

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (date of earliest event reported):

October 31, 2016

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)

(800) 978-8136
(Registrant's telephone number, including area code)

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

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.
-

Item 1.01. Entry into a Material Definitive Agreement.

The information set forth below in Item 2.01 is incorporated herein by reference.

Item 2.01. Completion of Acquisition or Disposition of Assets.

On October 31, 2016, Summit Healthcare REIT, Inc. (the “Company”), through our consolidated subsidiary Cornerstone Healthcare Partners, LLC, sold our Farmington Square property located in Medford, Oregon (“Medford”) to Medford’s current operator. The sale was completed as a result of the operator’s exercise of its option to purchase the property provided in our lease agreement with them, which lease agreement was filed as an exhibit to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012 filed on November 14, 2012.

The total sales price was \$10.8 million, and the aggregate carrying value of Medford at the date of the sale was approximately \$1.3 million, (total assets were approximately \$8.0 million less liabilities of approximately \$6.7 million, which included approximately \$6.7 million in a HUD insured loan payable). As a result of the sale, as of November 1, 2016, Medford will no longer be consolidated in our consolidated financial statements.

Item 9.01 Financial Statements and Exhibits.

(b) Unaudited Pro Forma Financial Information.

The following pro forma financial information (unaudited) of the Company, and the related notes thereto, after giving effect to the sale of Medford, are furnished hereto as Exhibit 99.1 to this Current Report on Form 8-K and are incorporated herein by reference:

Unaudited Pro Forma Consolidated Balance Sheet as of June 30, 2016

Unaudited Pro Forma Consolidated Statements of Operations for the Six Month Period Ended June 30, 2016 and for the Year Ended December 31, 2015.

(d) Exhibits.

Exhibit No.	Description
99.1	Unaudited Pro Forma Consolidated Balance Sheet and Statements of Operations

SIGNATURE

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/ Elizabeth A. Pagliarini

Name: Elizabeth A. Pagliarini

Title: Chief Financial Officer

Dated: November 4, 2016

Unaudited Pro Forma Financial Statements

On October 31, 2016, Summit Healthcare REIT, Inc. ("Summit", "we" or the "Company"), through our consolidated subsidiary Cornerstone Healthcare Partners, LLC, sold our Farmington Square property located in Medford, Oregon ("Medford"), to Medford's current operator, pursuant to the exercise of its option to purchase the property provided in our lease agreement with them. The total sales price was \$10.8 million, and the aggregate carrying value of Medford at the date of the sale was approximately \$1.3 million, (total assets were approximately \$8.0 million less liabilities of approximately \$6.7 million, which included approximately \$6.7 million of a HUD insured loan payable). As a result of the sale, as of November 1, 2016, Medford will no longer be included in our consolidated financial statements.

The following unaudited pro forma consolidated statements of operations of the Company for the year ended December 31, 2015 and for the six month period ended June 30, 2016 are presented as if the sale had occurred as of January 1, 2015. The following unaudited pro forma consolidated balance sheet as of June 30, 2016 assumes that the sale occurred on June 30, 2016.

The unaudited pro forma consolidated financial statements are presented based on information currently available, are intended for informational purposes only, and do not purport to represent what the Summit financial position and results of operations actually would have been had the sale occurred on the dates indicated, or to project Summit's financial performance for any future period.

The unaudited pro forma consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Summit's Form 10-K for the fiscal year ended December 31, 2015 and the unaudited condensed consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Summit's Form 10-Q for the period ended June 30, 2016.

The Historical column in the Unaudited Pro Forma Consolidated Statements of Operations and in the Unaudited Pro Forma Consolidated Balance Sheet reflect Summit's historical financial statements for the period presented and does not reflect any adjustments related to the sale.

The information in the pro forma adjustments column in the Unaudited Pro Forma Consolidated Statements of Operations for the year ended December 31, 2015 was derived from the audited information supporting the Form 10-K for the fiscal year ended December 31, 2015. The information in the pro forma adjustments column in the Unaudited Pro Forma Consolidated Statements of Operations for the six months ended June 30, 2016 was derived from the unaudited information supporting the Form 10-Q for the six months ended June 30, 2016.

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
As of June 30, 2016

	<u>Historical</u>	<u>Pro forma adjustments</u>	<u>Pro forma</u>
ASSETS			
Cash and cash equivalents:	\$ 9,579,000	\$ (75,000) A	\$ 9,504,000
Cash received from sale of Medford	-	3,799,000 C	3,799,000
Restricted cash	4,721,000	(208,000) A	4,513,000
Real estate properties, net	67,632,000	(7,419,000) A	60,213,000
Notes receivable	4,817,000	-	4,817,000
Deferred costs and deposits	238,000	-	238,000
Tenant and other receivables, net	4,264,000	(273,000) A	3,991,000
Deferred leasing commissions, net	1,616,000	(134,000) A	1,482,000
Other assets, net	404,000	-	404,000
Equity-method investment	2,322,000	-	2,322,000
Total assets	<u>\$ 95,593,000</u>	<u>\$ (4,310,000)</u>	<u>\$ 91,283,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable and accrued liabilities	2,906,000	(117,000) A	2,789,000
Accrued salaries and benefits	267,000	-	267,000
Security deposits	1,399,000	(191,000) A	1,208,000
Loans payable, net of debt discounts	58,574,000	(6,460,000) A	52,114,000
Total liabilities	<u>63,146,000</u>	<u>(6,768,000)</u>	<u>56,378,000</u>
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding June 30, 2016			
Common stock, \$0.001 par value; 290,000,000 shares authorized; 23,027,978 shares issued and outstanding at June 30, 2016	23,000	-	23,000
Additional paid-in capital	117,230,000	-	117,230,000
Accumulated deficit	(85,525,000)	2,458,000 C	(83,067,000)
Total stockholders' equity	<u>31,728,000</u>	<u>2,458,000</u>	<u>34,186,000</u>
Noncontrolling interest	719,000	-	719,000
Total equity	<u>32,447,000</u>	<u>2,458,000</u>	<u>34,905,000</u>
Total liabilities and stockholders' equity	<u>\$ 95,593,000</u>	<u>\$ (4,310,000)</u>	<u>\$ 91,283,000</u>

See accompanying notes to the unaudited condensed consolidated pro forma financial statements.

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
For the Six Months Ended June 30, 2016

	<u>Historical</u>	<u>Pro forma adjustments</u>	<u>Pro forma</u>
Revenues:			
Rental revenues	\$ 3,544,000	\$ (433,000) B	\$ 3,111,000
Resident services and fee income	4,145,000	-	4,145,000
Tenant reimbursements and other income	448,000	(50,000) B	398,000
Acquisition and asset management fees	132,000	-	132,000
Interest income from notes receivable	75,000	-	75,000
	<u>8,344,000</u>	<u>(483,000)</u>	<u>7,861,000</u>
Expenses:			
Property operating costs	928,000	(58,000) B	870,000
Resident services costs	3,517,000	-	3,517,000
General and administrative	2,113,000	-	2,113,000
Depreciation and amortization	1,893,000	(152,000) B	1,741,000
	<u>8,451,000</u>	<u>(210,000)</u>	<u>8,241,000</u>
Operating loss	(107,000)	(273,000) B	(380,000)
Income from equity-method investee	99,000	-	99,000
Other income	72,000	-	72,000
Interest expense	(1,589,000)	152,000 B	(1,437,000)
Loss from continuing operations	<u>\$ (1,525,000)</u>	<u>\$ (121,000)</u>	<u>\$ (1,646,000)</u>
Basic and diluted loss per common share from continuing operations applicable to common stockholders	\$ (0.07)		\$ (0.07)
Weighted average shares used to calculate basic and diluted net loss per common share	23,027,978		23,027,978

See accompanying notes to the unaudited condensed consolidated pro forma financial statements.

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2015

	<u>Historical</u>	<u>Pro forma adjustments</u>	<u>Pro forma</u>
Revenues:			
Rental revenues	\$ 8,344,000	\$ (866,000) B	\$ 7,478,000
Resident services and fee income	9,182,000	-	9,182,000
Tenant reimbursements and other income	944,000	(112,000) B	832,000
Acquisition and asset management fees	598,000	-	598,000
Interest income from notes receivable	177,000	-	177,000
	<u>19,245,000</u>	<u>(978,000)</u>	<u>18,267,000</u>
Expenses:			
Property operating costs	1,933,000	(119,000) B	1,814,000
Resident services costs	7,538,000	-	7,538,000
General and administrative	4,313,000	-	4,313,000
Depreciation and amortization	4,085,000	(304,000) B	3,781,000
	<u>17,869,000</u>	<u>(423,000)</u>	<u>17,446,000</u>
Operating income (loss)	1,376,000	(555,000) B	821,000
Income from equity-method investee	88,000	-	88,000
Other income	46,000	-	46,000
Interest expense	(3,744,000)	308,000 B	(3,436,000)
Gain on disposition of real estate properties	971,000	-	971,000
Loss from continuing operations	<u>\$ (1,263,000)</u>	<u>\$ (247,000)</u>	<u>\$ (1,510,000)</u>
Basic and diluted loss per common share from continuing operations applicable to common stockholders	\$ (0.06)		\$ (0.07)
Weighted average shares used to calculate basic and diluted net loss per common share	23,027,978		23,027,978

See accompanying notes to the unaudited condensed consolidated pro forma financial statements.

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED PROFORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Note A:

The following assets and liabilities related to the Medford property were included in the consolidated balance sheet as of June 30, 2016 and are being removed in the unaudited pro forma balance sheet as a result of the sale of the property:

ASSETS	
Cash and cash equivalents	\$ 75,000
Restricted cash	208,000
Real estate properties, net	7,419,000
Tenant and other receivables, net	273,000
Deferred leasing commissions, net	134,000
Total assets	\$ 8,109,000
LIABILITIES	
Accounts payable and accrued liabilities	\$ 117,000
Security deposits	191,000
Loan payable, net of debt discount	6,460,000
Total liabilities	\$ 6,768,000
Net carrying value	\$ 1,341,000

Note B:

The following operations for the year ended December 31, 2015 and the six months ended June 30, 2016 related to Medford property have been removed from the historical balances for pro forma purposes:

	For the Year Ended December 31, 2015	For the Six Months Ended June 30, 2016
Revenues:		
Rental revenues	\$ 866,000	\$ 433,000
Tenant reimbursements and other income	112,000	50,000
	978,000	483,000
Expenses:		
Property operating costs	119,000	58,000
Depreciation and amortization	304,000	152,000
	423,000	210,000
Operating income	555,000	273,000
Interest expense	(308,000)	(152,000)
Income from continuing operations	\$ 247,000	\$ 121,000

Note C:

The following computes the net proceeds from, and the estimated gain on the sale of the Medford property as of June 30, 2016. The estimated gain on the sale is reflected as an adjustment to accumulated deficit in the unaudited pro forma condensed consolidated balance sheet and is not reflected in the unaudited pro forma condensed consolidated statements of operations as it is nonrecurring.

Total purchase price.	\$	10,800,000
Less: Tenant liabilities and security deposit refunded		(283,000)
Less: Loan payable		(6,718,000)
Net cash received from sale		3,799,000
Less: Carrying value of Medford as of June 30, 2016		(1,341,000)
Estimated gain on sale of property as of June 30, 2016	\$	<u>2,458,000</u>

The following computes the net proceeds from, and the estimated gain on the sale of the Medford property as of October 31, 2016:

Total purchase price	\$	10,800,000
Less: Tenant liabilities and security deposit refunded		(249,000)
Less: Loan payable		(6,684,000)
Net cash received from sale		3,867,000
Less: Carrying value of Medford as of October 31, 2016		(1,279,000)
Estimated gain on sale of property as of October 31, 2016	\$	<u>2,588,000</u>
