thirty (30) days after the end of such Fiscal Year; and (z) distributions to Parent within forty-five (45) days after the end of each Fiscal Quarter; provided that immediately before and after giving effect to any such distributions (1) no Default or Event of Default has occurred and is continuing and (2) financial statements necessary to determine current compliance with the financial covenants set forth in Section 9.12 of this Agreement have been delivered to Lender along with a true, correct and complete copy of the Compliance Certificate required to be delivered for such Fiscal Quarter not less than ten (10) days prior to any such distributions.

9.10 Payments in Respect of Subordinated Debt. No Borrower shall make any payment in respect of any Indebtedness for borrowed money that is subordinated to the Liabilities (including, without limitation, the Subordinated Debt, unless otherwise permitted expressly under the terms of a subordination agreement in form and substance acceptable to the Lender).

9.11 Transactions with Affiliates. Subject to the proviso contained in Sections 9.8 and 9.9 hereof, no Borrower shall transfer any cash or property to any Affiliate or enter into any transaction, including, without limitation, the purchase, lease, sale or exchange of property or the rendering of any service to any Affiliate; provided, however, that the Borrowers may enter into transactions with Affiliates for fair value in the ordinary course of business pursuant to terms that are no less favorable to the Borrowers than the terms upon which such transfers or transactions would have been made had such transfers or transactions been made to or with a Person that is not an Affiliate.

9.12 Financial Ratios.

(a) Minimum EBITDAR to Rent Expense Ratio. The Borrowers shall not permit the ratio of EBITDAR to Rent Expense to be less than 1.15 to 1.00, measured as of the last day of each Fiscal Quarter, for the prior four fiscal quarters, *provided, however*, that (i) with respect to the calculation for the Fiscal Quarter ended December 31, 2013, the ratio set forth in this Section 9.12(a) will be calculated for the three (3) month period then ended, (ii) with respect to the calculation for the Fiscal Quarter ended March 31, 2014, the ratio set forth in this Section 9.12(a) will be calculated for the six (6) month period then ended, (iii) with respect to the calculation for the Fiscal Quarter ended June 30, 2014, the ratio set forth in this Section 9.12(a) will be calculated for the nine (9) month period then ended and (iv) with respect to the calculation for the Fiscal Quarter ended September 30, 2014 and for the calculation as of each Fiscal Quarter thereafter, the ratio set forth in this Section 9.12(a) will be calculated for the twelve (12) month period then ended

(b) Minimum Fixed Charge Coverage Ratio. The Borrowers shall not permit the Fixed Charge Coverage Ratio to be less than 1.05 to 1.00, measured as of the last day of each Fiscal Quarter for the prior four fiscal quarters subject to adjustments to such measurement period as set forth in the definition of Fixed Charge Coverage Ratio.

(c) Acknowledgement. The Borrowers acknowledge and agree that the calculation and computation of the foregoing financial ratios and covenants shall be pursuant to and in accordance with Section 8.1(d) hereof.

9.13 Change in Nature of Business. No Borrower shall make any change in the nature of such Borrower's business carried on as of the Closing Date. Without the prior written consent of the Lender, which may be granted or withheld in the Lender' sole discretion, no Borrower shall permit any Person other than the Operating Companies and the Management Company to operate or control any Facility, whether by management agreement, joint venture agreement or otherwise.

9.14 Other Agreements. No Borrower shall enter into any agreement containing any provision which would be violated or breached by the performance of its obligations hereunder or under any Financing Agreement to which any Borrower is a party or which would violate or breach any provision hereof or thereof, or that would or could reasonably be expected to adversely affect the Lender's interests or rights under this Agreement and the other Financing Agreements to which any Borrower is a party or the likelihood that the Liabilities will be paid in full when due, nor shall any Borrower's limited liability company agreement be amended or modified in any way that would violate or breach any provision hereof or of any Financing Agreement, or that would or could reasonably be expected to adversely affect the Lender's interests or rights under this Agreement and the other Financing Agreements or the likelihood that the Liabilities will be paid in full when due; provided, prior to any amendment or modification of such Borrower's limited liability company agreement, such Borrower shall furnish a true, correct and complete copy of any such proposed amendment or modification to the Lender.

9.15 Lock Box Accounts. No Borrower shall establish or open any lockbox or blocked account with any Person (other than the Lender) after the Closing Date.

9.16 State of Formation and Name. Except in accordance with Section 8.5 hereof, no Borrower shall change its state of formation from that of the State of Delaware or its name as identified in the Recitals hereto.

9.17 Environmental. No Borrower shall permit, and the Borrowers shall cause the Operating Companies not to permit, any Property (including the Real Property) or any portion thereof to be involved in the use, generation, manufacture, storage, disposal or transportation of Hazardous Substances except in compliance with all Environmental Laws.

9.18 Real Estate Lease and Management Agreement. No Borrower shall amend, modify or supplement any Real Estate Lease or any Management Agreement in any manner that would or could be expected to adversely affect the Lender's interests under this Agreement or the other Financing Agreements, or the likelihood that the Liabilities will be paid in full when due, without the Lender's prior written consent. In any event, the Borrowers shall provide the Lender with fifteen (15) days' written notice prior to entering into any non-adverse amendment, modification or supplement to any Real Estate Lease or any Management Agreement allowed under this Section 9.18, which such notice shall indicate a reasonably detailed description of such non-adverse amendment, modification or supplement.

9.19 Fiscal Year. No Borrower shall change its Fiscal Year.

9.20 Tax Election. No Borrower shall change its tax election with the Internal Revenue Service without the prior written consent of the Lender.

9.21 Amendments or Waivers. Without the prior written consent of the Lender, no Borrower shall permit its organizational documents (e.g., charter, certificate or limited partnership agreement, or other similar organizational documents) to be amended or any provision thereof waived, the effect of which amendment or waiver could reasonably be expected to have a Material Adverse Effect or otherwise be materially adverse to the to the rights and interests of the Lender.

10. DEFAULT, RIGHTS AND REMEDIES OF THE LENDER.

10.1 Event of Default. Any one or more of the following shall constitute an "Event of Default" under this Agreement:

(a) any Borrower fails to pay (i) any principal or interest payable hereunder or under the Note on the date due, declared due or demanded in accordance with the terms hereof, or (ii) any other cost, expense, fee or other amount payable to the Lender under this Agreement or under any other Financing Agreement (including, without limitation, the Note) within three (3) calendar days after the date when any such payment is due, declared due or demanded in accordance with the terms hereof;

(b) any Borrower fails or neglects to perform, keep or observe any of the covenants, conditions or agreements set forth in Sections 2.2, 8.1, 8.5, 8.6, 8.7, 8.9, 8.11, 8.12 or 8.l5 hereof, or any of the Sections of Article 9 hereof;

(c) any Credit Party fails or neglects to perform, keep or observe any of the covenants, conditions, promises or agreements contained in this Agreement (other than those specified in Section 10.1(b) hereof) or in any Financing Agreement to which it is a party and such failure or neglect shall continue for a period of twenty (20) calendar days;

(d) any representation or warranty heretofore, now or hereafter made by any Credit Party in this Agreement or any of the other Financing Agreements is untrue, misleading or incorrect in any material respect, or any schedule, certificate, statement, report, financial data, notice, or writing furnished at any time by any Credit Party to the Lender is untrue, misleading or incorrect in any material respect, on the date as of which the facts set forth therein are stated or certified;

(e) a judgment, decree or order requiring payment in excess of One Hundred Thousand Dollars ($100,000) shall be rendered against any Credit Party and such judgment or order shall remain unsatisfied or undischarged and in effect for thirty (30) consecutive days without a stay of enforcement or execution, provided that this clause (e) shall not apply to any judgment for which such Credit Party is fully insured and with respect to which the insurer has admitted liability;

(f) a notice of Lien, levy or assessment is filed or recorded with respect to any of the assets of any Credit Party (including, without limitation, the Collateral), by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipality or other governmental agency or any taxes or debts owing at any time or times hereafter to any one or more of them become a Lien, upon any of the assets of any Credit Party (including, without limitation, the Collateral), provided that this clause (f) shall not apply to any Liens, levies, or assessments which a Credit Party is contesting in good faith (provided the Borrowers have complied with the provisions of clauses (a) and (b) of Section 8.4 hereof) or which relate to current taxes not yet due and payable;

(g) any material portion of the Collateral or any portion of any Real Property is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors;

(h) a proceeding under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt or receivership law or statute is filed against any Credit Party, and any such proceeding is not dismissed within forty-five (45) days of the date of its filing, or a proceeding under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt or receivership law or statute is filed by any Credit Party, or any Credit Party makes an assignment for the benefit of creditors, or any Credit Party takes any action to authorize any of the foregoing;

(i) any Credit Party voluntarily or involuntarily dissolves or is dissolved, or its existence terminates or is terminated;

(j) any Credit Party becomes insolvent or fails generally to pay its debts as they become due;

(k) any Credit Party is enjoined, restrained, or in any way prevented by the order of any court or any administrative or regulatory agency from conducting all or any material part of its business affairs;

(l) a breach by any Credit Party shall occur under any material agreement, document or instrument (other than an agreement, document or instrument evidencing the lending of money), whether heretofore, now or hereafter existing between the Borrower and any other Person and the effect of such breach will or is could reasonably be expected to have or create a Material Adverse Effect;

(m) any Credit Party shall fail to make any payment due on any other obligation for borrowed money or shall be in breach of any agreement evidencing the lending of money and the effect of such failure or breach would result in the acceleration of any obligation, liability or indebtedness in excess of Fifty Thousand Dollars ($50,000); provided that the Credit Parties shall have fifteen (15) days to contest in good faith such breach or purported breach as long as the Credit Parties have established an adequate reserve to cover such amount and such contest is not reasonably likely to have or cause a Material Adverse Effect;

(n) there shall be instituted in any court criminal proceedings against any Credit Party, any Operating Company or their respective Affiliates, or any Credit Party, any Operating Company or their respective Affiliates shall be indicted for any crime, in either case for which forfeiture of a material amount of its property is a potential penalty, or any governmental enforcement action involving any criminal penalties or exclusion from any federal or state health care program shall have been imposed against any such Persons;

(o) a Change of Control shall occur other than a Change of Control with respect to which the Lender has provided prior written consent, such consent to be provided in the Lender's sole discretion;

(p) any Lien securing the Liabilities shall, in whole or in part, cease to be a perfected first priority Lien (subject only to the Permitted Liens); this Agreement, any of the Financing Agreements, shall (except in accordance with its terms), in whole or in part, terminate, cease to be effective or cease to be the legally valid, binding and enforceable obligations of any Credit Party party thereto; or any Credit Party shall directly or indirectly, contest in any manner such effectiveness, validity, binding nature or enforceability;

(q) any material breach of, noncompliance with or default under any Financing Agreement by any party thereto (other than by the Lender) after expiration of any applicable notice and cure period;

(r) institution by the PBGC, a Credit Party or any ERISA Affiliate of steps to terminate any Plan or to organize, withdraw from or terminate a Multiemployer Plan if as a result of such reorganization, withdrawal or termination, any Credit Party or any ERISA Affiliate could be required to make a contribution to such Plan or Multiemployer Plan, or could incur a liability or obligation to such Plan or Multiemployer Plan, in excess of One Hundred Thousand Dollars ($100,000), or (ii) a contribution failure occurs with respect to any Plan sufficient to give rise to a lien under ERISA;

(s) an "event of default" or "default" shall occur under any Real Estate Lease or any Management Agreement after the expiration of any applicable notice and cure period therein, if any, or any Real Estate Lease or any Management Agreement shall terminate, or any Borrower shall cease to own the Real Property owned by such Borrower as of the Closing Date (after giving effect to the Closing Date Acquisitions), or a state or federal regulatory agency shall have revoked a Medicaid qualification or any other license, permit or certificate that is material to the operation of any Facility or any portion of the Real Property as currently conducted, regardless of whether such license, permit, certificate or qualification was held by or originally issued for the benefit of a Borrower, a lessor or any other Person, including any Operating Company;

(t) except as may be permitted under Section 9.13 hereof, any Management Agreement shall be terminated or assigned by the Management Company or the Management Company (or its subsidiaries or affiliates) shall cease to actively manage the Facility;

(u) a Material Adverse Change shall occur; and/or

(v) there shall occur with respect to any Facility any Medicaid survey deficiencies at Level I, J, K, L or worse (i) which deficiencies are not cured within the amount of time permitted by the applicable reviewing agency; (ii) which result in the imposition by any Government Authority or the applicable state survey agency of sanctions in the form of either a program termination, temporary management, denial of payment for new admission (which continues for thirty (30) days or more) and/or closure of such Facility and (iii) which sanctions could have a Material Adverse Effect as determined by Lender in its reasonable discretion.

10.2 Acceleration. Upon the occurrence of any Event of Default described in Sections 10.1(h), (i), or (j), the Commitment (if it has not theretofore terminated) shall automatically and immediately terminate and all of the Liabilities shall immediately and automatically, without presentment, demand, protest or notice of any kind (all of which are hereby expressly waived), be immediately due and payable; and upon the occurrence and during the continuance of any other Event of Default, the Lender may at its sole option declare the Commitment (if they have not theretofore terminated) to be terminated and any or all of the Liabilities may, at the sole option of the Lender, and without presentment, demand, protest or notice of any kind (all of which are hereby expressly waived), be declared, and thereupon shall become, immediately due and payable, whereupon the Commitment shall immediately terminate.

10.3 Rights and Remedies Generally. Upon the occurrence and during the continuance of any Event of Default, the Lender shall have, in addition to any other rights and remedies contained in this Agreement and in any of the other Financing Agreements, all of the rights and remedies of a secured party under the Code or other applicable laws, all of which rights and remedies shall be cumulative, and non-exclusive, to the extent permitted by law, including, without limitation, the right of Lender to sell, assign, or lease any or all of the Collateral or the Real Property. Upon notice to the Borrowers after an Event of Default and during the continuance thereof, Borrowers at their own expense shall assemble all or any part of the Collateral as determined by Lender and make it available to Lender at any location designated by Lender. In such event, the Borrowers shall, at their sole cost and expense, store and keep any Collateral so assembled at such location pending further action by Lender and provide such security guards and maintenance services as shall be necessary to protect and preserve such Collateral. In addition to all such rights and remedies, the sale, lease or other disposition of the Collateral, or any part thereof, by the Lender after an Event of Default and during the continuance thereof may be for cash, credit or any combination thereof, and the Lender may purchase all or any part of the Collateral at public or, if permitted by law, private sale, and in lieu of actual payment of such purchase price, may set-off the amount of such purchase price against the Liabilities of the Borrowers then owing. Any sales of such Collateral may be adjourned from time to time with or without notice. The Lender may, in its sole discretion, cause the Collateral to remain on any Borrower's premises, at the Borrowers' expense, pending sale or other disposition of such Collateral. The Lender shall have the right after an Event of Default and during the continuance thereof to conduct such sales on any Borrower's premises, at the Borrowers' expense, or elsewhere, on such occasion or occasions as the Lender may see fit.

10.4 Entry Upon Premises and Access to Information. Upon the occurrence and during the continuance of any Event of Default, the Lender shall have the right to enter upon the premises of any Borrower where the Collateral is located without any obligation to pay rent to such Borrower, or any other place or places where such Collateral is believed to be located and kept, and remove such Collateral therefrom to the premises of the Lender or any agent of the Lender, for such time as the Lender may desire, in order to effectively collect or liquidate such Collateral. Upon the occurrence and during the continuance of any Event of Default, the Lender shall have the right to obtain access to the Borrowers' data processing equipment, computer hardware and software relating to the Collateral and to use all of the foregoing and the information contained therein in any manner the Lender deems appropriate. Upon the occurrence and during the continuance of any Event of Default, the Lender shall have the right to notify post office authorities to change the address for delivery of the any Borrower's mail to an address designated by the Lender and to receive, open and process all mail addressed to such Borrower to the extent such mail is in connection with accounts receivable collections provided that such action does not violate any of the Operating Companies' residents' rights to privacy under applicable law.

10.5 Sale or Other Disposition of Collateral by the Lender. Any notice required to be given by the Lender of a sale, lease or other disposition or other intended action by the Lender, with respect to any of the Collateral or any Real Property, which is deposited in the United States mails, postage prepaid and duly addressed to the Borrower at the address specified in Section 11.12 hereof, at least ten (10) calendar days prior to such proposed action shall constitute fair and reasonable notice to the Borrowers of any such action. The net proceeds realized by the Lender upon any such sale or other disposition, after deduction for the expense of retaking, holding, preparing for sale, selling or the like and the attorneys' and paralegal' fees and legal expenses incurred by the Lender in connection therewith, shall be applied as provided herein toward satisfaction of the Liabilities, including, without limitation, such Liabilities described in Sections 8.2 and 11.2 hereof. The Lender shall account to the Borrowers for any surplus realized upon such sale or other disposition, and the Borrowers shall remain liable for any deficiency. The commencement of any action, legal or equitable, or the rendering of any judgment or decree for any deficiency shall not affect the Lender's Liens in the Collateral until the Liabilities are fully paid. The Borrowers agree that the Lender has no obligation to preserve rights to the Collateral against any other Person. If and to the extent applicable, the Lender is hereby granted a license or other right to use, without charge, the Borrowers' labels, patents, copyrights, rights of use of any name, trade secrets, trade names, tradestyles, trademarks, service marks and advertising matter or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale and selling any such Collateral or any Real Property, and the Borrowers' respective rights and benefits under all licenses and franchise agreements, if any, shall inure to the Lender's benefit until the Liabilities are paid in full.

10.6 Waiver of Demand. Demand, presentment, protest and notice of nonpayment are hereby waived by each Borrower. Each Borrower also waives the benefit of all valuation, appraisal and exemption laws.

10.7 Waiver of Notice. TO THE FULLEST EXTENT PERMITTED BY LAW, UPON THE OCCURRENCE AND DURING THE CONTINUANCE OF AN EVENT OF DEFAULT, EACH BORROWER HEREBY WAIVES ALL RIGHTS TO NOTICE AND HEARING OF ANY KIND PRIOR TO THE EXERCISE BY THE LENDER OF ITS RIGHTS TO REPOSSESS THE COLLATERAL WITHOUT JUDICIAL PROCESS OR TO REPLEVY, ATTACH OR LEVY UPON THE COLLATERAL WITHOUT PRIOR NOTICE OR HEARING.

11. MISCELLANEOUS.

11.1 Waiver. The Lender's failure, at any time or times hereafter, to require strict performance by any Credit Party of any provision of this Agreement or the Financing Agreements shall not waive, affect or diminish any right of the Lender thereafter to demand strict compliance and performance therewith. Any suspension or waiver by the Lender of an Event of Default under this Agreement or a default under any of the other Financing Agreements shall not suspend, waive or affect any other Event of Default under this Agreement or any other default under any of the other Financing Agreements, whether the same is prior or subsequent thereto and whether of the same or of a different kind or character. None of the undertakings, agreements, warranties, covenants and representations of the Credit Parties contained in this Agreement or any of the other Financing Agreements and no Event of Default under this Agreement or default under any of the other Financing Agreements shall be deemed to have been suspended or waived by the Lender unless such suspension or waiver is in writing signed by an officer of the Lender, and directed to the Borrower specifying such suspension or waiver.

11.2 Costs and Attorneys' Fees.

(a) The Borrowers agree, jointly and severally, to pay on demand all of the costs and expenses of the Lender (including, without limitation, the reasonable fees and expenses of the Lender's counsel, and all UCC filing and lien search fees, and, if applicable, real estate appraisal fees, survey fees, recording, field examination (with such field examination being subject to Section 8.2) and title insurance costs, and any environmental report or analysis) in connection with the structuring, preparation, negotiation, execution, and delivery of: (i) this Agreement, the Financing Agreements and all other instruments, agreements, certificates or documents provided for herein or delivered or to be delivered hereunder, and (ii) any and all amendments, modifications, supplements and waivers executed and delivered pursuant hereto or any Financing Agreement or in connection herewith or therewith. Each Borrower further agrees that the Lender, in its sole discretion, may deduct all such unpaid amounts from the aggregate proceeds of the Loan or debit such amounts from the operating accounts of any Borrower maintained with the Lender.

(b) The costs and expenses that the Lender incurs in any manner or way with respect to the following shall be part of the Liabilities, jointly and severally payable by the Borrowers on demand if at any time after the date of this Agreement the Lender: (i) employs counsel in good faith for advice or other representation (A) with respect to the amendment, modification or enforcement of this Agreement or the Financing Agreements, or with respect to any Collateral securing the Liabilities hereunder, (B) to represent the Lender in any work-out or any type of restructuring of the Liabilities, or any litigation, contest, dispute, suit or proceeding or to commence, defend or intervene or to take any other action in or with respect to any litigation, contest, dispute, suit or proceeding (whether instituted by the Lender, the Borrower or any other Person) in any way or respect relating to this Agreement, the Financing Agreements, any Borrower's affairs or any Collateral hereunder or (C) to enforce any of the rights of the Lender with respect to the Borrowers provided in this Agreement, under any of the Financing Agreements, or otherwise (whether at law or in equity); (ii) takes any action to protect, preserve, store, ship, appraise, prepare for sale, collect, sell, liquidate or otherwise dispose of any Collateral in accordance with the terms hereunder; and/or (iii) seeks to enforce or enforces any of the rights and remedies of the Lender with respect to the Borrowers or any guarantor of the Liabilities. Without limiting the generality of the foregoing, such expenses, costs, charges and fees include: reasonable fees, costs and expenses of attorneys, accountants and consultants; court costs and expenses; court reporter fees, costs and expenses; long distance telephone charges; reasonable travel costs; and courier and telecopier charges.

(c) The Borrowers further agree, jointly and severally, to pay, and to save the Lender harmless from all liability for, any documentary stamp tax, intangible tax, or other stamp tax or taxes of any kind which may be payable in connection with or related to the execution or delivery of this Agreement, the Financing Agreements, the borrowings hereunder, the issuance of the Note or of any other instruments, agreements, certificates or documents provided for herein or delivered or to be delivered hereunder or in connection herewith, provided that the Borrowers shall not be liable for Lender's income tax liabilities.

(d) All of the Borrowers' obligations provided for in this Section 11.2 shall be Liabilities secured by the Collateral and the Real Property and shall survive repayment of the Loan or any termination of this Agreement or any Financing Agreements.

11.3 Expenditures by the Lender. In the event the Borrowers shall fail to pay taxes, insurance, audit fees and expenses, filing, recording and search fees, assessments, fees, costs or expenses which the Borrowers are, under any of the terms hereof or of any of the other Financing Agreements, required to pay, or fail to keep the Collateral free from other Liens, except as permitted herein, the Lender may, in its sole discretion, pay or make expenditures for any or all of such purposes, and the amounts so expended, together with interest thereon at the Default Rate (from the date the obligation or liability of Borrowers is charged or incurred until actually paid in full to Lender) and shall be part of the Liabilities of the Borrowers, payable on demand and secured by the Collateral.

11.4 Custody and Preservation of Collateral. The Lender shall be deemed to have exercised reasonable care in the custody and preservation of any of the Collateral in its possession if it takes such action for that purpose as the Borrowers shall request in writing, but failure by the Lender to comply with any such request shall not of itself be deemed a failure to exercise reasonable care, and no failure by the Lender to preserve or protect any right with respect to such Collateral against prior parties, or to do any act with respect to the preservation of such Collateral not so requested by a Borrower, shall of itself be deemed a failure to exercise reasonable care in the custody or preservation of such Collateral.

11.5 Reliance by the Lender. Each Borrower acknowledges that the Lender, in entering into this Agreement and agreeing to make the Loan and otherwise extend credit to the Borrowers hereunder, has relied upon the accuracy of the covenants, agreements, representations and warranties made herein by the Borrowers and the information delivered by the Borrowers to the Lender in connection herewith (including, without limitation, all financial information and data).

11.6 Assignability; Parties. This Agreement (including, without limitation, any and all of the Borrower's rights, obligations and liabilities hereunder) may not be assigned by the Borrowers without the prior written consent of the Lender. Whenever in this Agreement there is reference made to any of the parties hereto, such reference shall be deemed to include, wherever applicable, a reference to the successors and permitted assigns of each Borrower and the successors and assigns of the Lender.

11.7 Severability; Construction. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Agreement. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

11.8 Application of Payments. Notwithstanding any contrary provision contained in this Agreement or in any of the other Financing Agreements, after the occurrence and during the continuance of an Event of Default each Borrower irrevocably waives the right to direct the application of any and all payments at any time or times hereafter received by the Lender from any Borrower or with respect to any of the Collateral, and each Borrower does hereby irrevocably agree that the Lender shall have the continuing exclusive right to apply and reapply any and all payments received at any time or times hereafter, whether with respect to the Collateral or otherwise: (i) first, to the payment and satisfaction of all sums paid and costs and expenses incurred by the Lender hereunder or otherwise in connection herewith, including such monies paid or incurred in connection with protecting, preserving or realizing upon the Collateral or enforcing any of the terms hereof, including reasonable attorneys' fees and court costs, together with any interest thereon (but without preference or priority of principal over interest or of interest over principal); (ii) second, to the payment and satisfaction of the remaining Liabilities, whether or not then due (in whatever order the Lender elects), both for interest and principal; and (iii) last, the balance, if any, after all of the Liabilities have been indefeasibly paid in full, to the Borrowers or as otherwise required by applicable law.

11.9 Marshalling; Payments Set Aside. The Lender shall be under no obligation to marshall any assets in favor of any Borrower or any other Person or against or in payment of any or all of the Liabilities. To the extent that a Borrower makes a payment or payments to the Lender or the Lender enforces its Liens or exercises its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall automatically be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

11.10 Sections and Titles; UCC Termination Statements. The sections and titles contained in this Agreement shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto. At such time as all of the Liabilities shall have been indefeasibly paid in full and this Agreement shall terminate in accordance with its terms, the Lender will, upon the Borrowers' written request and at the Borrowers' cost and expense, authorize the filing of all UCC termination statements required by the Borrower to evidence the termination of the Liens in the Collateral in favor of the Lender and the Lender will sign a customary payoff letter that evidences the termination of the grant of the security interest in its favor by the Borrowers as provided pursuant to Section 6.1 hereof.

11.11 Continuing Effect; Inconsistency. This Agreement, the Lender's Liens in the Collateral, and all of the other Financing Agreements shall continue in full force and effect so long as any Liabilities shall be owed to the Lender, and (even if there shall be no such Liabilities outstanding) so long as this Agreement has not been terminated as provided in Section 2.8 hereof. To the extent any terms or provisions contained in any Financing Agreement are inconsistent or conflict with the terms and provisions of this Agreement, the terms and provisions of this Agreement shall control and govern.

11.12 Notices. Except as otherwise expressly provided herein, any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered upon the earlier of (a) personal delivery to the address set forth below, (b) in the case of facsimile transmission, when transmitted and (c) in the case of mailed notice, five (5) days after deposit in the United States mails, with proper postage for certified mail, return receipt requested, prepaid, or in the case of notice by Federal Express or other reputable overnight courier service, one (1) Business Day after delivery to such courier service; provided, however, that if any notice is tendered to an addressee and delivery thereof is refused by such addressee, such notice shall be effective upon such tender unless expressly set forth in such notice. Notices to be provided pursuant to this Agreement shall be as follows: (i) If to the Lender at: The PrivateBank and Trust Company, 120 S. LaSalle St., Chicago, Illinois 60603; Attention: Adam D. Panos; Telephone No. (312) 564-1278; Facsimile No. (312) 564-6889; with a copy to: c/o Ungaretti & Harris LLP, 70 W. Madison, Suite 3500, Chicago, Illinois, 60602; Attention: Daniel P. Strzalka, Esq.; Telephone No. (312) 977-4341; Facsimile No. (312) 977-4405; (ii) If to any Borrower at: c/o Cornerstone Real Estate Funds, 1920 Main Street, Suite 400, Irvine California, 92614, Attn: Kent Eikanas, Telephone No. (949) 812-4335; Facsimile No. (949) 250-0592; with a copy to: Hanson Bridgett, LLP, 425 Market Street, 26th Floor, San Francisco, California, 94105, Attention: Jennifer Berland, Telephone No. (415) 995-5837; Facsimile No. (415) 995-3409; or to such other address as each party designates to the other in the manner herein prescribed.

11.13 Equitable Relief. Each Borrower recognizes that, in the event any Borrower fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, any remedy at law may prove to be inadequate relief to the Lender; therefore, each Borrower agrees that the Lender, if the Lender so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

11.14 Entire Agreement. This Agreement, together with the Financing Agreements executed in connection herewith, constitutes the entire agreement among the parties with respect to the subject matter hereof, and supersedes all prior written or oral understandings, discussions and agreements with respect thereto (including, without limitation, any term sheet or commitment letter). This Agreement may be amended or modified only by mutual agreement of the parties evidenced in writing and signed by the party to be charged therewith. Time is of the essence hereof with respect to the Borrowers' obligations hereunder. The Recitals hereto are hereby incorporated into this Agreement by this reference thereto.

11.15 Participations and Assignments. The Lender shall have the right, without the consent of the Borrowers, to sell participations in, or assignments of, all or any portion of its rights and interest under this Agreement, the Liabilities and any of the Financing Agreements. The Lender may furnish any information concerning the Borrowers in the possession of the Lender from time to time to participants (including prospective participants) provided that such Person agrees to comply with Section 11.21. In addition and without limiting the foregoing, Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest.

11.16 Indemnity. The Borrowers agree, jointly and severally, to defend, protect, indemnify and hold harmless the Lender and each and all of its officers, directors, employees, attorneys, affiliates, and agents ("Indemnified Parties") from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel for the Indemnified Parties in connection with any investigative, administrative or judicial proceeding, whether or not the Indemnified Parties shall be designated by a party thereto, or otherwise), which may be imposed on, incurred by, or asserted against any Indemnified Party (whether direct, indirect or consequential, and whether based on any federal or state laws or other statutory regulations, including, without limitation, securities, environmental and commercial laws and regulations, under common law or at equitable cause, or on contract or otherwise) in any manner relating to or arising out of this Agreement or the other Financing Agreements, or any act, event or transaction related or attendant thereto, the making and the management of the Loan (including, without limitation, any liability under federal, state or local environmental laws or regulations) or the use or intended use of the proceeds of the Loan hereunder; provided, that the Borrowers shall not have any obligation to any Indemnified Party hereunder with respect to matters caused by or resulting from the willful misconduct or gross negligence of such Indemnified Party. To the extent that the undertaking to indemnify, pay and hold harmless set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, the Borrowers shall contribute the maximum portion which it is permitted to pay and satisfy under applicable law, to the payment and satisfaction of all matters incurred by the Indemnified Parties. Any liability, obligation, loss, damage, penalty, cost or expense incurred by the Indemnified Parties shall be paid to the Indemnified Parties on demand, together with interest thereon at the Default Rate from the date incurred by the Indemnified Parties until paid by the Borrowers, be added to the Liabilities, and be secured by the Collateral and the Real Property. The provisions of and undertakings and indemnifications set out in this Section 11.16 shall survive the satisfaction and payment of the Liabilities of the Borrower and the termination of this Agreement.

11.17 Representations and Warranties. Notwithstanding anything to the contrary contained herein, each representation or warranty contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and the other Financing Agreements and the making of the Loan and the repayment of the Liabilities hereunder.

11.18 Counterparts; Faxes. This Agreement and any amendment or supplement hereto or any waiver granted in connection herewith may be executed in any number of counterparts and by the different parties on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement. A signature hereto sent or delivered by facsimile or other electronic transmission shall be as legally binding and enforceable as a signed original for all purposes.

11.19 Limitation of Liability of Lender. It is hereby expressly agreed that:

(a) Lender may conclusively rely and shall be protected in acting or refraining from acting upon any document, instrument, certificate, instruction or signature believed to be genuine and may assume and shall be protected in assuming that any Person purporting to give any notice or instructions in connection with any transaction to which this Agreement relates has been duly authorized to do so. Lender shall not be obligated to make any inquiry as to the authority, capacity, existence or identity of any Person purporting to have executed any such document or instrument or have made any such signature or purporting to give any such notice or instructions;

(b) Lender shall not be liable for any acts, omissions, errors of judgment or mistakes of fact or law, including, without limitation, acts, omissions, errors or mistakes with respect to the Collateral, except for those arising out of or in connection with Lender's gross negligence or willful misconduct. Without limiting the generality of the foregoing, except as required by applicable law, Lender shall be under no obligation to take any steps necessary to preserve rights in the Collateral against any other parties, but may do so at its option, and all expenses incurred in connection therewith shall be payable by Borrowers; and

(c) Lender shall not be liable for any action taken in good faith and believed to be authorized or within the rights or powers conferred by this Agreement and the other Financing Agreements.

11.20 Borrower Authorizing Accounting Firm. Borrowers shall authorize their accounting firm and/or service bureaus to provide Lender with such information as is requested by Lender in accordance with this Agreement. Each Borrower authorizes Lender upon prior written notice to the Borrowers to, at any time while a Default or Event of Default exists or, if a Default or Event of Default does not exist, upon prior written consent of the Borrowers, contact directly any such accounting firm and/or service bureaus to obtain such information.

11.21 Confidentiality. Lender shall hold all non-public information regarding the Borrowers and obtained by Lender pursuant hereto confidential and shall not disclose any such information, except that disclosure of such information may be made (i) to Lender's agents, employees, subsidiaries, Affiliates, attorneys, auditors, professional consultants, rating agencies, insurance industry associations and portfolio management services, (ii) to prospective transferees or purchasers of any interest in the Loan or Liabilities, and to prospective contractual counterparties (or the professional advisors thereto) in any Interest Rate Protection Agreement permitted hereby, provided that any such Persons shall have agreed to be bound by the provisions of this Section 11.21, (iii) as required by law, subpoena, judicial order or similar order and in connection with any litigation, investigation or proceeding, (iv) as may be required in connection with the examination, audit or similar investigation of such Person and (v) to a Person that is a trustee, investment advisor, collateral manager, servicer, noteholder or secured party in a Securitization (as hereinafter defined) in connection with the administration, servicing and reporting on the assets serving as collateral for such Securitization. For the purposes of this Section, "Securitization" shall mean a public or private offering by Lender or any of its Affiliates or their respective successors and assigns, of securities which represent an interest in, or which are collateralized, in whole or in party, by the Loan. Confidential information shall not include information that either: (i) is in the public domain, or becomes part of the public domain after disclosure to such Person through no fault of such Person, or (ii) is disclosed to such Person by a Person other than the Borrowers or an Affiliate of a Borrower (or Borrowers' accountants, attorneys or other advisors or agents), provided Lender does not have actual knowledge that such Person is prohibited from disclosing such information. The obligations of Lender under this Section 11.21 shall supersede and replace the obligations of Lender under any confidentiality agreement in respect of this financing executed and delivered by Lender prior to the date hereof.

11.22 Customer Identification - USA Patriot Act Notice. The Lender hereby notifies the Borrowers that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56, signed into law October 26, 2001) (the "Patriot Act"), and the Lender's policies and practices, the Lender is required to obtain, verify and record certain information and documentation that identifies the Borrower, which information includes the name and address of the Borrowers and such other information that will allow the Lender to identify the Borrowers in accordance with the Patriot Act.

11.23 SUBMISSION TO JURISDICTION; WAIVER OF VENUE. EACH BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(a) SUBMITS FOR ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AND THE OTHER FINANCING AGREEMENTS TO WHICH IT IS A PARTY, OR FOR RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE NON-EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE STATE OF ILLINOIS, THE COURTS OF THE UNITED STATES OF AMERICA FOR THE NORTHERN DISTRICT OF ILLINOIS AND APPELLATE COURTS FROM ANY THEREOF;

(b) CONSENTS THAT ANY SUCH ACTION OR PROCEEDING MAY BE BROUGHT IN SUCH COURTS AND WAIVES TO THE FULLEST EXTENT PERMITTED BY LAW IN CONNECTION WITH ANY SUCH ACTION OR PROCEEDING (i) ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME; AND

(c) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, RETURN RECEIPT REQUESTED, TO THE BORROWER AT ITS ADDRESS SET FORTH ABOVE OR AT SUCH OTHER ADDRESS OF WHICH THE LENDER SHALL HAVE BEEN NOTIFIED PURSUANT THERETO. EACH BORROWER AGREES THAT SUCH SERVICE, TO THE FULLEST EXTENT PERMITTED BY LAW (i) SHALL BE DEEMED IN EVERY RESPECT EFFECTIVE SERVICE OF PROCESS UPON THE BORROWER IN ANY SUIT, ACTION OR PROCEEDING, AND (ii) SHALL BE TAKEN AND HELD TO BE VALID PERSONAL SERVICE UPON AND PERSONAL DELIVERY TO THE BORROWER. SOLELY TO THE EXTENT PROVIDED BY APPLICABLE LAW, SHOULD ANY BORROWER, AFTER BEING SERVED, FAIL TO APPEAR OR ANSWER TO ANY SUMMONS, COMPLAINT, PROCESS OR PAPERS SO SERVED WITHIN THE NUMBER OF DAYS PRESCRIBED BY LAW AFTER THE DELIVERY OR MAILING THEREOF, EACH BORROWER SHALL BE DEEMED IN DEFAULT AND AN ORDER AND/OR JUDGMENT MAY BE ENTERED BY THE COURT AGAINST SUCH BORROWER AS DEMANDED OR PRAYED FOR IN SUCH SUMMONS, COMPLAINT, PROCESS OR PAPERS. NOTHING HEREIN SHALL AFFECT THE LENDER’S RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW, OR LIMIT THE LENDER’S RIGHT TO BRING PROCEEDINGS AGAINST THE BORROWER OR ITS PROPERTY IN ANY COURT OR ANY OTHER JURISDICTION.

11.24 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED IN ALL RESPECTS IN ACCORDANCE WITH, AND ENFORCED AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.

11.25 JURY TRIAL. **EACH BORROWER AND THE LENDER HEREBY IRREVOCABLY AND KNOWINGLY WAIVE (TO THE FULLEST EXTENT PERMITTED BY LAW) ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING (INCLUDING, WITHOUT LIMITATION, ANY COUNTERCLAIM) ARISING OUT OF THIS AGREEMENT, THE FINANCING AGREEMENTS OR ANY OTHER AGREEMENTS OR TRANSACTIONS RELATED HERETO OR THERETO, INCLUDING, WITHOUT LIMITATION, ANY ACTION OR PROCEEDING (A) TO ENFORCE OR DEFEND ANY RIGHTS UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH, OR (B) ARISING FROM ANY DISPUTE OR CONTROVERSY IN CONNECTION WITH OR RELATED TO THIS AGREEMENT AND THE FINANCING AGREEMENTS. THE LENDER AND THE BORROWER AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT A JURY.**

12. LOAN GUARANTY.

12.1 Joint and Several Liability; Guaranty. Notwithstanding anything to the contrary contained herein, each Borrower hereby agrees that the Liabilities of each Borrower hereunder shall be joint and several obligations of all of the Borrowers. Additionally, each Borrower hereby agrees that it is jointly and severally liable for, and absolutely and unconditionally guarantees to the Lender the prompt payment when due, whether at stated maturity, upon acceleration or otherwise, and at all times thereafter, of the Liabilities and all costs and expenses including, without limitation, all court costs and reasonable attorneys' and paralegals' fees (including allocated costs of in-house counsel and paralegals) and expenses paid or incurred by any such Person in endeavoring to collect all or any part of the Liabilities from, or in prosecuting any action against any Borrower or any other guarantor of all or any part of the Liabilities (such costs and expenses, together with the Liabilities, collectively the "Guaranteed Obligations"). Each Borrower further agrees that the Guaranteed Obligations may be extended or renewed in whole or in part without notice to or further assent from it, and that it remains bound upon its guarantee notwithstanding any such extension or renewal. All terms of this loan guaranty (this "Loan Guaranty") apply to and may be enforced by or on behalf of any domestic or foreign branch or Affiliate of any Lender that extended any portion of the Guaranteed Obligations.

12.2 Guaranty of Payment. This Loan Guaranty is a guaranty of payment and not of collection. Each Borrower waives any right to require the Lender to sue any other Borrower, any other guarantor, or any other person obligated for all or any part of the Guaranteed Obligations (each, an "Obligated Party"), or otherwise to enforce its payment against any collateral securing all or any part of the Guaranteed Obligations, until such time as the Guaranteed Obligations are indefeasibly paid in full.

12.3 No Discharge or Diminishment of Loan Guaranty.

(a) Except as otherwise provided for herein, the obligations of each Borrower hereunder are unconditional and absolute and not subject to any reduction, limitation, impairment or termination for any reason (other than the indefeasible payment in full in cash of the Guaranteed Obligations), including: (i) any claim of waiver, release, extension, renewal, settlement, surrender, alteration, or compromise of any of the Guaranteed Obligations, by operation of law or otherwise; (ii) any change in the corporate existence, structure or ownership of any Borrower or any other guarantor of or other person liable for any of the Guaranteed Obligations; (iii) any insolvency, bankruptcy, reorganization or other similar proceeding affecting any Obligated Party, or their assets or any resulting release or discharge of any obligation of any Obligated Party; or (iv) the existence of any claim, setoff or other rights which any Borrower may have at any time against any Obligated Party, the Lender or any other Person, whether in connection herewith or in any unrelated transactions.

(b) The obligations of each Borrower under this Loan Guaranty are not subject to any defense or setoff, counterclaim, recoupment, or termination whatsoever by reason of the invalidity, illegality, or unenforceability of any of the Guaranteed Obligations or otherwise, or any provision of applicable law or regulation purporting to prohibit payment by any Obligated Party, of the Guaranteed Obligations or any part thereof.

(c) Further, the obligations of any Borrower under this Loan Guaranty are not discharged or impaired or otherwise affected by: (i) the failure of the Lender to assert any claim or demand or to enforce any remedy with respect to all or any part of the Guaranteed Obligations; (ii) any waiver or modification of or supplement to any provision of any agreement relating to the Guaranteed Obligations; (iii) any release, non-perfection, or invalidity of any indirect or direct security for the obligations of any Borrower for all or any part of the Guaranteed Obligations or any obligations of any other guarantor of or other person liable for any of the Guaranteed Obligations; (iv) any action or failure to act by the Lender with respect to any collateral securing any part of the Guaranteed Obligations; or (v) any default, failure or delay, willful or otherwise, in the payment or performance of any of the Guaranteed Obligations, or any other circumstance, act, omission or delay that might in any manner or to any extent vary the risk of such Borrower or that would otherwise operate as a discharge of any Borrower as a matter of law or equity (other than the indefeasible payment in full in cash of the Guaranteed Obligations).

12.4 Defenses Waived. To the fullest extent permitted by applicable law, each Borrower hereby waives any defense based on or arising out of any defense of any other Borrower or any other Obligated Party or the unenforceability of all or any part of the Guaranteed Obligations from any cause, or the cessation from any cause of the liability of any other Borrower or Obligated Party, other than the indefeasible payment in full in cash of the Guaranteed Obligations. Without limiting the generality of the foregoing, each Borrower irrevocably waives acceptance hereof, presentment, demand, protest and, to the fullest extent permitted by law, any notice not provided for herein, as well as any requirement that at any time any action be taken by any person against any Obligated Party, or any other person. Each Borrower confirms that it is not a surety under any state law and shall not raise any such law as a defense to its obligations hereunder. The Lender may, at its election, foreclose on any Collateral held by it by one or more judicial or nonjudicial sales, accept an assignment of any such Collateral in lieu of foreclosure or otherwise act or fail to act with respect to any collateral securing all or a part of the Guaranteed Obligations, compromise or adjust any part of the Guaranteed Obligations, make any other accommodation with any Obligated Party or exercise any other right or remedy available to it against any Obligated Party, without affecting or impairing in any way the liability of such Borrower under this Loan Guaranty except to the extent the Guaranteed Obligations have been fully and indefeasibly paid in cash. To the fullest extent permitted by applicable law, each Borrower waives any defense arising out of any such election even though that election may operate, pursuant to applicable law, to impair or extinguish any right of reimbursement or subrogation or other right or remedy of any Borrower against any Obligated Party or any security.

12.5 Rights of Subrogation. No Borrower will assert any right, claim or cause of action, including, without limitation, a claim of subrogation, contribution or indemnification that it has against any Obligated Party, or any collateral, until the Credit Parties and all Obligated Parties have fully performed all their obligations to the Lender.

12.6 Reinstatement; Stay of Acceleration. If at any time any payment of any portion of the Guaranteed Obligations is rescinded or must otherwise be restored or returned upon the insolvency, bankruptcy, or reorganization of any Borrower or otherwise, each Borrower's obligations under this Loan Guaranty with respect to that payment shall be reinstated at such time as though the payment had not been made and whether or not the Lender, as applicable, is in possession of this Loan Guaranty. If acceleration of the time for payment of any of the Guaranteed Obligations is stayed upon the insolvency, bankruptcy or reorganization of any Borrower, all such amounts otherwise subject to acceleration under the terms of any agreement relating to the Guaranteed Obligations shall nonetheless be payable by the other Borrowers forthwith on demand by the Lender.

12.7 Information. Each Borrower assumes all responsibility for being and keeping itself informed of the other Borrowers' financial condition and assets, and of all other circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations and the nature, scope and extent of the risks that each Borrower assumes and incurs under this Loan Guaranty, and agrees that the Lender shall not have any duty to advise any Borrower of information known to it regarding those circumstances or risks.

12.8 Maximum Liability. The provisions of this Loan Guaranty are severable, and in any action or proceeding involving any state corporate law, or any state, federal or foreign bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of any Borrower under this Loan Guaranty would otherwise be held or determined to be avoidable, invalid or unenforceable on account of the amount of such Borrower's liability under this Loan Guaranty, then, notwithstanding any other provision of this Loan Guaranty to the contrary, the amount of such liability shall, without any further action by the Borrowers or the Lender, be automatically limited and reduced to the highest amount that is valid and enforceable as determined in such action or proceeding (such highest amount determined hereunder being the relevant Borrower's "Maximum Liability". This Section with respect to the Maximum Liability of each Borrower is intended solely to preserve the rights of the Lender to the maximum extent not subject to avoidance under applicable law, and no Borrower nor any other person or entity shall have any right or claim under this Section with respect to such Maximum Liability, except to the extent necessary so that the obligations of any Borrower hereunder shall not be rendered voidable under applicable law. Each Borrower agrees that the Guaranteed Obligations may at any time and from time to time exceed the Maximum Liability of each Borrower without impairing this Loan Guaranty or affecting the rights and remedies of the Lender under other sections of this Agreement and the Financing Agreements, provided that, nothing in this sentence shall be construed to increase any Borrowers obligations under the Loan Guaranty beyond its Maximum Liability.

12.9 Contribution. In the event any Borrower (a "Paying Borrower") shall make any payment or payments under this Loan Guaranty or shall suffer any loss as a result of any realization upon any collateral granted by it to secure its obligations under this Loan Guaranty, each other Borrower (each a "Non-Paying Borrower") shall contribute to such Paying Borrower an amount equal to such Non-Paying Borrower's "Applicable Percentage" of such payment or payments made, or losses suffered, by such Paying Borrower. For purposes of this Article 12, each Non-Paying Borrower's "Applicable Percentage" with respect to any such payment or loss by a Paying Borrower shall be determined as of the date on which such payment or loss was made by reference to the ratio of (i) such Non-Paying Borrower's Maximum Liability as of such date (without giving effect to any right to receive, or obligation to make, any contribution hereunder) or, if such Non-Paying Borrower's Maximum Liability has not been determined, the aggregate amount of all monies received by such Non-Paying Borrower from the other Borrowers after the date hereof (whether by loan, capital infusion or by other means) to (ii) the aggregate Maximum Liability of all Borrowers hereunder (including such Paying Borrower) as of such date (without giving effect to any right to receive, or obligation to make, any contribution hereunder), or to the extent that a Maximum Liability has not been determined for any Borrower, the aggregate amount of all monies received by such Borrower from the other Borrowers after the date hereof (whether by loan, capital infusion or by other means). Nothing in this provision shall affect any Borrower's several liability for the entire amount of the Guaranteed Obligations (up to such Borrower's Maximum Liability). Each of the Borrowers covenants and agrees that its right to receive any contribution under this Loan Guaranty from a Non-Paying Borrower shall be subordinate and junior in right of payment to the payment in full in cash of the Guaranteed Obligations. This provision is for the benefit of the Lender and the Borrowers and may be enforced by any one, or more, or all of them in accordance with the terms hereof.

12.10 Liability Cumulative. The liability of each Borrower under this Article 12 is in addition to and shall be cumulative with all liabilities of each Borrower to the Lender under this Agreement and the other Financing Agreements to which such Borrower is a party or in respect of any obligations or liabilities of the other Borrowers, without any limitation as to amount, unless the instrument or agreement evidencing or creating such other liability specifically provides to the contrary.

12.11 Consideration; Benefit of Guaranty. The Credit Parties are engaged in related businesses to such an extent that the financial strength and flexibility of each Borrower has a direct impact on the success of each other Borrower. Each Borrower will derive substantial direct and indirect benefit from the extensions of credit hereunder. Each Borrower agrees that the provisions of this Article 12 are for the benefit of the Lender, and its successors, transferees, endorsees and assigns, and nothing herein contained shall impair, as between any other Borrowers and such Persons, the obligations of such other Borrowers under this Agreement and the Financing Agreements.

[Signature Page Follows]

IN WITNESS WHEREOF, this Term Loan and Security Agreement has been duly executed as of the day and year first above written.

BORROWERS:

HP **CARTERET, LLC,**

By: Cornerstone Core Properties REIT, Inc., a Maryland corporation, its Manager

By: /s/ Kent Eikanas
Name: Kent Eikanas
Title: President

HP **HAMLET, LLC,**

By: Cornerstone Core Properties REIT, Inc., a Maryland corporation, its Manager

By: /s/ Kent Eikanas
Name: Kent Eikanas
Title: President

HP **SHELBY, LLC,**

By: Cornerstone Core Properties REIT, Inc., a Maryland corporation, its Manager

By: /s/ Kent Eikanas
Name: Kent Eikanas
Title: President

LENDER:

THE PRIVATEBANK AND TRUST COMPANY

By: /s/ Adam D. Panos
Name: Adam D. Panos
Title: Managing Director

Cornerstone Operating Partnership, LP	Delaware
Healthcare Properties	
Cornerstone Healthcare Partners, LLC	Delaware
Cornerstone Healthcare Holdings 1, LLC	Delaware
CHP Portland LLC	Delaware
CHP Medford 1 LLC	Delaware
CHP Friendswood SNF, LLC	Delaware
CHP Tigard, LLC	Delaware
Healthcare Property Holding Co., LLC	Delaware
HP Winston-Salem, LLC (Danby House)	Delaware
NHP Holding Co., LLC	Delaware
HP Aledo, LLC	Delaware
HP Shelby, LLC	Delaware
HP Carteret, LLC	Delaware
HP Hamlet, LLC	Delaware
HP Redding, LLC	Delaware

Exhibit 31.1

CERTIFICATIONS

I, Kent Eikanas, certify that:

1. I have reviewed this annual report on Form 10-K of Summit Healthcare REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

	/s/ Kent Eikanas
Date: March 31, 2014	Kent Eikanas
	President (Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Dominic J. Petrucci, certify that:

1. I have reviewed this annual report on Form 10-K of Summit Healthcare REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date March 31, 2014	/s/ Dominic J. Petrucci Dominic J. Petrucci (Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. Sec.1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Kent Eikanas and Dominic J. Petrucci, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his or her knowledge, the Annual Report of Summit Healthcare REIT, Inc. on Form 10-K for the twelve month period ended December 31, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Cornerstone Core Properties REIT, Inc.

Date: March 31, 2014	/s/ Kent Eikanas Kent Eikanas (Principal Executive Officer)
Date: March 31, 2014	/s/ Dominic J. Petrucci Dominic J. Petrucci Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)