

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

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FORM 8-K

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CURRENT REPORT  
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934  
Date of Report (date of earliest event reported):

August 31, 2014

**SUMMIT HEALTHCARE REIT, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction  
of incorporation)

**000-52566**  
(Commission  
File Number)

**73-1721791**  
(I.R.S. Employer  
Identification No.)

**2 South Pointe Drive, Suite 100, Lake Forest, California 92630**  
(Address of principal executive offices)

**(949) 852-1007**  
(Registrant's telephone number, including area code)

**Not Applicable**  
(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act.
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act.
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act.
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act.
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## Item 1.01 Entry into a Material Definitive Agreement

On September 2, 2014, we entered into indemnification agreements with each of Elizabeth Pagliarini, our Chief Financial Officer and Peter A. Elwell, our Vice President.

We have agreed to indemnify and advance certain expenses to the indemnitees as provided in the indemnification agreements and as otherwise permitted by Maryland law. We have agreed to indemnify the indemnitees against all judgments, penalties, fines and amounts paid in settlement and all expenses actually and reasonably incurred by him or her on his or her behalf in connection with any proceeding unless it is established by clear and convincing evidence that (a) the act or omission of the indemnitee was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the indemnitee actually received an improper personal benefit in money, property or services, or (c) in the case of any criminal proceeding, the indemnitee had reasonable cause to believe that his or her conduct was unlawful.

Consistent with the requirements of our charter, we will not indemnify an indemnitee for any loss or liability unless all of the following conditions are met: (i) the indemnitee has determined, in good faith, that the course of conduct that caused the loss or liability was in the best interests of Summit Healthcare REIT, Inc. (the "Company"); (ii) the indemnitee was acting on behalf of or performing services for the Company; and (iii) such indemnification is recoverable only out of the Company's net assets and not from the Company's stockholders, investors or stakeholders.

Furthermore, we will not indemnify an indemnitee:

- for any loss or liability arising from an alleged violation of federal or state securities laws unless one or more of the following conditions are met: (i) there has been a successful adjudication on the merits of each count involving alleged material securities law violations as to the indemnitee; (ii) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the indemnitee; or (iii) a court of competent jurisdiction approves a settlement of the claims against the indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the Securities and Exchange Commission and of the published position of any state securities regulatory authority in which our securities were offered or sold as to indemnification for violations of securities laws;
- if the proceeding was won by or in the right of the Company and the indemnitee is adjudged to be liable to the Company; or
- if the indemnitee is adjudged to be liable on the basis that personal benefit was improperly received in any proceeding charging improper personal benefit to the indemnitee, whether or not involving action in the indemnitee's corporate status.

If an indemnitee is, or is threatened to be, made a party to any proceeding, we will, without requiring a preliminary determination of his or her ultimate entitlement to indemnification, advance all reasonable expenses incurred by or on behalf of him or her in connection with certain proceedings and which relates to acts or omissions with respect to the performance of duties or services on behalf of the Company. Such advance or advances will be made within ten days after the receipt by the Company of a statement or statements requesting such advance or advances from time to time, whether prior to or after final disposition of such proceeding. Such statement or statements will reasonably evidence the expenses incurred by the indemnitee and will include or be preceded or accompanied by a written affirmation by the indemnitee of his or her good faith belief that the standard of conduct necessary for indemnification has been met and there has been a written undertaking by or on behalf of the indemnitee.

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The indemnitee will submit to us a written request with such documentation and information necessary to determine whether and to what extent he or she is entitled to indemnification. The officer of the Company receiving any request will promptly advise the Board of Directors in writing that the indemnitee has requested indemnification. Upon written request for indemnification, a determination will promptly be made in the specific case. If it is so determined that the indemnitee is entitled to indemnification, payment to him or her will be made within ten days after such determination. Any expenses incurred by the indemnitee in so cooperating with the person, persons or entity making such determination will be borne by the Company. We will pay the reasonable fees and expenses of independent counsel, if one is appointed.

The indemnification agreements will continue until and terminate ten years after the date that the indemnitee's corporate status will have ceased, provided that the rights of the indemnitee will continue until the final termination of any proceeding then pending or threatened in which the indemnitee is granted rights of indemnification or advance of expenses.

The indemnification and advance of expenses provided by, or granted pursuant to, the indemnification agreements will be binding upon and be enforceable by the parties and their respective successors and assigns, will continue as to an indemnitee who has ceased to be a director, officer, employee or agent of the Company or a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that he or she is or was serving in such capacity at the request of the Company, and will inure to the benefit of the indemnitee and the indemnitee's spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

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**Item 5.02      Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers**

The information described above under Item 1.01 is hereby incorporated by reference into this item.

As part of an orderly transition, Dominic J. Petrucci, the Interim Chief Financial Officer of Summit Healthcare REIT, Inc. (the “Company”) since November 18, 2013, resigned from that position effective as of August 31, 2014. The Company and Mr. Petrucci have entered into a consulting contract effective as of September 1, 2014, whereby Mr. Petrucci will provide certain financial consulting and transition services to the Company, as requested by the Company from time to time for a minimum number of hours per month, for the months of September and October, 2014, and will receive a minimum of \$10,000 per month for such services. Mr. Petrucci’s contractual relationship with the Company terminates on October 31, 2014.

Elizabeth A. Pagliarini, age 43, has been appointed to serve as the Company’s Chief Financial Officer effective September 1, 2014. Ms. Pagliarini joined the Company in June 2014 as its controller and is a seasoned executive with over 20 years of experience in financial services and investment banking, having held positions including chief executive officer, president, chief financial officer, and chief compliance officer. Her background includes experience in finance, accounting, operations, compliance, securities litigation, and executive management. Ms. Pagliarini will be paid an annual salary of \$180,000 in addition to benefits similar to those received by other executives.

Since 2008, Ms. Pagliarini has served as a principal at The Elizabeth Group, a company she founded to provide out-sourced chief financial officer services to registered investment advisers and broker-dealers, as well as services relating to securities litigation consulting. From 2005 to 2008, Ms. Pagliarini served as chief financial officer and chief compliance officer of an investment bank. Prior to that, she founded a boutique investment bank and registered broker-dealer, and served as chief executive officer and chairwoman of a Nasdaq-listed investment brokerage subsidiary.

Ms. Pagliarini received her B.S. in Business Administration with a concentration in Finance from Valparaiso University where she was honored with their highest academic award, the Presidential Scholarship. She is also a Certified Fraud Examiner (CFE) and has studied law and forensic accounting at UCLA.

Ms. Pagliarini proudly serves as Chairwoman of the Board of Directors for Forever Footprints, a non-profit organization that provides support to families that have suffered the loss of a baby during pregnancy or infancy and educates the medical community to improve quality of care and response.

**Item 8.01      Other Events**

Attached hereto as exhibit 99.1 is a copy of the communication that the Company has sent to its security holders.

**Item 9.01      Financial Statements and Exhibits**

Exhibit No.	Description
10.1	Indemnification Agreement
99.1	Communications to security holders dated August 31, 2014

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

SUMMIT HEALTHCARE REIT, INC.

By: /s/ Kent Eikanas  
Name: Kent Eikanas  
Title: President and Chief Operating Officer

Dated: September 3, 2014

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**INDEMNIFICATION AGREEMENT**

THIS INDEMNIFICATION AGREEMENT is made and entered into this \_\_\_\_\_ day of September 2014 (“Agreement”), by and between Summit Healthcare REIT, Inc., a Maryland corporation (the “Company”), and (“Indemnitee”).

WHEREAS, at the request of the Company, Indemnitee currently serves as a director or officer of the Company and may, therefore, be subjected to claims, suits or proceedings arising as a result of his or her service (occurring before or after the execution of this Agreement); and

WHEREAS, in recognition of Indemnitee’s need for (i) substantial protection against personal liability based on Indemnitee’s reliance on the Second Articles of Amendment and Restatement of Articles of Incorporation (the “Articles”) and Bylaws, as amended (“Bylaws”) (ii) specific contractual assurance that the protection promised by the Articles and Bylaws will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of the Articles and Bylaws or any change in the composition of the Company’s Board of Directors or acquisition transaction relating to the Company), and (iii) an inducement to provide effective services to the Company as an officer, the Company wishes to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted under Maryland law and as set forth in this Agreement, and, to the extent insurance is maintained, to provide for the continued coverage of Indemnitee under the Company’s directors’ and officers’ liability insurance policies.

WHEREAS, as an inducement to Indemnitee to continue to serve as such director or officer, the Company has agreed to indemnify and to advance expenses and costs incurred by Indemnitee in connection with any such claims, suits or proceedings, subject to certain limitations set forth herein; and

WHEREAS, the parties by this Agreement desire to set forth their agreement regarding indemnification and advancement of expenses;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

**Section 1. Definitions. For purposes of this Agreement**

(a) “Change in Control” means a change in control of the Company occurring after the Effective Date of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the “Act”), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if after the Effective Date (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 15% or more of the combined voting power of all of the Company’s then outstanding securities entitled to vote generally in the election of directors without the prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person’s attaining such percentage interest; (ii) the Company is a party to a merger, consolidation, sale of assets, plan of liquidation or other reorganization not approved by at least two-thirds of the members of the Board of Directors then in office, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or (iii) at any time, a majority of the members of the Board of Directors are not individuals (A) who were directors as of the Effective Date or (B) whose election by the Board of Directors or nomination for election by the Company’s stockholders was approved by the affirmative vote of at least two-thirds of the directors then in office who were directors as of the Effective Date or whose election for nomination for election was previously so approved.

(b) “Corporate Status” means the status of a person as a present or former director, officer, employee, consultant or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary, employee, consultant or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company. As a clarification and without limiting the circumstances in which Indemnitee may be serving at the request of the Company, service by Indemnitee shall be deemed to be at the request of the Company if Indemnitee serves or served as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise (i) of which a majority of the voting power or equity interest is owned directly or indirectly by the Company or (ii) the management of which is controlled directly or indirectly by the Company.

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(c) “Disinterested Director” means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification and/or advance of Expenses is sought by Indemnitee.

(d) “Effective Date” means the date of this Agreement.

(e) “Expenses” means any and all reasonable and out-of-pocket attorneys’ fees and costs, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, ERISA excise taxes and penalties and any other disbursements or expenses incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in or otherwise participating in a Proceeding. Expenses shall also include Expenses incurred in connection with any appeal resulting from any Proceeding including, without limitation, the premium for, security for and other costs relating to any cost bond supersedeas bond or other appeal bond or its equivalent.

(f) “Independent Counsel” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement or of other indemnitees under similar indemnification agreements), or (ii) any other party to or participant or witness in the Proceeding giving rise to a claim for indemnification or advance of Expenses hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

(g) “Proceeding” means any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other proceeding, whether brought by or in the right of the Company or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative or investigative (formal or informal) nature, including any appeal therefrom, except one pending or completed on or before the Effective Date, unless otherwise specifically agreed in writing by the Company and Indemnitee. If Indemnitee reasonably believes that a given situation may lead to or culminate in the institution of a Proceeding, such situation shall also be considered a Proceeding.

Section 2. Services by Indemnitee. Indemnitee will serve as a director or officer of the Company. However, this Agreement shall not impose any independent obligation on Indemnitee or the Company to continue Indemnitee’s service to the Company. This Agreement shall not be deemed an employment contract between the Company (or any other entity) and Indemnitee.

Section 3. Indemnification — General. Subject to the limitations in Section 7, the Company shall indemnify, and advance Expenses to, Indemnitee (a) as provided in this Agreement and (b) as otherwise permitted by Maryland law in effect on the Effective Date and as amended from time to time; provided, however, that no change in Maryland law shall have the effect of reducing the benefits available to Indemnitee hereunder based on Maryland law as in effect on the Effective Date. Subject to the limitations in Section 7, the rights of Indemnitee provided in this Section 3 shall include, without limitation, the rights set forth in the other sections of this Agreement, including any additional indemnification permitted by Section 2-418(g) of the Maryland General Corporation Law (the “MGCL”).

In the event Indemnitee was, is, or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Proceeding by reason of (or arising in part out of) an indemnifiable event, the Company shall indemnify Indemnitee from and against any and all Expenses to the fullest extent permitted by law, as the same exists or may hereafter be amended or interpreted (but in the case of any such amendment or interpretation, only to the extent that such amendment or interpretation permits the Company to provide broader indemnification rights than were permitted prior thereto). The parties hereto intend that this Agreement shall provide for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided by the Certificate of Incorporation, Bylaws, vote of its shareholders or disinterested directors, or applicable law.

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Section 4. Rights to Indemnification. Subject to the limitations in Section 7, if, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be, made a party to any Proceeding, the Company shall indemnify Indemnitee against all judgments, penalties, fines and amounts paid in settlement and all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with any such Proceeding unless it is established by clear and convincing evidence that (i) an intentional act or omission of Indemnitee was material to the matter giving rise to the Proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty, (ii) Indemnitee actually received an improper personal benefit in money, property or services or (iii) in the case of any criminal Proceeding, Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

Section 5. Court-Ordered Indemnification. Subject to the limitations in Section 7(a) and (b), a court of appropriate jurisdiction, upon application of Indemnitee and such notice as the court shall require, may order indemnification of Indemnitee in the following circumstances:

(a) Section 2-418(d)(1) of the MGCL, the court shall order indemnification, in which case Indemnitee shall be entitled to recover the Expenses of securing such reimbursement; or

(b) if such court determines that Indemnitee is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not Indemnitee (i) has met the standards of conduct set forth in Section 2-418(b) of the MGCL or (ii) has been adjudged liable for receipt of an improper personal benefit under Section 2-418(c) of the MGCL, the court may order such indemnification as the court shall deem proper. However, indemnification with respect to any Proceeding by or in the right of the Company or in which liability shall have been adjudged in the circumstances described in Section 2-418(c) of the MGCL shall be limited to Expenses.

Section 6. Indemnification for Expenses of an Indemnitee Who is Wholly or Partly Successful. Subject to the limitations in Section 7, to the extent that Indemnitee was or is, by reason of his or her Corporate Status, made a party to (or otherwise becomes a participant in) any Proceeding and is successful, on the merits or otherwise, in the defense of such Proceeding, he or she shall be indemnified for all Expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall nevertheless indemnify Indemnitee under this Section 6 for all Expenses actually and reasonably incurred by him or her or on his or her behalf in connection with the entire Proceeding.

Section 7. Limitations on Indemnification. Notwithstanding any other provision of this Agreement (other than Section 5), Indemnitee shall not be entitled to:

(a) indemnification for any loss or liability unless all of the following conditions are met: (i) Indemnitee has determined, in good faith, that the course of conduct that caused the loss or liability was in the best interests of the Company; (ii) Indemnitee was acting on behalf of or performing services for the Company; and (iii) such indemnification is recoverable only out of the Company's net assets and not from the Company's stockholders, investors or stakeholders;

(b) indemnification for any loss or liability arising from an alleged violation of federal or state securities laws unless one or more of the following conditions are met: (i) there has been a successful adjudication on the merits of each count involving alleged material securities law violations as to Indemnitee; (ii) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to Indemnitee; or (iii) a court of competent jurisdiction approves a settlement of the claims against Indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the Securities and Exchange Commission and of the published position of any state securities regulatory authority in which securities of the Company were offered or sold as to indemnification for violations of securities laws;

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(c) indemnification hereunder if the Proceeding was won by or in the right of the Company and Indemnitee is adjudged to be liable to the Company;

(d) indemnification hereunder if Indemnitee is adjudged to be liable on the basis that personal benefit was improperly received in any Proceeding charging improper personal benefit to Indemnitee, whether or not involving action in the Indemnitee's Corporate Status; or

(e) indemnification or advance of Expenses hereunder if the Proceeding was brought by Indemnitee, unless: (i) the Proceeding was brought to enforce indemnification under this Agreement, and then only to the extent in accordance with and as authorized by Section 12 of this Agreement, or (ii) the Company's charter or Bylaws, a resolution of the stockholders entitled to vote generally in the election of directors or of the Board of Directors or an agreement approved by the Board of Directors to which the Company is a party expressly provide otherwise.

Section 8. Advance of Expenses for an Indemnitee. If, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be, made a party (including as a witness or other participant) to any Proceeding, the Company shall, without requiring a preliminary determination of Indemnitee's ultimate entitlement to indemnification hereunder and except as set forth in the following sentence, advance all reasonable Expenses incurred by or on behalf of Indemnitee in connection with such Proceeding within ten days after the receipt by the Company of a statement or statements requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. The Company may not advance Expenses incurred by or on behalf of Indemnitee in connection with a Proceeding unless (a) such Proceeding is initiated by a third party who is not a stockholder of the Company or, if such Proceeding is initiated by a stockholder of the Company acting in his or her capacity as such, a court of competent jurisdiction specifically approves such advancement, and (b) such Proceeding relates to acts or omissions with respect to the performance of duties or services on behalf of the Company. The statement or statements requesting advance or advances shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by a written affirmation by Indemnitee of Indemnitee's good faith belief that the standard of conduct necessary for indemnification by the Company as authorized by law and by this Agreement has been met and a written undertaking by or on behalf of Indemnitee, in substantially the form attached hereto as Exhibit A or in such form as may be required under applicable law as in effect at the time of the execution thereof, to reimburse the portion of any Expenses advanced to Indemnitee, relating to claims, issues or matters in the Proceeding as to which it shall ultimately be established, by clear and convincing evidence, that the standard of conduct has not been met by Indemnitee and which have not been successfully resolved as described in Section 6 of this Agreement. To the extent that Expenses advanced to Indemnitee do not relate to a specific claim, issue or matter in the Proceeding as determined by a judicial proceeding, such Expenses shall be allocated on a reasonable and proportionate basis. The undertaking required by this Section 8 shall be an unlimited general obligation by or on behalf of Indemnitee and shall be accepted without reference to Indemnitee's financial ability to repay such advanced Expenses and without any requirement to post security therefor.

Section 9. Indemnification and Advance of Expenses as a Witness or Other Participant. Subject to the limitations in Section 7, to the extent that Indemnitee is or may be, by reason of Indemnitee's Corporate Status, made a witness or otherwise asked to participate in any Proceeding, whether instituted by the Company or any other party, and to which Indemnitee is not a party, Indemnitee shall be advanced all reasonable Expenses and indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith within ten days after the receipt by the Company of a statement or statements requesting any such advance or indemnification from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee.

Section 10. Procedure for Determination of Entitlement to Indemnification.

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. Indemnitee may submit one or more such requests from time to time and at such time(s) as Indemnitee deems appropriate in Indemnitee's sole discretion. The officer of the Company receiving any such request from Indemnitee shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification.

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(b) Upon written request by Indemnitee for indemnification pursuant to Section 10(a) above, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall promptly be made in the specific case: (i) if a Change in Control shall have occurred, by Independent Counsel, in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee, which Independent Counsel shall be selected by Indemnitee and approved by the Board of Directors in accordance with Section 2-418(e)(2)(ii) of the MGCL, which approval shall not be unreasonably withheld; or (ii) if a Change in Control shall not have occurred, (A) by the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors or, if such a quorum cannot be obtained, then by a majority vote of a duly authorized committee of the Board of Directors consisting solely of one or more Disinterested Directors, (B) if Independent Counsel has been selected by the Board of Directors in accordance with Section 2-418(e)(2)(ii) of the MGCL and approved by Indemnitee, which approval shall not be unreasonably withheld, by Independent Counsel, in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee or (C) if so directed by a majority of the members of the Board of Directors, by the stockholders of the Company. If it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination in the discretion of the Board of Directors or Independent Counsel if retained pursuant to clause (ii)(B) of this Section 10(b). Any Expenses incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company shall indemnify and hold Indemnitee harmless therefrom.

(c) The Company shall pay the reasonable fees and expenses of Independent Counsel, if one is appointed.

#### Section 11. Presumptions and Effect of Certain Proceedings.

(a) In making any determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 10(a) of this Agreement, and the Company shall have the burden of proof to overcome that presumption in connection with the making of any determination contrary to that presumption.

(b) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, upon a plea of nolo contendere or its equivalent, or entry of an order of probation prior to judgment, does not create a presumption that Indemnitee did not meet the requisite standard of conduct described herein for indemnification.

(c) The knowledge and/or actions, or failure to act, of any other director, officer, employee or agent of the Company or any other director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise shall not be imputed to Indemnitee for purposes of determining any other right to indemnification under this Agreement.

#### Section 12. Remedies of Indemnitee.

(a) If (i) a determination is made pursuant to Section 10(b) of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advance of Expenses is not timely made pursuant to Section 8 or 9 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 10(b) of this Agreement within 60 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 6 or 9 of this Agreement within ten days after receipt by the Company of a written request therefor, or (v) payment of indemnification pursuant to any other section of this Agreement or the charter or Bylaws of the Company is not made within ten days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall be entitled to an adjudication in an appropriate court located in the State of Maryland, or in any other court of competent jurisdiction, of his or her entitlement to such indemnification or advance of Expenses. Alternatively, Indemnitee, at his or her option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence a proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 12(a); provided, however, that the foregoing clause shall not apply to a proceeding brought by Indemnitee to enforce his or her rights under Section 6 of this Agreement. Except as set forth herein, the provisions of Maryland law (without regard to its conflicts of laws rules) shall apply to any such arbitration. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

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(b) In any judicial proceeding or arbitration commenced pursuant to this Section 12, Indemnitee shall be presumed to be entitled to indemnification or advance of Expenses, as the case may be, under this Agreement and the Company shall have the burden of proving that Indemnitee is not entitled to indemnification or advance of Expenses, as the case may be. If Indemnitee commences a judicial proceeding or arbitration pursuant to this Section 12, Indemnitee shall not be required to reimburse the Company for any advances pursuant to Section 8 of this Agreement until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed). The Company shall, to the fullest extent not prohibited by law, be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 12 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all of the provisions of this Agreement.

(c) If a determination shall have been made pursuant to Section 10(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 12, absent an intentional misstatement by Indemnitee of a material fact, or an intentional omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification

(d) In the event that Indemnitee is successful in seeking, pursuant to this Section 12, a judicial adjudication of or an award in arbitration to enforce his or her rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company for, any and all Expenses actually and reasonably incurred by him or her in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that Indemnitee is entitled to receive part but not all of the indemnification or advance of Expenses sought, the Expenses incurred by Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately prorated.

Notwithstanding the foregoing, the Company shall indemnify Indemnitee against any and all Expenses that are incurred by Indemnitee in connection with any action brought by Indemnitee for (i) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement or under applicable law or the Company's Certificate of Incorporation or Bylaws now or hereafter in effect relating to indemnification for indemnifiable Events, and/or (ii) recovery under directors' and officers' liability insurance policies maintained by the Company, but only in the event that Indemnitee ultimately is determined to be entitled to such indemnification or insurance recovery, as the case may be. In addition, the Company shall, if so requested by Indemnitee, advance the foregoing Expenses to Indemnitee, subject to and in accordance with Section 4.

(e) Interest shall be paid by the Company to Indemnitee at the maximum rate allowed to be charged for judgments under the Courts and Judicial Proceedings Article of the Annotated Code of Maryland for amounts which the Company pays or is obligated to pay for the period (i) commencing with either the tenth day after the date on which the Company was requested to advance Expenses in accordance with Section 8 or 9 of this Agreement or the 60<sup>th</sup> day after the date on which the Company was requested to make the determination of entitlement to indemnification under Section 10(b) of this Agreement, as applicable, and (ii) ending on the date such payment is made to Indemnitee by the Company.

Section 13. Defense of the Underlying Proceeding.

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(a) Indemnitee shall notify the Company promptly in writing upon being served with any summons, citation, subpoena, complaint, indictment, request or other document relating to any Proceeding which may result in the right to indemnification or the advance of Expenses hereunder and shall include with such notice a description of the nature of the Proceeding and a summary of the facts underlying the Proceeding. The failure to give any such notice shall not disqualify Indemnitee from the right, or otherwise affect in any manner any right of Indemnitee, to indemnification or the advance of Expenses under this Agreement unless the Company's ability to defend in such Proceeding or to obtain proceeds under any insurance policy is materially and adversely prejudiced thereby, and then only to the extent the Company is thereby actually so prejudiced.

(b) Subject to the provisions of the last sentence of this Section 13(b) and of Section 13(c) below, the Company shall have the right to defend Indemnitee in any Proceeding which may give rise to indemnification hereunder; provided, however, that the Company shall notify Indemnitee of any such decision to defend within 15 calendar days following receipt of notice of any such Proceeding under Section 13(a) above. The Company shall not, without the prior written consent of Indemnitee, which shall not be unreasonably withheld or delayed, consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise which (i) includes an admission of fault of Indemnitee, (ii) does not include, as an unconditional term thereof, the full release of Indemnitee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnitee or (iii) would impose any Expense, judgment, fine, penalty or limitation on Indemnitee. This Section 13(b) shall not apply to a Proceeding brought by Indemnitee under Section 12 above.

(c) Notwithstanding the provisions of Section 13(b) above, if in a Proceeding to which Indemnitee is a party by reason of Indemnitee's Corporate Status, (i) Indemnitee reasonably concludes, based upon an opinion of counsel approved by the Company, which approval shall not be unreasonably withheld, that he or she may have separate defenses or counterclaims to assert with respect to any issue which may not be consistent with other defendants in such Proceeding, (ii) Indemnitee reasonably concludes, based upon an opinion of counsel approved by the Company, which approval shall not be unreasonably withheld, that an actual or apparent conflict of interest or potential conflict of interest exists between Indemnitee and the Company, or (iii) if the Company fails to assume the defense of such Proceeding in a timely manner, Indemnitee shall be entitled to be represented by separate legal counsel of Indemnitee's choice, subject to the prior approval of the Company, which approval shall not be unreasonably withheld, at the expense of the Company. In addition, if the Company fails to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes any action to declare this Agreement void or unenforceable, or institutes any Proceeding to deny or to recover from Indemnitee the benefits intended to be provided to Indemnitee hereunder, Indemnitee shall have the right to retain counsel of Indemnitee's choice, subject to the prior approval of the Company, which approval shall not be unreasonably withheld, at the expense of the Company (subject to Section 12(d)), to represent Indemnitee in connection with any such matter.

#### Section 14. Non-Exclusivity; Survival of Rights; Subrogation; Coordination of Payments.

(a) The rights of indemnification and advance of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the charter or Bylaws of the Company, any agreement or a resolution of the stockholders entitled to vote generally in the election of directors or of the Board of Directors, or otherwise. Unless consented to in writing by Indemnitee, no amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal, regardless of whether a claim with respect to such action or inaction is raised prior or subsequent to such amendment, alteration or repeal. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right or remedy shall be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion of any right or remedy hereunder, or otherwise, shall not prohibit the concurrent assertion or employment of any other right or remedy.

(b) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

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(c) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable or payable or reimbursable as Expenses hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 15. Insurance. The Company will use its reasonable best efforts to acquire directors and officers liability insurance, on terms and conditions deemed appropriate by the Board of Directors, with the advice of counsel, covering Indemnitee or any claim made against Indemnitee by reason of his or her Corporate Status and covering the Company for any indemnification or advance of Expenses made by the Company to Indemnitee for any claims made against Indemnitee by reason of his or her Corporate Status. Without in any way limiting any other obligation under this Agreement, the Company shall indemnify Indemnitee for any payment by Indemnitee arising out of the amount of any deductible or retention and the amount of any excess of the aggregate of all judgments, penalties, fines, settlements and Expenses incurred by Indemnitee in connection with a Proceeding over the coverage of any insurance referred to in the previous sentence. The purchase, establishment and maintenance of any such insurance shall not in any way limit or affect the rights or obligations of the Company or Indemnitee under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and Indemnitee shall not in any way limit or affect the rights or obligations of the Company under any such insurance policies. If, at the time the Company receives notice from any source of a Proceeding to which Indemnitee is a party or a participant (as a witness or otherwise), the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies.

Section 16. Reports to Stockholders, Investors and Stakeholders. To the extent required by the MGCL, the Company shall report in writing to its stockholders, investors or stakeholders the payment of any amounts for indemnification of, or advance of Expenses to, Indemnitee under this Agreement arising out of a Proceeding by or in the right of the Company with the notice of the meeting of investors of the Company next following the date of the payment of any such indemnification or advance of Expenses or prior to such meeting.

Section 17. Duration of Agreement; Binding Effect.

(a) This Agreement shall continue until and terminate ten years after the date that Indemnitee's Corporate Status shall have ceased; provided, that the rights of Indemnitee hereunder shall continue until the final termination of any Proceeding then pending or threatened in respect of which Indemnitee is granted rights of indemnification or advance of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 12 of this Agreement relating thereto.

(b) The indemnification and advance of Expenses provided by, or granted pursuant to, this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving in such capacity at the request of the Company, and shall inure to the benefit of Indemnitee and his or her spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

(c) The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(d) The Company and Indemnitee agree that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult of proof, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that by seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which Indemnitee may be entitled. Indemnitee shall further be entitled to such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertakings in connection therewith. The Company acknowledges that, in the absence of a waiver, a bond or undertaking may be required of Indemnitee by a court, and the Company hereby waives any such requirement of such a bond or undertaking.

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Section 18. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 19. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. One such counterpart signed by the party against whom enforceability is sought shall be sufficient to evidence the existence of this Agreement.

Section 20. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

Section 21. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 22. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, on the day of such delivery, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to Indemnitee, to the address set forth on the signature page hereto.

(b) If to the Company to:

Summit Healthcare REIT, Inc.  
2 South Pointe Dr., Ste. 100  
Lake Forest, CA 92630  
Attn: Chief Executive Officer and Chief Financial Officer

or to such other address as may have been furnished in writing to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

Section 23. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Maryland, without regard to its conflicts of laws rules.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the parties hereto have executed this Indemnification Agreement on the day and year first above written.

SUMMIT HEALTHCARE REIT, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

INDEMNITEE:

\_\_\_\_\_

Address:

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**EXHIBIT A**

**AFFIRMATION AND UNDERTAKING TO REPAY EXPENSES ADVANCED**

To: The Board of Directors of Summit Healthcare REIT, Inc.

Re: Affirmation and Undertaking

Ladies and Gentlemen:

This Affirmation and Undertaking is being provided pursuant to that certain Indemnification Agreement, dated the \_\_\_ day of \_\_\_\_\_, 2014, by and between Summit Healthcare REIT, Inc., a Maryland corporation (the Company”), and the undersigned Indemnitee (the “Indemnification Agreement”), pursuant to which I am entitled to advance of Expenses in connection with **[Description of Proceeding]** (the “Proceeding”).

Terms used herein and not otherwise defined shall have the meanings specified in the Indemnification Agreement.

I am subject to the Proceeding by reason of my Corporate Status or by reason of alleged actions or omissions by me in such capacity. I hereby affirm my good faith belief that at all times, insofar as I was involved as a director or officer of the Company, in any of the facts or events giving rise to the Proceeding, I (1) did not act with bad faith or active or deliberate dishonesty, (2) did not receive any improper personal benefit in money, property or services and (3) in the case of any criminal proceeding, had no reasonable cause to believe that any act or omission by me was unlawful.

In consideration of the advance of Expenses by the Company for reasonable attorneys’ fees and related Expenses incurred by me in connection with the Proceeding (the “Advanced Expenses”), I hereby agree that if, in connection with the Proceeding, it is established that (1) an act or omission by me was material to the matter giving rise to the Proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty or (2) I actually received an improper personal benefit in money, property or services or (3) in the case of any criminal proceeding, I had reasonable cause to believe that the act or omission was unlawful, then I shall promptly reimburse the portion of the Advanced Expenses, together with the Applicable Legal Rate of interest thereon, relating to the claims, issues or matters in the Proceeding as to which the foregoing findings have been established.

IN WITNESS WHEREOF, I have executed this Affirmation and Undertaking on this \_\_\_ day of \_\_\_20\_\_\_.

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August 31, 2014

Dear Summit Healthcare REIT, Inc. Shareholder:

We are providing you with an update of the recent activities of Summit Healthcare REIT, Inc. (the "REIT" or the "Company") and have enclosed a statement of your account as of June 30, 2014. Our current real estate portfolio consists of investments in twelve properties. The Portfolio Summary in Exhibit A contains highlights of these investments. No new investments were made during the second quarter of 2014.

**Second Quarter 2014 Report**

On August 14, 2014, we filed our quarterly report on Form 10-Q for the period ended June 30, 2014. Revenue generated by our healthcare properties in the second quarter of 2014 was \$3.3 million compared to \$1.5 million in the comparable period of 2013 due to the acquisition of five properties in the second half of 2013. Total expenses increased over these same periods by \$1.8 million, primarily due to the acquisition of five properties in the second half of 2013 and the startup costs associated with setting up the taxable REIT subsidiary to be the licensed operator of the Friendswood, Texas facility. General and administrative costs increased from \$0.8 million in the second quarter of 2013 to \$1.1 million in the second quarter of 2014. Cash used in operations was \$1.5 million in the six months ended June 30, 2014, compared to \$1.2 million for the comparable period of 2013. While we incurred several non-recurring expenses (cost of becoming self-managed and costs to defend against the litigation described below), we are encouraged by the trajectory of our operating results.

We suggest that you review the complete quarterly report on Form 10-Q filed for the period ended June 30, 2014; please visit our website as follows: 1) Go to [www.SummitHealthcareREIT.com](http://www.SummitHealthcareREIT.com), 2) Open the drop-down menu under the "Investors" tab at the top, 3) Click on "SEC Filings," and 4) Click on "10-Q 06/30/2014."

**Self-Management Transition Update**

The transition to self-management continues, and the Company has continued to conduct its business operations during this process. We continue to vigorously defend the lawsuit filed by the REIT's previous advisor, CRA, and their affiliate, CVI, (the "Plaintiffs") against the REIT, our directors, and certain officers. We have filed a counterclaim against the Plaintiffs and continue to incur interim costs of defense during this process. In the second quarter of 2014, the Plaintiffs attempted to obtain injunctive relief, which was quickly and thoroughly rejected by the judge overseeing the case. We continue to believe that all Plaintiff claims are without merit. We will keep you updated as the case progresses.

**Friendship Haven Healthcare and Rehabilitation Center**

As we previously communicated, the REIT, through a wholly-owned taxable REIT subsidiary, became the licensed operator of Friendship Haven Healthcare and Rehabilitation Center on May 1, 2014, after we terminated the lease agreement with the former tenant of the facility due to the former tenant's failure to make rent payments. We also mentioned that renovations would be made to the facility in order to enhance the facility and its appeal to prospective residents. These renovations have commenced and are expected to be completed in the beginning of October 2014. The renovations include refurbishments to re-open a closed facility wing, upgrades to the nurses station, improvements to bathing rooms, and installation of new flooring, paint, and texture. We will seek to execute a long-term lease agreement with a financially stable replacement tenant following renovation completion.

**HUD Refinancing**

The process to refinance our facilities with the U.S. Department of Housing and Urban Development, or HUD, remains on schedule. We expect to close financing on our Sheridan Care Center, Fern Hill Care Center, and Farmington Square facilities prior to the end of the third quarter of 2014 and on our Aledo, Shelby House, Danby House, Hamlet House, and Carteret House facilities prior to the end of the fourth quarter of 2014. Once the new financing is secured, the bulk of our facilities will be locked into 30-year fixed-rate mortgages, offering the REIT the benefits of long-term stability and lower-rate financing. Furthermore, long-term fixed-rate financing will give us a better ability to forecast cash flow for the purpose of planning future acquisitions and possible shareholder distributions.

2 South Pointe Drive, Suite 100 • Lake Forest, California 92630 • Toll-Free (800) 978-8136 • Local (949) 535-2022  
[www.SummitHealthcareReit.com](http://www.SummitHealthcareReit.com)

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**Repositioning Strategy Update**

We continue to move forward with Phase II of our Repositioning Strategy– the redeployment of capital received from the sales of our industrial properties into healthcare facilities. We have entered into a purchase agreement for the acquisition of two skilled nursing facilities located in Southern Colorado for approximately \$8 million. We anticipate the acquisition will occur by the end of the third quarter of 2014. We have also negotiated lease agreements for the operation of these facilities to commence upon the closing of the acquisitions. The selected tenant for these two facilities has an existing relationship with the REIT, leasing several of our other facilities.

Additionally, we have entered into a purchase agreement for a facility in Oregon. We are currently conducting our due diligence analysis, and if the transaction progresses as anticipated, it could close in October 2014. We look forward to providing additional details on this facility in our upcoming communications.

**New Chief Financial Officer**

Effective September 1, 2014, we are promoting Elizabeth Pagliarini to Chief Financial Officer and she will assume all duties previously held by Dominic Petrucci, who served as Interim Chief Financial Officer over the last several quarters. Ms. Pagliarini joined the REIT in 2014 and has served the Company as Controller. She is a seasoned financial executive with deep experience in financial services and investment banking. She has held leadership positions, including chief executive officer, president, chief financial officer, and chief compliance officer at several firms, for more than 20 years. Ms. Pagliarini has been integrally involved in the accounting and reporting segments of the Company since joining the REIT and has been instrumental in updating our policies and procedures during our transition to self-management over the last several months.

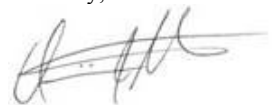
**Information Update and Electronic Delivery**

It is important that we maintain current record of your contact information in order to provide you with timely updates regarding your investment in the REIT. Please help us confirm that our record of your account information is accurate by carefully reviewing the enclosed account statement. If any addresses, phone numbers, or email addresses have changed, please fill out the form on the lower portion of the statement and return it to us per the instructions at the bottom.

If you received this letter by regular mail, we ask you to consider consenting to electronic delivery of information. By allowing us to send you information regarding your investment in the REIT through email rather than regular mail, you help to increase the value of your investment in the REIT by reducing printing and postage costs. Additionally, with electronic delivery, you receive information on a more timely basis and help our efforts of environmental conservation. To consent to electronic delivery, you may use the form provided on the lower portion of the enclosed account statement.

Thank you for your continued support. We look forward to providing additional updates after the end of the third quarter of 2014. If you have any questions, please contact your financial advisor or Investor Services at (888) 522-1771.

Sincerely,



Dominic J. Petrucci  
Interim Chief Financial Officer

cc: Financial Advisor

*This letter contains forward-looking statements relating to the business and financial outlook of Summit Healthcare REIT, Inc. that are based on our current expectations, estimates, forecasts and projections and are not guarantees of future performance. Actual results may differ materially from those expressed in these forward-looking statements, and you should not place undue reliance on any such statements. A number of important factors could cause actual results to differ materially from the forward-looking statements contained in this release. Such factors include those described in the Risk Factors sections of the Summit Healthcare REIT, Inc.'s annual report on Form 10-K for the year ended December 31, 2014 and quarterly reports for the periods ended March 31, 2014, and June 30, 2014. Forward-looking statements in this document speak only as of the date on which such statements were made, and we undertake no obligation to update any such statements that may become untrue because of subsequent events. We claim the safe harbor protection for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.*

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**Summit Healthcare REIT, Inc. – Portfolio Summary**

As of June 30, 2014

**Healthcare Portfolio<sup>1</sup>**

PROPERTY	LOCATION	ACQUISITION DATE	OWNERSHIP PERCENTAGE	NET BOOK VALUE <sup>2</sup> (in millions)	NUMBER OF BEDS	CURRENT DEBT (in millions)
Joint Venture Portfolio <sup>3</sup>						
Sheridan Care Center	Sheridan, OR	Aug-12	89.0%	\$3.8	51	\$2.8
Fern Hill Care Center	Portland, OR	Aug-12	89.0%	\$4.2	51	\$3.0
Farmington Square	Medford, OR	Sept-12	89.0%	\$8.0	71	\$5.7
Friendship Haven Healthcare and Rehabilitation Center	Galveston County, TX	Sept-12	89.0%	\$13.9	150	\$10.5
Pacific Health & Rehabilitation Center	Tigard, OR	Dec-12	89.0%	\$7.7	78	\$6.1
Danby House	Winston-Salem, NC	Jan-13	95.0%	\$9.3	99	\$7.2
Brookstone of Aledo <sup>4</sup>	Aledo, IL	Jul-13	100%	\$8.4	66	\$5.9
North Carolina Facilities						
Carteret House	Newport, NC	Oct-13	100%	\$4.1	64	\$3.2
Hamlet House	Hamlet, NC	Oct-13	100%	\$6.3	60	\$4.8
Shelby House	Shelby, NC	Oct-13	100%	\$4.3	72	\$3.4
Sundial Assisted Living <sup>5</sup>	Redding, CA	Dec-13	100%	\$3.6	65	-
<b>Healthcare Portfolio Total</b>				<b>\$73.6 million</b>	<b>827</b>	<b>\$52.6 million</b>

**Legacy Portfolio<sup>6</sup>**

PROPERTY	LOCATION	ACQUISITION DATE	OWNERSHIP PERCENTAGE	NET BOOK VALUE <sup>1</sup> (in millions)	NUMBER OF BEDS	CURRENT DEBT (in millions)
Sherburne Commons	Nantucket, MA	Dec-09	N/A	\$3.8	60	-
<b>Legacy Portfolio Total</b>			<b>N/A</b>	<b>\$3.8 million</b>	<b>60</b>	<b>-</b>

<sup>1</sup>Each of the properties in our healthcare portfolio is leased to a single tenant/operator under a triple net lease with the exception of Friendship Haven Healthcare and Rehabilitation Center, where the lease with the operator was terminated on March 17, 2014. We became the licensed operator of the facility on May 1, 2014, through a wholly-owned taxable REIT subsidiary.

<sup>2</sup>Net book value is not a fair market value for such properties, which could be more or less than what is listed. The net book value listed represents 100% of each property.

<sup>3</sup>Summit Healthcare REIT, Inc. holds a majority interest in each of the properties within the joint venture portfolio portion of the healthcare portfolio owned through a joint venture entity. The net book value listed represents 100% of each property. The net book value of the REIT's ownership interest in the joint venture portfolio is \$42.3 million.

<sup>4</sup>Formerly known as Heritage Woods of Aledo.

<sup>5</sup>Formerly known as Redding Assisted Living.

<sup>6</sup>The remaining property in our Legacy Portfolio is currently being marketed for sale. We have commenced legal proceedings to officially foreclose on this property as it was initially a loan made by the Company, and by virtue of the borrower's default, it became an asset of the Company.