

# DIVERSICARE HEALTHCARE SERVICES, INC.

## FORM 10-Q (Quarterly Report)

Filed 08/03/17 for the Period Ending 06/30/17

|             |  |
|-------------|--|
| Address     | 1621 GALLERIA BLVD.<br>BRENTWOOD, TN 37027 |
| Telephone   | 6157717575                                 |
| CIK         | 0000919956                                 |
| Symbol      | DVCR                                       |
| SIC Code    | 8051 - Skilled Nursing Care Facilities     |
| Industry    | Healthcare Facilities & Services           |
| Sector      | Healthcare                                 |
| Fiscal Year | 12/31                                      |

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

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**FORM 10-Q**

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CHECK ONE:

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

For the Quarterly Period Ended: **June 30, 2017**

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 No.: 1-12996

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**Diversicare Healthcare Services, Inc.**

(exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**62-1559667**  
(IRS Employer  
Identification No.)

**1621 Galleria Boulevard, Brentwood, TN 37027**

(Address of principal executive offices) (Zip Code)

**(615) 771-7575**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

**6,458,836**

(Outstanding shares of the issuer's common stock as of July 28, 2017)

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**Part I. FINANCIAL INFORMATION**

**ITEM 1 – FINANCIAL STATEMENTS**

**DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES  
INTERIM CONSOLIDATED BALANCE SHEETS  
(in thousands)**

|  | <b>June 30,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|--|--------------------------|------------------------------|
|  | <b>(Unaudited)</b>       |                              |
| <b>CURRENT ASSETS:</b>   |                          |                              |
| Cash and cash equivalents  | \$ 3,900                 | \$ 4,263                     |
| Receivables, less allowance for doubtful accounts of \$12,066 and \$10,326, respectively | 64,633                   | 62,152                       |
| Other receivables  | 1,519                    | 1,193                        |
| Prepaid expenses and other current assets  | 2,959                    | 3,623                        |
| Deposit in escrow  | 8,673                    | —                            |
| Income tax refundable  | 490                      | 431                          |
| Current assets of discontinued operations  | 42                       | 28                           |
| <b>Total current assets</b>  | <b>82,216</b>            | <b>71,690</b>                |
| <b>PROPERTY AND EQUIPMENT, at cost</b>   | <b>133,802</b>           | <b>128,822</b>               |
| Less accumulated depreciation and amortization   | (73,790)                 | (69,022)                     |
| <b>Property and equipment, net</b>   | <b>60,012</b>            | <b>59,800</b>                |
| <b>OTHER ASSETS:</b>   |                          |                              |
| Deferred income taxes, net   | 20,757                   | 21,185                       |
| Deferred lease and other costs, net  | 167                      | 193                          |
| Acquired leasehold interest, net   | 6,883                    | 7,075                        |
| Other noncurrent assets  | 3,045                    | 3,108                        |
| <b>Total other assets</b>  | <b>30,852</b>            | <b>31,561</b>                |
|  | <b>\$ 173,080</b>        | <b>\$ 163,051</b>            |

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

**DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share amounts)  
(continued)

|  | June 30,<br>2017  | December 31,<br>2016 |
|--|-------------------|----------------------|
|  | (Unaudited)       |                      |
| <b>CURRENT LIABILITIES:</b>  |                   |                      |
| Current portion of long-term debt and capitalized lease obligations  | \$ 10,373         | \$ 7,715             |
| Trade accounts payable   | 10,859            | 12,972               |
| Current liabilities of discontinued operations   | 440               | 427                  |
| Accrued expenses:  |                   |                      |
| Payroll and employee benefits  | 18,857            | 20,108               |
| Self-insurance reserves, current portion   | 10,196            | 9,401                |
| Provider taxes   | 2,508             | 3,114                |
| Other current liabilities  | 5,299             | 4,432                |
| Total current liabilities  | <u>58,532</u>     | <u>58,169</u>        |
| <b>NONCURRENT LIABILITIES:</b>   |                   |                      |
| Long-term debt and capitalized lease obligations, less current portion and deferred financing costs, net   | 81,449            | 72,145               |
| Self-insurance reserves, less current portion  | 11,417            | 11,766               |
| Other noncurrent liabilities   | 8,789             | 9,551                |
| Total noncurrent liabilities   | <u>101,655</u>    | <u>93,462</u>        |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                   |                      |
| <b>SHAREHOLDERS' EQUITY:</b>   |                   |                      |
| Common stock, authorized 20,000,000 shares, \$.01 par value, 6,691,000 and 6,592,000 shares issued, and 6,459,000 and 6,361,000 shares outstanding, respectively | 67                | 66                   |
| Treasury stock at cost, 232,000 shares of common stock   | (2,500)           | (2,500)              |
| Paid-in capital  | 22,270            | 21,935               |
| Accumulated deficit  | (7,306)           | (8,276)              |
| Accumulated other comprehensive income   | 362               | 195                  |
| Total shareholders' equity   | <u>12,893</u>     | <u>11,420</u>        |
|  | <u>\$ 173,080</u> | <u>\$ 163,051</u>    |

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

**DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts, unaudited)

|  | Three Months Ended June 30, |            |
|--|-----------------------------|------------|
|  | 2017                        | 2016       |
| PATIENT REVENUES, net  | \$ 142,550                  | \$ 95,805  |
| EXPENSES:  |                             |            |
| Operating  | 113,166                     | 78,385     |
| Lease and rent expense   | 13,763                      | 6,854      |
| Professional liability   | 2,724                       | 1,934      |
| General and administrative   | 8,221                       | 6,881      |
| Depreciation and amortization                                      | 2,620                       | 2,060      |
| Lease termination costs  | —                           | 2,008      |
| Total expenses   | 140,494                     | 98,122     |
| OPERATING INCOME (LOSS)  | 2,056                       | (2,317)    |
| OTHER INCOME (EXPENSE):  |                             |            |
| Equity in net income of unconsolidated affiliate                   | —                           | 28         |
| Interest expense, net  | (1,541)                     | (1,158)    |
| Total other expense  | (1,541)                     | (1,130)    |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES       | 515                         | (3,447)    |
| BENEFIT (PROVISION) FOR INCOME TAXES                               | (134)                       | 1,297      |
| INCOME (LOSS) FROM CONTINUING OPERATIONS                           | 381                         | (2,150)    |
| LOSS FROM DISCONTINUED OPERATIONS:                                 |                             |            |
| Operating loss, net of tax expense of (\$18) and \$0, respectively | (28)                        | —          |
| NET INCOME (LOSS)  | \$ 353                      | \$ (2,150) |
| NET INCOME (LOSS) PER COMMON SHARE:                                |                             |            |
| Per common share – basic   |                             |            |
| Continuing operations  | \$ 0.06                     | \$ (0.35)  |
| Discontinued operations  | —                           | —          |
|  | \$ 0.06                     | \$ (0.35)  |
| Per common share – diluted   |                             |            |
| Continuing operations  | \$ 0.06                     | \$ (0.35)  |
| Discontinued operations  | —                           | —          |
|  | \$ 0.06                     | \$ (0.35)  |
| COMMON STOCK DIVIDENDS DECLARED PER SHARE OF COMMON STOCK          | \$ 0.055                    | \$ 0.055   |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:                        |                             |            |
| Basic  | 6,294                       | 6,211      |
| Diluted  | 6,472                       | 6,211      |

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

**DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(in thousands and unaudited)

|  | Three Months Ended June 30, |            |
|--|-----------------------------|------------|
|  | 2017                        | 2016       |
| NET INCOME (LOSS)  | \$ 353                      | \$ (2,150) |
| OTHER COMPREHENSIVE INCOME:  |                             |            |
| Change in fair value of cash flow hedge, net of tax                    | 146                         | 181        |
| Less: reclassification adjustment for amounts recognized in net income | (116)                       | (119)      |
| Total other comprehensive income                                       | 30                          | 62         |
| COMPREHENSIVE INCOME (LOSS)  | \$ 383                      | \$ (2,088) |

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

**DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts, unaudited)

|   | Six Months Ended June 30, |            |
|---|---------------------------|------------|
|   | 2017                      | 2016       |
| PATIENT REVENUES, net   | \$ 284,050                | \$ 193,750 |
| EXPENSES:   |                           |            |
| Operating   | 223,833                   | 157,003    |
| Lease and rent expense  | 27,506                    | 14,106     |
| Professional liability  | 5,394                     | 4,000      |
| General and administrative  | 17,194                    | 13,615     |
| Depreciation and amortization   | 5,107                     | 4,063      |
| Lease termination costs   | —                         | 2,008      |
| Total expenses  | 279,034                   | 194,795    |
| OPERATING INCOME (LOSS)   | 5,016                     | (1,045)    |
| OTHER INCOME (EXPENSE):   |                           |            |
| Equity in net income of unconsolidated affiliate                              | —                         | 61         |
| Gain on sale of investment in unconsolidated affiliate                        | 733                       | —          |
| Interest expense, net   | (3,024)                   | (2,228)    |
| Debt retirement costs   | —                         | (351)      |
| Total other expense   | (2,291)                   | (2,518)    |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES                  | 2,725                     | (3,563)    |
| BENEFIT (PROVISION) FOR INCOME TAXES  | (996)                     | 1,339      |
| INCOME (LOSS) FROM CONTINUING OPERATIONS                                      | 1,729                     | (2,224)    |
| LOSS FROM DISCONTINUED OPERATIONS:  |                           |            |
| Operating loss, net of tax benefit (expense) of (\$27) and \$21, respectively | (43)                      | (37)       |
| NET INCOME (LOSS)   | \$ 1,686                  | \$ (2,261) |
| NET INCOME (LOSS) PER COMMON SHARE:   |                           |            |
| Per common share – basic  |                           |            |
| Continuing operations   | \$ 0.28                   | \$ (0.36)  |
| Discontinued operations   | (0.01)                    | (0.01)     |
|   | \$ 0.27                   | \$ (0.37)  |
| Per common share – diluted  |                           |            |
| Continuing operations   | \$ 0.27                   | \$ (0.36)  |
| Discontinued operations   | (0.01)                    | (0.01)     |
|   | \$ 0.26                   | \$ (0.37)  |
| COMMON STOCK DIVIDENDS DECLARED PER SHARE OF COMMON STOCK                     | \$ 0.11                   | \$ 0.11    |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:                                   |                           |            |
| Basic   | 6,263                     | 6,185      |
| Diluted   | 6,458                     | 6,185      |

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

**DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(in thousands and unaudited)

|  | Six Months Ended June 30, |            |
|--|---------------------------|------------|
|  | 2017                      | 2016       |
| NET INCOME (LOSS)  | \$ 1,686                  | \$ (2,261) |
| OTHER COMPREHENSIVE INCOME:  |                           |            |
| Change in fair value of cash flow hedge, net of tax                    | 400                       | 492        |
| Less: reclassification adjustment for amounts recognized in net income | (233)                     | (263)      |
| Total other comprehensive income                                       | 167                       | 229        |
| COMPREHENSIVE INCOME (LOSS)  | \$ 1,853                  | \$ (2,032) |

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



**DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands and unaudited)

|   | Six Months Ended June 30, |            |
|---|---------------------------|------------|
|   | 2017                      | 2016       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                           |            |
| Net income (loss)   | \$ 1,686                  | \$ (2,261) |
| Discontinued operations   | (43)                      | (37)       |
| Income (loss) from continuing operations  | 1,729                     | (2,224)    |
| Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities: |                           |            |
| Depreciation and amortization   | 5,107                     | 4,063      |
| Provision for doubtful accounts   | 4,187                     | 3,661      |
| Deferred income tax provision (benefit)   | 403                       | (1,689)    |
| Provision for self-insured professional liability, net of cash payments   | (309)                     | 1,595      |
| Stock-based compensation  | 504                       | 486        |
| Equity in net income of unconsolidated affiliate, net of investment   | —                         | (61)       |
| Gain on sale of unconsolidated affiliate  | (733)                     | —          |
| Debt retirement costs   | —                         | 351        |
| Provision for leases in excess of cash payments   | (304)                     | (1,093)    |
| Lease termination costs, net of cash payments   | —                         | 1,958      |
| Deferred bonus  | 600                       | —          |
| Other   | 247                       | 358        |
| Changes in assets and liabilities affecting operating activities:   |                           |            |
| Receivables, net  | (7,313)                   | (710)      |
| Prepaid expenses and other assets   | 620                       | (384)      |
| Trade accounts payable and accrued expenses   | (2,647)                   | 1,688      |
| Net cash provided by continuing operations  | 2,091                     | 7,999      |
| Discontinued operations   | (329)                     | (2,879)    |
| Net cash provided by operating activities   | 1,762                     | 5,120      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                           |            |
| Purchases of property and equipment   | (5,121)                   | (10,055)   |
| Deposit in escrow   | (8,673)                   | —          |
| Proceeds from sale of unconsolidated affiliate  | 1,100                     | —          |
| Change in restricted cash   | —                         | 1,658      |
| Net cash used in continuing operations  | (12,694)                  | (8,397)    |
| Discontinued operations   | —                         | —          |
| Net cash used in investing activities   | (12,694)                  | (8,397)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                           |            |
| Repayment of debt obligations   | (14,166)                  | (66,422)   |
| Proceeds from issuance of debt  | 26,074                    | 71,066     |
| Financing costs   | (226)                     | (1,795)    |
| Issuance and redemption of employee equity awards   | (94)                      | (96)       |
| Payment of common stock dividends   | (692)                     | (683)      |
| Payment for preferred stock restructuring   | (327)                     | (317)      |
| Net cash provided by financing activities   | 10,569                    | 1,753      |
| Discontinued operations   | —                         | —          |
| Net cash provided by financing activities   | \$ 10,569                 | \$ 1,753   |

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

**DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands and unaudited)  
(continued)

|  | <b>Six Months Ended June 30,</b> |                 |
|--|----------------------------------|-----------------|
|  | <b>2017</b>                      | <b>2016</b>     |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                                  | \$ (363)                         | \$ (1,524)      |
| CASH AND CASH EQUIVALENTS, beginning of period                             | 4,263                            | 4,585           |
| CASH AND CASH EQUIVALENTS, end of period                                   | <u>\$ 3,900</u>                  | <u>\$ 3,061</u> |
| SUPPLEMENTAL INFORMATION:  |                                  |                 |
| Cash payments of interest  | <u>\$ 2,563</u>                  | <u>\$ 1,904</u> |
| Cash payments of income taxes  | <u>\$ 625</u>                    | <u>\$ 332</u>   |
| SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING AND FINANCING TRANSACTIONS: |                                  |                 |
| Acquisition of equipment through capital lease                             | <u>\$ 7</u>                      | <u>\$ —</u>     |

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

**DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

1. BUSINESS

Diversicare Healthcare Services, Inc. (together with its subsidiaries, "Diversicare" or the "Company") provides long-term care services to nursing center patients in ten states, primarily in the Southeast, Midwest, and Southwest. The Company's centers provide a range of health care services to their patients and residents that include nursing, personal care, and social services. Additionally, the Company's nursing centers also offer a variety of comprehensive rehabilitation services, as well as nutritional support services. The Company's continuing operations include centers in Alabama, Florida, Indiana, Kansas, Kentucky, Mississippi, Missouri, Ohio, Tennessee, and Texas.

As of June 30, 2017, the Company's continuing operations consist of 76 nursing centers with 8,453 licensed nursing beds. The Company owns 17 and leases 59 of its nursing centers. Our nursing centers range in size from 48 to 320 licensed nursing beds. The licensed nursing bed count does not include 496 licensed assisted and residential living beds.

2. CONSOLIDATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The interim consolidated financial statements include the operations and accounts of Diversicare Healthcare Services and its subsidiaries, all wholly-owned. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company had one equity method investee, which was sold during the fourth quarter of 2016. The Company's share of the profits and losses from this investment are reported as equity in earnings of investment in an unconsolidated affiliate and the proceeds received from the sale are reported under the heading "Gain on sale of investment in unconsolidated affiliate" in the accompanying interim consolidated statements of operations. The sale resulted in a \$1,366,000 gain in the fourth quarter of 2016. Subsequently, we recognized an additional gain of \$733,000 for the six-month period ended June 30, 2017, related to the liquidation of remaining assets affiliated with the partnership.

The interim consolidated financial statements for the six month periods ended June 30, 2017 and 2016, included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management of the Company, the accompanying interim consolidated financial statements reflect all normal, recurring adjustments necessary to present fairly the Company's financial position at June 30, 2017, and the results of operations for the three and six month periods ended June 30, 2017 and 2016, and cash flows for the six month periods ended June 30, 2017 and 2016. The Company's balance sheet information at December 31, 2016, was derived from its audited consolidated financial statements as of December 31, 2016.

The results of operations for the periods ended June 30, 2017 and 2016 are not necessarily indicative of the operating results that may be expected for a full year. These interim consolidated financial statements should be read in connection with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

3. RECENT ACCOUNTING GUIDANCE

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the healthcare industry. The ASU will be effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted only as of annual reporting periods beginning after December 15, 2016. The Company will adopt the requirements of this standard effective January 1, 2018. The new standard may be applied retrospectively to each period presented (full retrospective method) or retrospectively with the cumulative effect recognized in beginning retained earnings as of the date of adoption (modified retrospective method). The Company plans to elect to apply the modified retrospective approach upon adoption. Additionally, the new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations and significant judgments in measurement and recognition. The Company is developing a plan for adoption and determining the impact on its revenue recognition policies, procedures and control framework and the resulting impact on its consolidated financial position, results of operation and cash flows. The Company is in the process of reviewing revenue sources and evaluating the patient account population to determine the appropriate distribution of patient accounts into portfolios with similar collection experience that, when evaluated for collectibility, will result in a materially consistent revenue amount for such portfolios as if each patient account was evaluated on a contract-by-contract basis. We expect to complete this process in 2017. The Company is also in the process of assessing the impact of the new standard on various reimbursement programs that represent variable

consideration, including settlements with government payors, state Medicaid programs and bundled payment of care programs. Due to the many forms of calculation and reimbursement that these programs take that vary from state to state, the application of the new standard could have an impact on the revenue recognized for variable consideration. Industry guidance is continuing to develop, and any conclusions in the final industry guidance that is inconsistent with the Company's application could result in changes to the Company's expectations regarding the impact of the new standard on the Company's financial statements. Additionally, the adoption of the new standard will impact the presentation on the Company's statement of operations. After the adoption, the majority of what is currently classified as bad debt expense will be reflected as an implicit price concession as defined in the standard and therefore an adjustment to net patient revenues. The ASU will have a material impact on the amounts presented in certain categories on our consolidated statement of operations, but we do not expect it to have a material impact on our financial position, results of operations or cash flows.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which changes how deferred taxes are classified on the Company's balance sheets. The Company adopted ASU No. 2015-17 as of January 1, 2017, and the new standard was applied on a retrospective basis. The adoption of this guidance resulted in a \$7,644,000 reclassification between current deferred income taxes and non-current deferred income taxes.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Disclosures will be required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We anticipate this standard will have a material impact on our consolidated financial statements. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impact relates to our accounting for building and equipment operating leases and will result in a significant increase in the assets and liabilities on the consolidated balance sheet.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU was issued as part of the FASB Simplification Initiative and involves several aspects of accounting for shared-based payment transactions, including the income tax consequences and classification on the statement of cash flows. We adopted this standard as of January 1, 2017. The adoption did not have a material impact on our financial position, results of operations or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. This update is intended to improve financial reporting by requiring timelier recognition of credit losses on loans and other financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other such commitments. This update requires that financial statement assets measured at an amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. This standard is effective for the fiscal year beginning after December 15, 2019 with early adoption permitted. The Company is in the initial stages of evaluating the impact from the adoption of this new standard on the consolidated financial statements and related notes.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230). The ASU provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The ASU is effective for annual and interim periods beginning after December 15, 2017, which will require the Company to adopt these provisions in the first quarter of fiscal 2018 using a retrospective approach. Early adoption is permitted. The Company is currently evaluating the impact this standard will have on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that the Statement of Cash Flows explain the changes during the period of cash and cash equivalents inclusive of amounts categorized as Restricted Cash. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for periods beginning after December 15, 2017. The Company plans to adopt this standard on January 1, 2018, and is currently evaluating the impact this standard will have on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805) - Clarifying the Definition of a Business, which provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The adoption is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted in certain circumstances. The Company is still evaluating the effect, if any, the standard will have on the

Company's consolidated financial condition and results of operations. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial condition and results of operations.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The amended standard specifies the modification accounting applicable to any entity which changes the terms or conditions of a share-based payment award. The new guidance is effective for all entities after December 15, 2017. Early adoption is permitted. The Company does not presently believe adoption of this new standard will be material to its consolidated financial statements.

#### 4. LONG-TERM DEBT AND INTEREST RATE SWAP

The Company has agreements with a syndicate of banks for a mortgage term loan ("Original Mortgage Loan") and the Company's revolving credit agreement ("Original Revolver"). On February 26, 2016, the Company executed an Amended and Restated Credit Agreement (the "Credit Agreement") which modified the terms of the Original Mortgage Loan and the Original Revolver Agreements dated April 30, 2013. The Credit Agreement increases the Company's borrowing capacity to \$100,000,000 allocated between a \$72,500,000 Mortgage Loan ("Amended Mortgage Loan") and a \$27,500,000 Revolver ("Amended Revolver"). The Amended Mortgage Loan consists of a \$60,000,000 term loan facility and a \$12,500,000 acquisition loan facility. Loan acquisition costs associated with the Amended Mortgage Loan and the Amended Revolver were capitalized in the amount of \$2,162,000 and are being amortized over the five -year term of the agreements.

Under the terms of the amended agreements, the syndicate of banks provided the Amended Mortgage Loan with an original principal balance of \$72,500,000 with a five -year maturity through February 26, 2021, and a \$27,500,000 Amended Revolver through February 26, 2021. The Amended Mortgage Loan has a term of five years, with principal and interest payable monthly based on a 25 -year amortization. Interest on the term and acquisition loan facilities is based on LIBOR plus 4.0% and 4.75% , respectively. A portion of the Amended Mortgage Loan is effectively fixed at 5.79% pursuant to an interest rate swap with an initial notional amount of \$30,000,000 . The Amended Mortgage Loan balance was \$67,970,000 as of June 30, 2017 , consisting of \$65,470,000 on the term loan facility with an interest rate of 5.25% and \$2,500,000 on the acquisition loan facility with an interest rate of 6.0% . The Amended Mortgage Loan is secured by seventeen owned nursing centers, related equipment and a lien on the accounts receivable of these centers. The Amended Mortgage Loan and the Amended Revolver are cross-collateralized and cross-defaulted. The Company's Amended Revolver has an interest rate of LIBOR plus 4.0% and is secured by accounts receivable and is subject to limits on the maximum amount of loans that can be outstanding under the revolver based on borrowing base restrictions.

Effective October 3, 2016, the Company entered into the Second Amendment ("Second Revolver Amendment") to amend the Amended Revolver. The Second Revolver Amendment increased the Amended Revolver capacity from the \$27,500,000 in the Amended Revolver to \$52,250,000 ; provided that the maximum revolving facility be reduced to \$42,250,000 on August 1, 2017. Subsequently, on June 30, 2017, the Company executed a Fourth Amendment (the "Fourth Revolver Amendment") to amend the Amended Revolver, which modifies the capacity of the revolver to remain at \$52,250,000 .

On December 29, 2016, the Company executed a Third Amendment ("Third Revolver Amendment") to amend the Amended Revolver. The Third Amendment modifies the terms of the Amended Mortgage Loan Agreement by increasing the Company's letter of credit sublimit from \$10,000,000 to \$15,000,000 .

Effective June 30, 2017, the Company entered into a Second Amendment to the Second Amended (the "Second Term Amendment") to amend the Amended Mortgage Loan. The Second Term Amendment amends the terms of the Amended Mortgage Loan Agreement by increasing the Company's term loan facility by \$7,500,000 .

As of June 30, 2017 , the Company had \$24,500,000 borrowings outstanding under the Amended Revolver compared to \$15,000,000 outstanding as of December 31, 2016 . The outstanding borrowings on the revolver were used primarily to compensate for accumulated Medicaid and Medicare receivables at recently acquired facilities as these facilities proceed through the change in ownership process with Centers for Medicare & Medicaid Services ("CMS"). Annual fees for letters of credit issued under the Amended Revolver are 3.0% of the amount outstanding. The Company has eleven letters of credit with a total value of \$13,408,000 outstanding as of June 30, 2017 . Considering the balance of eligible accounts receivable, the letters of credit, the amounts outstanding under the revolving credit facility and the maximum loan amount of \$40,751,000 , the balance available for borrowing under the Amended Revolver was \$842,000 at June 30, 2017 .

The Company's debt agreements contain various financial covenants, the most restrictive of which relates to debt service coverage ratios. The Company is in compliance with all such covenants at June 30, 2017 .

##### *Interest Rate Swap Transaction*

As part of the debt agreements entered into in April 2013, the Company entered into an interest rate swap agreement with a member of the bank syndicate as the counterparty. The Company designated its interest rate swap as a cash flow hedge and the earnings component of the hedge, net of taxes, is reflected as a component of other comprehensive income (loss). In conjunction with the

February 26, 2016 amendment to the Credit Agreement, the Company amended the terms of its interest rate swap. The interest rate swap agreement has the same effective date and maturity date as the Amended Mortgage Loan, and has an amortizing notional amount that was \$28,985,000 as of June 30, 2017. The interest rate swap agreement requires the Company to make fixed rate payments to the bank calculated on the applicable notional amount at an annual fixed rate of 5.79% while the bank is obligated to make payments to the Company based on LIBOR on the same notional amount.

The Company assesses the effectiveness of its interest rate swap on a quarterly basis, and at June 30, 2017, the Company determined that the interest rate swap was highly effective. The interest rate swap valuation model indicated a net liability of \$62,000 at June 30, 2017. The fair value of the interest rate swap is included in "other noncurrent liabilities" on the Company's interim consolidated balance sheet. The liability related to the change in the interest rate swap included in accumulated other comprehensive income at June 30, 2017 is \$38,000, net of the income tax benefit of \$24,000. As the Company's interest rate swap is not traded on a market exchange, the fair value is determined using a valuation based on a discounted cash flow analysis. This analysis reflects the contractual terms of the interest rate swap agreement and uses observable market-based inputs, including estimated future LIBOR interest rates. The interest rate swap valuation is classified in Level 2 of the fair value hierarchy, in accordance with the FASB guidance set forth in ASC 820, *Fair Value Measurement*.

## 5. COMMITMENTS AND CONTINGENCIES

### *Professional Liability and Other Liability Insurance*

The Company has professional liability insurance coverage for its nursing centers that, based on historical claims experience, is likely to be substantially less than the claims that are expected to be incurred. Effective July 1, 2013, the Company established a wholly-owned, offshore limited purpose insurance subsidiary, SHC Risk Carriers, Inc. ("SHC"), to replace some of the expiring commercial policies. SHC covers losses up to specified limits per occurrence. All of the Company's nursing centers in Florida, and Tennessee are now covered under the captive insurance policies along with most of the nursing centers in Alabama, Kentucky, and Texas. The SHC policy provides coverage limits of either \$500,000 or \$1,000,000 per medical incident with a sublimit per center of \$1,000,000 and total annual aggregate policy limits of \$5,000,000. The remaining nursing centers are covered by one of seven claims made professional liability insurance policies purchased from entities unaffiliated with the Company. These policies provide coverage limits of \$1,000,000 per claim and have sublimits of \$3,000,000 per center, with varying self-insured retention levels per claim and varying aggregate policy limits.

### *Reserve for Estimated Self-Insured Professional Liability Claims*

Because the Company's actual liability for existing and anticipated professional liability and general liability claims will likely exceed the Company's limited insurance coverage, the Company has recorded total liabilities for reported and estimated future claims of \$19,384,000 as of June 30, 2017. This accrual includes estimates of liability for incurred but not reported claims, estimates of liability for reported but unresolved claims, actual liabilities related to settlements, including settlements to be paid over time, and estimates of legal costs related to these claims. All losses are projected on an undiscounted basis and are presented without regard to any potential insurance recoveries. Amounts are added to the accrual for estimates of anticipated liability for claims incurred during each period, and amounts are deducted from the accrual for settlements paid on existing claims during each period.

The Company evaluates the adequacy of this liability on a quarterly basis. Semi-annually, the Company retains a third-party actuarial firm to assist in the evaluation of this reserve. Since May 2012, Merlinos & Associates, Inc. ("Merlinos") has assisted management in the preparation of the appropriate accrual for incurred but not reported general and professional liability claims based on data furnished as of May 31 and November 30 of each year. Merlinos primarily utilizes historical data regarding the frequency and cost of the Company's past claims over a multi-year period, industry data and information regarding the number of occupied beds to develop its estimates of the Company's ultimate professional liability cost for current periods.

On a quarterly basis, the Company obtains reports of asserted claims and lawsuits incurred. These reports, which are provided by the Company's insurers and a third-party claims administrator, contain information relevant to the actual expense already incurred with each claim as well as the third-party administrator's estimate of the anticipated total cost of the claim. This information is reviewed by the Company quarterly and provided to the actuary semi-annually. Based on the Company's evaluation of the actual claim information obtained, the semi-annual estimates received from the third-party actuary, the amounts paid and committed for settlements of claims and on estimates regarding the number and cost of additional claims anticipated in the future, the reserve estimate for a particular period may be revised upward or downward on a quarterly basis. Any increase in the accrual decreases results of operations in the period and any reduction in the accrual increases results of operations during the period.

As of June 30, 2017, the Company is engaged in 74 professional liability lawsuits. Seventeen lawsuits are currently scheduled for trial or arbitration during the next twelve months, and it is expected that additional cases will be set for trial or hearing. The Company's cash expenditures for self-insured professional liability costs from continuing operations were \$4,338,000 and \$1,542,000 for the six months ended June 30, 2017 and 2016, respectively.

Although the Company adjusts its accrual for professional and general liability claims on a quarterly basis and retains a third-party actuarial firm semi-annually to assist management in estimating the appropriate accrual, professional and general liability claims are inherently uncertain, and the liability associated with anticipated claims is very difficult to estimate. Professional liability cases have a long cycle from the date of an incident to the date a case is resolved, and final determination of the Company's actual liability for claims incurred in any given period is a process that takes years. As a result, the Company's actual liabilities may vary significantly from the accrual, and the amount of the accrual has and may continue to fluctuate by a material amount in any given period. Each change in the amount of this accrual will directly affect the Company's reported earnings and financial position for the period in which the change in accrual is made.

### *Civil Investigative Demand ("CID")*

In July 2013, the Company learned that the United States Attorney for the Middle District of Tennessee (DOJ) had commenced a civil investigation of potential violations of the False Claims Act (FCA).

In October 2014, the Company learned that the investigation was started by the filing under seal of a false claims action against two of its centers. In response to civil investigative demands ("CIDs") and informal requests, the Company has provided to the DOJ documents and information relating to the Company's practices and policies for rehabilitation and other services, relating to the preadmission evaluation forms ("PAEs") required by TennCare, and relating to the Pre-Admission Screening and Resident Reviews ("PASRRs") required by the Medicare program. The DOJ has also issued CID's for testimony from current and former employees of the Company. The DOJ's civil investigation has been focused on six of our centers, but the DOJ has indicated that all of the Company's centers are the subject of the investigation related to rehabilitation therapy.

In June 2016, the Company received an authorized investigative demand (a form of subpoena) for documents in connection with a criminal investigation by the DOJ related to our practices with respect to PAEs and PASRRs. The Company has responded to this subpoena and provided additional information as requested. The Company cannot predict the outcome of these investigations or the related lawsuits, and the outcome could have a materially adverse effect on the Company, including the imposition of treble damages, criminal charges, fines, penalties and/or a corporate integrity agreement. The Company is committed to provide caring and professional services to its patients and residents in compliance with applicable laws and regulations.

### *Other Insurance*

With respect to workers' compensation insurance, substantially all of the Company's employees became covered under either an indemnity insurance plan or state-sponsored programs in May 1997. The Company is completely self-insured for workers' compensation exposures prior to May 1997. The Company has been and remains a non-subscriber to the Texas workers' compensation system and is, therefore, completely self-insured for employee injuries with respect to its Texas operations. From June 30, 2003 until June 30, 2007, the Company's workers' compensation insurance programs provided coverage for claims incurred with premium adjustments depending on incurred losses. For the period from July 1, 2007 until June 30, 2008, the Company is completely self-insured for workers' compensation exposure. From July 1, 2008 through June 30, 2017, the Company is covered by a prefunded deductible policy. Under this policy, the Company is self-insured for the first \$500,000 per claim, subject to an aggregate maximum of \$3,000,000. The Company funds a loss fund account with the insurer to pay for claims below the deductible. The Company accounts for premium expense under this policy based on its estimate of the level of claims subject to the policy deductibles expected to be incurred. The liability for workers' compensation claims is \$957,000 at June 30, 2017. The Company has a non-current receivable for workers' compensation policies covering previous years of \$1,628,000 as of June 30, 2017. The non-current receivable is a function of payments paid to the Company's insurance carrier in excess of the estimated level of claims expected to be incurred.

As of June 30, 2017, the Company is self-insured for health insurance benefits for certain employees and dependents for amounts up to \$175,000 per individual annually. The Company provides reserves for the settlement of outstanding self-insured health claims at amounts believed to be adequate. The liability for reported claims and estimates for incurred but unreported claims is \$1,272,000 at June 30, 2017. The differences between actual settlements and reserves are included in expense in the period finalized.

## 6. STOCK-BASED COMPENSATION

### *Overview of Plans*

In December 2005, the Compensation Committee of the Board of Directors adopted the 2005 Long-Term Incentive Plan ("2005 Plan"). The 2005 Plan allows the Company to issue stock options and other share and cash based awards. Under the 2005 Plan, 700,000 shares of the Company's common stock have been reserved for issuance upon exercise of equity awards granted thereunder. This plan has expired and no new grants may be made under the 2005 Plan. All grants under this plan expire 10 years from the date the grants were authorized by the Board of Directors.

In June 2008, the Company adopted the Advocat Inc. 2008 Stock Purchase Plan for Key Personnel ("Stock Purchase Plan"). The Stock Purchase Plan provides for the granting of rights to purchase shares of the Company's common stock to directors and officers. The Stock Purchase Plan allows participants to elect to utilize a specified portion of base salary, annual cash bonus, or director compensation to purchase restricted shares or restricted share units ("RSU's") at 85% of the quoted market price of a share of the Company's common stock on the date of purchase. The restriction period under the Stock Purchase Plan is generally two years from the date of purchase and during which the shares will have the rights to receive dividends, however, the restricted share certificates will not be delivered to the shareholder and the shares cannot be sold, assigned or disposed of during the restriction period. In June 2016, our shareholders approved an amendment to the Stock Purchase Plan to increase the number of shares of our common stock authorized under the Plan from 150,000 shares to 350,000 shares. No grants can be made under the Stock Purchase Plan after April 25, 2028.

In April 2010, the Compensation Committee of the Board of Directors adopted the 2010 Long-Term Incentive Plan ("2010 Plan"), followed by approval by the Company's shareholders in June 2010. The 2010 Plan allows the Company to issue stock appreciation rights, stock options and other share and cash based awards. In June 2017, our shareholders approved an amendment to the Long-

Term Incentive Plan to increase the number of shares of our common stock authorized under the Plan from 380,000 shares to 680,000 shares. No grants can be made under the Long-Term Incentive Plan after May 31, 2027.

*Equity Grants and Valuations*

During the six months ended June 30, 2017 and 2016, the Compensation Committee of the Board of Directors approved grants totaling approximately 88,000 and 83,000 shares of restricted common stock to certain employees and members of the Board of Directors, respectively. The fair value of restricted shares are determined as the quoted market price of the underlying common shares at the date of the grant. The restricted shares typically vest 33% on the first, second and third anniversaries of the grant date. Unvested shares may not be sold or transferred. During the vesting period, dividends accrue on the restricted shares, but are paid in additional shares of common stock upon vesting, subject to the vesting provisions of the underlying restricted shares. The restricted shares are entitled to the same voting rights as other common shares. Upon vesting, all restrictions are removed.

Prior to 2016, the Compensation Committee of the Board of Directors also approved grants of Stock Only Stock Appreciation Rights (“SOSARs”) and Stock Options at the market price of the Company's common stock on the grant date. The SOSARs and Options vest 33% on the first, second and third anniversaries of the grant date, and expire 10 years from the grant date.

Summarized activity of the equity compensation plans is presented below:

|                                | <b>Options/<br/>SOSARs</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|--------------------------------|----------------------------|--|
| Outstanding, December 31, 2016 | 231,000                    | \$ 6.97  |
| Granted                        | —                          | —  |
| Exercised                      | —                          | —  |
| Expired or cancelled           | (17,000)                   | 11.29  |
| Outstanding, June 30, 2017     | <u>214,000</u>             | <u>\$ 6.64</u>                                 |
| Exercisable, June 30, 2017     | <u>209,000</u>             | <u>\$ 6.55</u>                                 |

|                                | <b>Restricted<br/>Shares</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|--------------------------------|------------------------------|---|
| Outstanding, December 31, 2016 | 153,000                      | \$ 9.47   |
| Granted                        | 88,000                       | 9.98  |
| Dividend Equivalents           | 2,000                        | 9.85  |
| Vested                         | (74,000)                     | 9.03  |
| Cancelled                      | —                            | —   |
| Outstanding, June 30, 2017     | <u>169,000</u>               | <u>\$ 9.93</u>  |



Summarized activity of the Restricted Share Units for the Stock Purchase Plan is as follows:

|                                | Restricted<br>Share Units | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--------------------------------|---------------------------|---|
| Outstanding, December 31, 2016 | 54,000                    | \$ 11.10  |
| Granted                        | 26,000                    | 9.98  |
| Dividend Equivalents           | 1,000                     | 9.85  |
| Vested                         | (37,000)                  | 12.11   |
| Cancelled                      | —                         | —   |
| Outstanding, June 30, 2017     | 44,000                    | \$ 9.58   |

The SOSARs and Options were valued and recorded in the same manner, and will be settled with issuance of new stock for the difference between the market price on the date of exercise and the exercise price. The Company estimated the total recognized and unrecognized compensation related to SOSARs and stock options using the Black-Scholes-Merton equity grant valuation model.

In computing the fair value estimates using the Black-Scholes-Merton valuation model, the Company took into consideration the exercise price of the equity grants and the market price of the Company's stock on the date of grant. The Company used an expected volatility that equals the historical volatility over the most recent period equal to the expected life of the equity grants. The risk free interest rate is based on the U.S. treasury yield curve in effect at the time of grant. The Company used the expected dividend yield at the date of grant, reflecting the level of annual cash dividends currently being paid on its common stock.

While no SOSARs or Options were granted during 2017 and 2016, previously granted SOSARs and Options remain outstanding as of June 30, 2017. The following table summarizes information regarding stock options and SOSAR grants outstanding as of June 30, 2017:

| Range of<br>Exercise Prices | Weighted<br>Average<br>Exercise<br>Prices | Grants<br>Outstanding | Intrinsic<br>Value-Grants<br>Outstanding | Grants<br>Exercisable | Intrinsic<br>Value-Grants<br>Exercisable |
|-----------------------------|---|-----------------------|--|-----------------------|--|
| \$10.21 to \$10.88          | \$ 10.63                                  | 46,000                | \$ —                                     | 41,000                | \$ —                                     |
| \$2.37 to \$6.21            | \$ 5.55                                   | 168,000               | \$ 630,000                               | 168,000               | \$ 630,000                               |
|                             |   | 214,000               |  | 209,000               |  |

Stock-based compensation expense is non-cash and is included as a component of general and administrative expense or operating expense based upon the classification of cash compensation paid to the related employees. The Company recorded total stock-based compensation expense of \$504,000 and \$486,000 in the six month periods ended June 30, 2017 and 2016, respectively.

#### 7. EARNINGS (LOSS) PER COMMON SHARE

Information with respect to basic and diluted net income (loss) per common share is presented below in thousands, except per share:

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2017                        | 2016       | 2017                      | 2016       |
| Net income (loss)                                      |                             |            |                           |            |
| Income (loss) from continuing operations               | \$ 381                      | \$ (2,150) | 1,729                     | (2,224)    |
| Loss from discontinued operations, net of income taxes | (28)                        | —          | (43)                      | (37)       |
| Net income (loss)                                      | \$ 353                      | \$ (2,150) | \$ 1,686                  | \$ (2,261) |

|  | <b>Three Months Ended June 30,</b> |           | <b>Six Months Ended June 30,</b> |           |
|--|------------------------------------|-----------|----------------------------------|-----------|
|  | 2017                               | 2016      | 2017                             | 2016      |
| <b>Net income (loss) per common share:</b>         |                                    |           |                                  |           |
| Per common share – basic                           |                                    |           |                                  |           |
| Income (loss) from continuing operations           | \$ 0.06                            | \$ (0.35) | \$ 0.28                          | \$ (0.36) |
| Loss from discontinued operations                  | —                                  | —         | (0.01)                           | (0.01)    |
| Net income (loss) per common share – basic         | \$ 0.06                            | \$ (0.35) | \$ 0.27                          | \$ (0.37) |
| Per common share – diluted                         |                                    |           |                                  |           |
| Income (loss) from continuing operations           | \$ 0.06                            | \$ (0.35) | \$ 0.27                          | \$ (0.36) |
| Loss from discontinued operations                  | —                                  | —         | (0.01)                           | (0.01)    |
| Net income (loss) per common share – diluted       | \$ 0.06                            | \$ (0.35) | \$ 0.26                          | \$ (0.37) |
| <b>Weighted Average Common Shares Outstanding:</b> |                                    |           |                                  |           |
| Basic  | 6,294                              | 6,211     | 6,263                            | 6,185     |
| Diluted  | 6,472                              | 6,211     | 6,458                            | 6,185     |

The effects of 46,000 and 62,000 SOSARs and options outstanding were excluded from the computation of diluted earnings per common share in the six months ended June 30, 2017 and 2016, respectively, because these securities would have been anti-dilutive.

#### 8. EQUITY METHOD INVESTMENT

The Company had one equity method investee, which was sold during the fourth quarter of 2016. The Company's share of the net profits and losses of the unconsolidated affiliate are reported as equity in net earnings or losses of unconsolidated affiliate in our statement of operations. For the six -month period ended June 30, 2017, the equity in the net income of an unconsolidated affiliate was zero compared to \$61,000 for the six -month period ended June 30, 2016. The proceeds received from the sale are considered in the calculation of the gain on sale of investment in unconsolidated affiliate in our statement of operations. For the six -month period ended June 30, 2017, the gain on the sale of investment in unconsolidated affiliate was \$733,000, related to the liquidation of remaining assets affiliated with the partnership.

#### 9. BUSINESS DEVELOPMENTS AND OTHER SIGNIFICANT TRANSACTIONS

##### *2017 Acquisition*

On June 8, 2017, the Company entered into an Asset Purchase Agreement (the "Purchase Agreement") with Park Place Nursing and Rehabilitation Center, LLC, Dunn Nursing Home, Inc., Wood Properties of Selma LLC, and Homewood of Selma, LLC to acquire a 103 -bed skilled nursing center in Selma, Alabama, for an aggregate purchase price of \$8,750,000. In connection with the acquisition, on June 30, 2017, the Company amended the terms of its Second Amended and Restated Term Loan Agreement to increase the facility by \$7,500,000, which is described in Note 4 to the interim consolidated financial statements herein. The acquisition transaction closed subsequent to June 30, 2017, on July 1, 2017. Therefore, at June 30, 2017, the Company maintained the funds in escrow to finance the acquisition, which are presented in the Company's interim consolidated balance sheet. Refer to Note 10 to the interim consolidated financial statements for further discussion on this acquisition.

##### *Golden Living Transaction*

On August 15, 2016, the Company entered into an Operation Transfer Agreement with Golden Living (the "Lessor") to assume the operations of 22 centers in Alabama and Mississippi.

On October 1, 2016, the Company entered into a Master Lease Agreement (the "Lease") with Golden Living to directly lease eight centers located in Mississippi from the Lessor, which include: (i) a 152 -bed skilled nursing center known as Golden Living Center - Amory; (ii) a 130 -bed skilled nursing center known as Golden Living Center - Batesville; (iii) a 58 -bed skilled nursing center known as Golden Living Center - Brook Manor; (iv) a 119 -bed skilled nursing center known as Golden Living Center - Eupora; (v) a 140 -bed skilled nursing center known as Golden Living Center - Ripley; (vi) a 140 -bed skilled nursing center known as Golden Living Center - Southaven; (vii) a 120 -bed skilled nursing center known as Golden Living Center - Eason Blvd; (viii) a 60 -bed skilled nursing center known as Golden Living Center - Tylertown. The Lease is triple net and has an initial term of ten years with two separate five year options to extend the term. The Company also assumed the individual leases of a 120 -bed center known as Broadmoor Nursing Home, with an initial lease term of ten years with first year rent of \$540,000, escalating

to \$780,000 in the second year, and 2% annually thereafter, and a 99 -bed skilled nursing center known as Leake County Nursing Home, with a lease term of two years with annual rent of \$300,000 .

On November, 1 2016, the Company amended and restated the Lease ("Amended Lease") with the Lessor to directly lease an additional twelve centers located in Alabama from the Lessor, which include: (i) a 87 -bed skilled nursing center known as Golden Living Center - Arab; (ii) a 180 -bed skilled nursing center known as Golden Living Center - Meadowood; (iii) a 132 -bed skilled nursing center known as Golden Living Center - Riverchase; (iv) a 100 -bed skilled nursing center known as Golden Living Center - Boaz; (v) a 154 -bed skilled nursing center known as Golden Living Center - Foley; (vi) a 50 -bed skilled nursing center known as Golden Living Center - Hueytown; (vii) a 85 -bed skilled nursing center known as Golden Living Center - Lanett; (viii) a 138 -bed skilled nursing center known as Golden Living Center - Montgomery; (ix) a 120 -bed skilled nursing center known as Golden Living Center - Oneonta; (x) a 173 -bed skilled nursing center known as Golden Living Center - Oxford; (xi) a 94 -bed skilled nursing center known as Golden Living Center - Pell City; (xii) a 123 -bed skilled nursing center known as Golden Living Center - Winfield. The Amended Lease is triple net and has an initial term of ten years with two separate five years options to extend the term. Base rent for the amended lease is \$24,675,000 for the first year and escalates 2% annually thereafter.

#### 2016 Acquisitions

On February 26, 2016, the Company exercised its purchase options to acquire the real estate assets for Diversicare of Hutchinson in Hutchinson, Kansas and Clinton Place in Clinton, Kentucky for \$4,250,000 and \$3,300,000 , respectively. The Company has operated these facilities since February 2015 and April 2012, respectively. Hutchinson is an 85 -bed skilled nursing facility, and Clinton is an 88 -bed skilled nursing facility. As a result of the consummation of the Agreements, the Company allocated the purchase price and acquisition costs between the assets acquired. The allocation of the purchase price was determined with the assistance of HealthTrust LLC, a third-party real estate valuation firm. The allocation for the assets acquired is as follows:

|                                   | <b>Hutchinson</b>   | <b>Clinton Place</b> |
|-----------------------------------|---------------------|----------------------|
| Purchase Price                    | \$ 4,250,000        | \$ 3,300,000         |
| Acquisition Costs                 | 43,000              | 34,000               |
|                                   | <u>\$ 4,293,000</u> | <u>\$ 3,334,000</u>  |
| <b>Allocation:</b>                |                     |                      |
| Buildings                         | 3,443,000           | 2,898,000            |
| Land                              | 365,000             | 267,000              |
| Furniture, Fixtures and Equipment | 485,000             | 169,000              |
|                                   | <u>\$ 4,293,000</u> | <u>\$ 3,334,000</u>  |

#### 2016 Lease Termination

On May 31, 2016, the Company entered into an Agreement with Avon Ohio, LLC to amend the original lease agreement, thus terminating the Company's right of possession of the facility. As a result, the Company incurred lease termination costs of \$2,008,000 in the second quarter of 2016. Under the amended agreement, the Company is required to pay \$300,000 per year through the term of the original lease agreement, July 31, 2024. For accounting purposes, this transaction was not reported as a discontinued operation, which is in accordance with the modified authoritative guidance for reporting discontinued operations, effective January 1, 2015. A disposal is now required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results.

#### 2016 Sale of Investment in Unconsolidated Affiliate

On October 28, 2016, the Company and its partners entered into an asset purchase agreement to sell the pharmacy joint venture. The sale resulted in a \$1,366,000 gain in the fourth quarter of 2016. Subsequently, we recognized an additional gain of \$733,000 for the six -month period ended June 30, 2017 , related to the final liquidation of remaining net assets affiliated with the partnership.

## 10. SUBSEQUENT EVENTS

On July 1, 2017 the Company acquired a 103 -bed skilled nursing center in Selma, Alabama, including certain land, improvements, furniture, fixtures and equipment, personal property and intangible property from Park Place Nursing and Rehabilitation Center, LLC, Dunn Nursing Home, Inc., Wood Properties of Selma LLC, and Homewood of Selma, LLC for an aggregate purchase price of \$8,750,000 . This facility is expected to contribute in excess of \$8,000,000 in annual revenues.

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

**Overview**

Diversicare Healthcare Services, Inc. (together with its subsidiaries, “Diversicare” or the “Company”) provides long-term care services to nursing center patients in ten states, primarily in the Southeast, Midwest, and Southwest. The Company’s centers provide a range of health care services to their patients and residents that include nursing, personal care, and social services. Additionally, the Company’s nursing centers also offer a variety of comprehensive rehabilitation services, as well as nutritional support services. The Company’s continuing operations include centers in Alabama, Florida, Indiana, Kansas, Kentucky, Mississippi, Missouri, Ohio, Tennessee, and Texas.

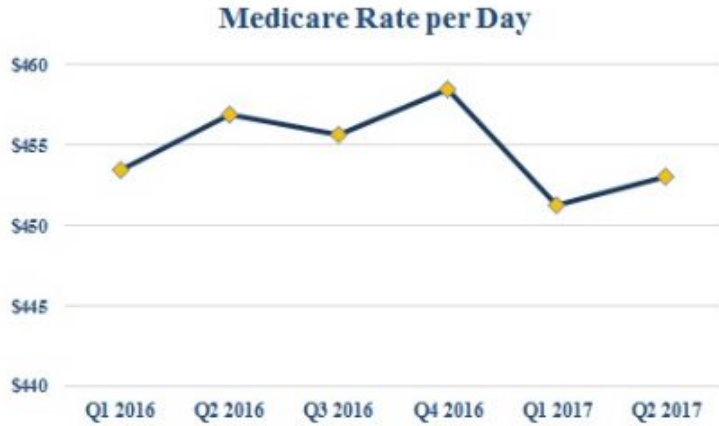
As of June 30, 2017, the Company’s continuing operations consist of 76 nursing centers with 8,453 licensed nursing beds. The Company owns 17 and leases 59 of its nursing centers. Our nursing centers range in size from 48 to 320 licensed nursing beds. The licensed nursing bed count does not include 496 licensed assisted living and residential beds.

**Strategic Operating Initiatives**

We identified several key strategic objectives to increase shareholder value through improved operations and business development. These strategic operating initiatives include: improving skilled mix in our nursing centers, improving our average Medicare rate, implementing and maintaining Electronic Medical Records (“EMR”) to improve Medicaid capture, and completing strategic acquisitions. We have experienced success in these initiatives and expect to continue to build on these improvements.

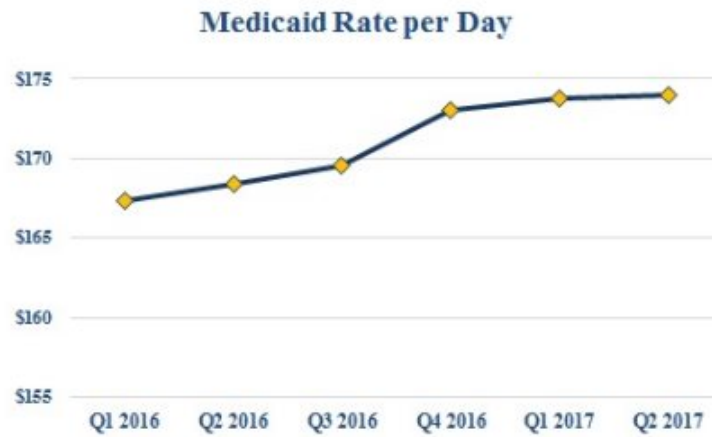
*Improving skilled mix and average Medicare rate:*

Our strategic operating initiatives of improving our skilled mix and our average Medicare rate required investing in nursing and clinical care to treat more acute patients along with nursing center-based marketing representatives to attract these patients. These initiatives developed referral and Managed Care relationships that have attracted and are expected to continue to attract payor sources for patients covered by Medicare and Managed Care. The Company’s skilled mix for the three months ended June 30, 2017 and 2016 was 15.6% and 15.2%, respectively. The graph below illustrates our success with increasing our average Medicare rate per day:



*Implementing Electronic Medical Records to improve Medicaid capture:*

As another part of our strategic operating initiatives, we implemented EMR to improve Medicaid acuity capture, primarily in our states where the Medicaid payments are acuity based. We completed the implementation of EMR in all our nursing centers in December 2011, on time and under budget, and since implementation, have increased our average Medicaid rate despite rate cuts in certain acuity based states by accurate and timely capture of care delivery. The graph below illustrates our success with increasing our average Medicaid rate per day since implementation:



*Completing strategic acquisitions and dispositions:*

Our strategic operating initiatives include a renewed focus on completing strategic acquisitions and dispositions. We continue to pursue and investigate opportunities to acquire, lease or develop new centers, focusing primarily on opportunities within our existing geographic areas of operation.

On July 1, 2017, we acquired a 103 -bed skilled nursing center in Selma, Alabama, including certain land, improvements, furniture, fixtures and equipment, personal property and intangible property for an aggregate purchase price of approximately \$8.8 million . The completion of this acquisition brings the Company's operations to 77 nursing centers, real estate of 18 owned, with 8,556 skilled nursings beds. This center is expected to contribute in excess of \$8.0 million in annual revenues. Refer to Note 10 to the interim consolidated financial statements for further discussion on this acquisition.

On October 1, 2016 and November 1, 2016, we assumed the operations of ten centers in Mississippi and 12 centers in Alabama, respectively, which is further discussed in Note 9 to the interim consolidated financial statements. These acquired facilities are expected to contribute in excess of \$185 million in annual revenues.

As part of our strategic efforts, we have also performed thorough analysis on our existing centers in order to determine whether continuing operations within certain markets or regions was in line with the short-term and long-term strategy of the business. As a result, in May 2016, we ceased operations at our Avon, Ohio, facility, thus terminating our lease with Avon Ohio, LLC. This transaction was not reported as a discontinued operation as described in Note 9 to the interim consolidated financial statements.

**Basis of Financial Statements**

Our patient revenues consist of the fees charged for the care of patients in the nursing centers we own and lease. Our operating expenses include the costs, other than lease, professional liability, depreciation and amortization expenses, incurred in the operation of the nursing centers we own and lease. Our general and administrative expenses consist of the costs of the corporate office and regional support functions. Our interest, depreciation and amortization expenses include all such expenses across the range of our operations.

**Critical Accounting Policies and Judgments**

A "critical accounting policy" is one which is both important to the understanding of our financial condition and results of operations and requires management's most difficult, subjective or complex judgments often involving estimates of the effect of matters that are inherently uncertain. Actual results could differ from those estimates and cause our reported net income or loss to vary significantly from period to period. Our critical accounting policies are more fully described in our 2016 Annual Report on Form 10-K.

## Revenue Sources

We classify our revenues from patients and residents into four major categories: Medicaid, Medicare, Managed Care, and Private Pay and other. Medicaid revenues are composed of the traditional Medicaid program established to provide benefits to those in need of financial assistance in the securing of medical services. Medicare revenues include revenues received under both Part A and Part B of the Medicare program. Managed Care revenues include payments for patients who are insured by a third-party entity, typically called a Health Maintenance Organization, often referred to as an HMO plan, or are Medicare beneficiaries who assign their Medicare benefits to a Managed Care replacement plan often referred to as Medicare replacement products. The Private Pay and other revenues are composed primarily of individuals or parties who directly pay for their services. Included in the Private Pay and other payors are patients who are hospice beneficiaries as well as the recipients of Veterans Administration benefits. Veterans Administration payments are made pursuant to renewable contracts negotiated with these payors.

The following table sets forth net patient and resident revenues related to our continuing operations by payor source for the periods presented (dollar amounts in thousands):

|                       | Three Months Ended June 30, |        |           |        | Six Months Ended June 30, |        |            |        |
|-----------------------|-----------------------------|--------|-----------|--------|---------------------------|--------|------------|--------|
|                       | 2017                        |        | 2016      |        | 2017                      |        | 2016       |        |
| Medicaid              | \$ 73,510                   | 51.6%  | \$ 48,339 | 50.5%  | \$ 146,383                | 51.5%  | \$ 95,545  | 49.3%  |
| Medicare              | 38,900                      | 27.3   | 26,397    | 27.6   | 76,911                    | 27.1   | 54,418     | 28.1   |
| Managed Care          | 9,959                       | 7.0    | 6,531     | 6.8    | 20,764                    | 7.3    | 13,933     | 7.2    |
| Private Pay and other | 20,181                      | 14.1   | 14,538    | 15.1   | 39,992                    | 14.1   | 29,854     | 15.4   |
| Total                 | \$ 142,550                  | 100.0% | \$ 95,805 | 100.0% | \$ 284,050                | 100.0% | \$ 193,750 | 100.0% |

The following table sets forth average daily skilled nursing census by payor source for our continuing operations for the periods presented:

|                       | Three Months Ended June 30, |        |       |        | Six Months Ended June 30, |        |       |        |
|-----------------------|-----------------------------|--------|-------|--------|---------------------------|--------|-------|--------|
|                       | 2017                        |        | 2016  |        | 2017                      |        | 2016  |        |
| Medicaid              | 4,630                       | 68.6%  | 3,138 | 68.3%  | 4,640                     | 68.6%  | 3,113 | 67.4%  |
| Medicare              | 810                         | 12.0   | 538   | 11.7   | 801                       | 11.8   | 556   | 12.0   |
| Managed Care          | 243                         | 3.6    | 161   | 3.5    | 258                       | 3.8    | 170   | 3.7    |
| Private Pay and other | 1,065                       | 15.8   | 758   | 16.5   | 1,061                     | 15.8   | 781   | 16.9   |
| Total                 | 6,748                       | 100.0% | 4,595 | 100.0% | 6,760                     | 100.0% | 4,620 | 100.0% |

Consistent with the nursing home industry in general, changes in the mix of a facility's patient population among Medicaid, Medicare, Managed Care, and Private Pay and other can significantly affect the profitability of the facility's operations.

## Health Care Industry

The health care industry is subject to numerous federal, state, and local laws and regulations, which are frequently subject to change. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, quality of patient care and Medicare and Medicaid fraud and abuse. Compliance with such laws and regulations is subject to ongoing government review and interpretation, as well as regulatory actions in which government agencies seek to impose fines and penalties. The Company is involved in regulatory actions of this type from time to time.

The U.S. Congress and certain state legislatures have introduced and passed significant proposals and legislation concerning health care and health insurance. The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act"), impacts our Company, our employees and our patients in a variety of ways, some of which may result in increased operating expenses and involve changes or reductions to our Medicaid and Medicare reimbursement. For example, the Affordable Care Act, as currently structured, expands the role of home-based and community services, which may place downward pressure on our sustaining population of Medicaid patients. However, there is substantial uncertainty regarding the ongoing net effect of the Affordable Care Act. The 2016 federal elections resulted in a presidential administration that, along with certain members of Congress, have stated their intent to repeal or make significant changes to the Affordable Care Act, its implementation and/or its interpretation. We are unable to predict whether, when, and how the Affordable Care Act will be changed, what alternative provisions, if any, will be enacted, the timing of enactment and implementation of alternative provisions, and the impact of alternative provisions on providers as well as other healthcare industry participants. In addition, a presidential executive order has been signed that directs agencies to minimize "economic and regulatory burdens" of the Affordable Care Act, but it is unclear how this will be implemented or how federal agencies will implement

provisions of the Affordable Care Act. Further, any changes to the Affordable Care Act could eliminate or alter provisions beneficial to us while leaving in place provisions reducing our reimbursement. Government efforts to repeal or change the Affordable Care Act may have an adverse effect on our business, results of operations, cash flow, capital resources and liquidity.

### Contractual Obligations and Commercial Commitments

We have certain contractual obligations of continuing operations as of June 30, 2017, summarized by the period in which payment is due, as follows (dollar amounts in thousands):

| Contractual Obligations   | Total        | Less than<br>1 year | 1 to 3<br>Years | 3 to 5<br>Years | After<br>5 Years |
|---|--------------|---------------------|-----------------|-----------------|------------------|
| Long-term debt obligations <sup>(1)</sup>                           | \$ 107,022   | \$ 14,251           | \$ 34,095       | \$ 58,676       | \$ —             |
| Settlement obligations <sup>(2)</sup>                               | 318          | 318                 | —               | —               | —                |
| Elimination of Preferred Stock Conversion feature <sup>(3)</sup>    | 859          | 687                 | 172             | —               | —                |
| Operating leases <sup>(4)</sup>                                     | 1,103,785    | 57,523              | 118,066         | 122,122         | 806,074          |
| Required capital expenditures under operating leases <sup>(5)</sup> | 12,873       | 1,231               | 2,459           | 2,458           | 6,725            |
| Total   | \$ 1,224,857 | \$ 74,010           | \$ 154,792      | \$ 183,256      | \$ 812,799       |

- (1) Long-term debt obligations include scheduled future payments of principal and interest of long-term debt and amounts outstanding on our capital lease obligations. Our long-term debt obligations increased \$11.8 million between December 31, 2016 and June 30, 2017, which is related to assumption of operation for the Golden Living centers and purchase of the center in Selma, Alabama. See Note 4, "Long-Term Debt and Interest Rate Swap," to the interim consolidated financial statements included in this report for additional information.
- (2) Settlement obligations relate to professional liability cases that are expected to be paid within the next twelve months. The professional liabilities are included in our current portion of self-insurance reserves.
- (3) Payments to Omega Health Investors ("Omega"), from which we lease 35 nursing centers, for the elimination of the preferred stock conversion feature in connection with restructuring the preferred stock and master lease agreements. Monthly payments of approximately \$57,000 will be made through the end of the initial lease period that ends in September 2018.
- (4) Represents lease payments under our operating lease agreements. Assumes all renewal periods are enacted. Our operating lease obligations decreased \$28.0 million between December 31, 2016 and June 30, 2017.
- (5) Includes annual expenditure requirements under operating leases. Our required capital expenditures decreased \$0.4 million between December 31, 2016 and June 30, 2017.

We have employment agreements with certain members of management that provide for the payment to these members of amounts up to two times their annual salary in the event of a termination without cause, a constructive discharge (as defined therein), or upon a change of control of the Company (as defined therein). The maximum contingent liability under these agreements is approximately \$1.8 million as of June 30, 2017. The terms of such agreements are for one year and automatically renew for one year if not terminated by us or the employee. In addition, upon the occurrence of any triggering event, those certain members of management may elect to require that we purchase equity awards granted to them for a purchase price equal to the difference in the fair market value of our common stock at the date of termination versus the stated equity award exercise price. Based on the closing price of our common stock on June 30, 2017, the potential contingent liability for the repurchase of the equity grants is \$0.4 million.

## Results of Operations

The following tables present the unaudited interim statements of operations and related data for the three and six month periods ended June 30, 2017 and 2016 :

| (in thousands)   | Three Months Ended June 30, |            |           |          |
|--|-----------------------------|------------|-----------|----------|
|  | 2017                        | 2016       | Change    | %        |
| PATIENT REVENUES, net  | \$ 142,550                  | \$ 95,805  | \$ 46,745 | 48.8 %   |
| EXPENSES:  |                             |            |           |          |
| Operating  | 113,166                     | 78,385     | 34,781    | 44.4 %   |
| Lease and rent expense                                       | 13,763                      | 6,854      | 6,909     | 100.8 %  |
| Professional liability                                       | 2,724                       | 1,934      | 790       | 40.8 %   |
| General and administrative                                   | 8,221                       | 6,881      | 1,340     | 19.5 %   |
| Depreciation and amortization                                | 2,620                       | 2,060      | 560       | 27.2 %   |
| Lease termination costs                                      | —                           | 2,008      | (2,008)   | 100.0 %  |
| Total expenses   | 140,494                     | 98,122     | 42,372    | 43.2 %   |
| OPERATING INCOME (LOSS)                                      | 2,056                       | (2,317)    | 4,373     | 188.7 %  |
| OTHER INCOME (EXPENSE):                                      |                             |            |           |          |
| Equity in net income of unconsolidated affiliate             | —                           | 28         | (28)      | (100.0)% |
| Interest expense, net  | (1,541)                     | (1,158)    | (383)     | (33.1)%  |
|  | (1,541)                     | (1,130)    | (411)     | (36.4)%  |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 515                         | (3,447)    | 3,962     | 114.9 %  |
| BENEFIT (PROVISION) FOR INCOME TAXES                         | (134)                       | 1,297      | (1,431)   | (110.3)% |
| INCOME (LOSS) FROM CONTINUING OPERATIONS                     | \$ 381                      | \$ (2,150) | \$ 2,531  | 117.7 %  |

| (in thousands)   | Six Months Ended June 30, |            |           |          |
|--|---------------------------|------------|-----------|----------|
|  | 2017                      | 2016       | Change    | %        |
| PATIENT REVENUES, net  | \$ 284,050                | \$ 193,750 | \$ 90,300 | 46.6 %   |
| EXPENSES:  |                           |            |           |          |
| Operating  | 223,833                   | 157,003    | 66,830    | 42.6 %   |
| Lease and rent expense                                       | 27,506                    | 14,106     | 13,400    | 95.0 %   |
| Professional liability                                       | 5,394                     | 4,000      | 1,394     | 34.9 %   |
| General and administrative                                   | 17,194                    | 13,615     | 3,579     | 26.3 %   |
| Depreciation and amortization                                | 5,107                     | 4,063      | 1,044     | 25.7 %   |
| Lease termination costs                                      | —                         | 2,008      | (2,008)   | 100.0 %  |
| Total expenses   | 279,034                   | 194,795    | 84,239    | 43.2 %   |
| OPERATING INCOME (LOSS)                                      | 5,016                     | (1,045)    | 6,061     | 580.0 %  |
| OTHER INCOME (EXPENSE):                                      |                           |            |           |          |
| Equity in net income of unconsolidated affiliate             | —                         | 61         | (61)      | (100.0)% |
| Gain on sale of investment in unconsolidated affiliate       | 733                       | —          | 733       | 100.0 %  |
| Interest expense, net  | (3,024)                   | (2,228)    | (796)     | (35.7)%  |
| Debt retirement costs  | —                         | (351)      | 351       | (100.0)% |
|  | (2,291)                   | (2,518)    | 227       | 9.0 %    |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 2,725                     | (3,563)    | 6,288     | 176.5 %  |
| BENEFIT (PROVISION) FOR INCOME TAXES                         | (996)                     | 1,339      | (2,335)   | (174.4)% |
| INCOME (LOSS) FROM CONTINUING OPERATIONS                     | \$ 1,729                  | \$ (2,224) | \$ 3,953  | 177.7 %  |



| <i>Percentage of Net Revenues</i>                            | <b>Three Months Ended June 30,</b> |         | <b>Six Months Ended June 30,</b> |         |
|--|------------------------------------|---------|----------------------------------|---------|
|  | 2017                               | 2016    | 2017                             | 2016    |
| PATIENT REVENUES, net  | 100.0%                             | 100.0 % | 100.0%                           | 100.0 % |
| EXPENSES:  |                                    |         |                                  |         |
| Operating  | 79.4                               | 81.8    | 78.8                             | 81.0    |
| Lease and rent expense                                       | 9.7                                | 7.2     | 9.7                              | 7.3     |
| Professional liability                                       | 1.9                                | 2.0     | 1.9                              | 2.1     |
| General and administrative                                   | 5.8                                | 7.2     | 6.1                              | 7.0     |
| Depreciation and amortization                                | 1.8                                | 2.2     | 1.8                              | 2.1     |
| Lease termination costs                                      | —                                  | 2.1     | —                                | 1.0     |
| Total expenses   | 98.6                               | 102.5   | 98.3                             | 100.5   |
| OPERATING INCOME (LOSS)                                      | 1.4                                | (2.5)   | 1.7                              | (0.5)   |
| OTHER INCOME (EXPENSE):                                      |                                    |         |                                  |         |
| Equity in net losses of unconsolidated affiliate             | —                                  | —       | —                                | —       |
| Gain on sale of investment in unconsolidated affiliate       | —                                  | —       | 0.3                              | —       |
| Interest expense, net  | (1.1)                              | (1.2)   | (1.1)                            | (1.1)   |
| Debt retirement costs  | —                                  | —       | —                                | (0.2)   |
|  | (1.1)                              | (1.2)   | (0.8)                            | (1.3)   |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 0.3                                | (3.7)   | 0.9                              | (1.8)   |
| BENEFIT (PROVISION) FOR INCOME TAXES                         | (0.1)                              | 1.4     | (0.4)                            | 0.7     |
| INCOME (LOSS) FROM CONTINUING OPERATIONS                     | 0.2%                               | (2.3)%  | 0.5%                             | (1.1)%  |

### Three Months Ended June 30, 2017 Compared With Three Months Ended June 30, 2016

#### Patient Revenues

Patient revenues were \$142.6 million and \$95.8 million for the three months ended June 30, 2017 and 2016, respectively, an increase of \$46.8 million. The following table summarizes the revenue fluctuations attributable to our portfolio growth (in thousands):

|                          | Three Months Ended June 30, |           |           |
|--------------------------|-----------------------------|-----------|-----------|
|                          | 2017                        | 2016      | Change    |
| Same-store revenue       | \$ 96,570                   | \$ 95,805 | \$ 765    |
| 2016 acquisition revenue | 45,980                      | —         | 45,980    |
| Total revenue            | \$ 142,550                  | \$ 95,805 | \$ 46,745 |

The overall increase in revenues of \$46.8 million is primarily attributable to revenue contributions from the acquisition of the Golden Living operations in Alabama and Mississippi during the fourth quarter of 2016 of \$46.0 million.

On a same-store center basis, the average Medicare and Medicaid rate per patient day for the second quarter of 2017 increased compared to the second quarter of 2016, resulting in increases in revenue of \$0.5 million and \$0.5 million, respectively, or 2.4% and 0.9%, respectively. Our same-store Medicare average daily census for the second quarter of 2017 increased \$0.6 million, or 2.8%, and conversely our Medicaid average daily census for the second quarter of 2017 decreased \$1.1 million, or 2.2%. Revenue related to ancillary services increased for the second quarter of 2017 compared to the second quarter of 2016 by \$0.2 million.

The following table summarizes key revenue and census statistics for continuing operations for each period:

|                                 | Three Months Ended June 30, |           |
|---------------------------------|-----------------------------|-----------|
|                                 | 2017                        | 2016      |
| Skilled nursing occupancy       | 79.8%                       | 76.7%     |
| As a percent of total census:   |                             |           |
| Medicare census                 | 12.0%                       | 11.7%     |
| Medicaid census                 | 68.6%                       | 68.3%     |
| Managed Care census             | 3.6%                        | 3.5%      |
| As a percent of total revenues: |                             |           |
| Medicare revenues               | 27.3%                       | 27.6%     |
| Medicaid revenues               | 51.6%                       | 50.5%     |
| Managed Care revenues           | 7.0%                        | 6.8%      |
| Average rate per day:           |                             |           |
| Medicare                        | \$ 453.02                   | \$ 456.91 |
| Medicaid                        | \$ 173.92                   | \$ 168.36 |
| Managed Care                    | \$ 391.60                   | \$ 388.45 |

### Operating Expense

Operating expense increased in the second quarter of 2017 to \$113.2 million as compared to \$78.4 million in the second quarter of 2016 . Operating expense decreased as a percentage of revenue at 79.4% for the second quarter of 2017 as compared to 81.8% for the second quarter of 2016 . The following table summarizes the expense increases attributable to our portfolio growth (in thousands):

|                              | Three Months Ended June 30, |           |            |
|------------------------------|-----------------------------|-----------|------------|
|                              | 2017                        | 2016      | Change     |
| Same-store operating expense | \$ 76,991                   | \$ 78,385 | \$ (1,394) |
| 2016 acquisition expense     | 36,175                      | —         | 36,175     |
| Total expense                | \$ 113,166                  | \$ 78,385 | \$ 34,781  |

The overall increase in operating expense of \$34.8 million is primarily attributable the acquisition of the Golden Living operations in Alabama and Mississippi during the fourth quarter of 2016 of \$36.2 million .

On a same-store center basis, operating expenses decreased by \$1.4 million , which is attributable to a favorable variance in bad debt expense and health insurance costs of \$1.0 million and \$0.2 million, respectively, in second quarter of 2017 compared to the second quarter of 2016 .

One of the largest components of operating expenses is wages, which increased to \$65.8 million during the second quarter of 2017 as compared to \$45.1 million in the second quarter of 2016 , which consistent with above is due to acquisition activity.

### Lease Expense

Lease expense increased in the second quarter of 2017 to \$13.8 million as compared to \$6.9 million in the second quarter of 2016 . The increase in lease expense was primarily attributable to the 22 newly leased centers in Alabama and Mississippi, which occurred during the fourth quarter of 2016.

### Professional Liability

Professional liability expense was \$2.7 million and \$1.9 million in the second quarters of 2017 and 2016 , respectively. Our cash expenditures for professional liability costs of continuing operations were \$2.3 million and \$0.9 million for the second quarters of 2017 and 2016 , respectively. Professional liability expense and cash expenditures fluctuate from year to year based respectively on the results of our third-party professional liability actuarial studies and on the costs incurred in defending and settling existing claims. See “Liquidity and Capital Resources” for further discussion of the accrual for professional liability.

### General and Administrative Expense

General and administrative expense was \$8.2 million in the second quarter of 2017 as compared to \$6.9 million in the second quarter of 2016 , an increase of \$1.3 million , but conversely decreased as a percentage of revenue from 7.2% in 2016 to 5.8% in 2017 . The increase in general and administrative expense is attributable to an increase in corporate wages and payroll taxes and travel by \$1.3 million and \$0.1 million, respectively, which is due to the acquisition of 22 new centers during the fourth quarter of 2016.

### Depreciation and Amortization

Depreciation and amortization expense was approximately \$2.6 million in the second quarter of 2017 as compared to \$2.1 million in 2016 . The increase in depreciation expense relates to fixed assets at the newly leased centers.

### Interest Expense, Net

Interest expense was \$1.5 million in the second quarter of 2017 and \$1.2 million in the second quarter of 2016 , an increase of \$0.3 million. The increase was primarily attributable to higher debt balances in 2017 as a result of the change in ownership processes for the newly leased Alabama and Mississippi centers.

### Income (loss) from Continuing Operations before Income Taxes; Income (loss) from Continuing Operations per Common Share

As a result of the above, continuing operations reported income of \$0.5 million before income taxes for the second quarter of 2017 as compared to a loss of \$3.4 million for the second quarter of 2016 . The provision for income taxes was \$0.1 million for the second quarter of 2017 , and the benefit for income taxes \$1.3 million was for the second quarter of 2016 . Both basic and diluted income per common share from continuing operations were \$0.06 for the second quarter of 2017 as compared to both basic and diluted loss per common share from continuing operations of \$0.35 in the second quarter of 2016 .

## Six Months Ended June 30, 2017 Compared With Six Months Ended June 30, 2016

### Patient Revenues

Patient revenues were \$284.1 million and \$193.8 million for the six months ended June 30, 2017 and 2016, respectively, an increase of \$90.3 million. The following table summarizes the revenue fluctuations attributable to our portfolio growth (in thousands):

|                          | Six Months Ended June 30, |                   |                  |
|--------------------------|---------------------------|-------------------|------------------|
|                          | 2017                      | 2016              | Change           |
| Same-store revenue       | \$ 192,392                | \$ 193,750        | \$ (1,358)       |
| 2016 acquisition revenue | 91,658                    | —                 | 91,658           |
| Total revenue            | <u>\$ 284,050</u>         | <u>\$ 193,750</u> | <u>\$ 90,300</u> |

The overall increase in revenues of \$90.3 million is primarily attributable to revenue contributions from the acquisition of the Golden Living operations in Alabama and Mississippi during the fourth quarter of 2016 of \$91.7 million. The increase from the acquisition activity was partially offset by a decrease in same-store revenue of \$1.4 million which is explained in more detail below.

For same-store centers, the six months ended June 30, 2017 experienced one less day of operations compared to the six months ended June 30, 2016, resulting in a decrease in revenue of \$0.5 million or 0.3%.

On a same-store basis, our Medicare and Medicaid average daily census for the six months ended June 30, 2017 decreased compared to the six months ended June 30, 2016, resulting in decreases in revenue of \$1.4 million and \$1.5 million, respectively, or 3.1% and 1.5%, respectively. The average Medicare and Medicaid rate per patient day for same-store centers in 2017 increased \$1.2 million and \$0.9 million, respectively, or 2.6% and 1.0%, respectively.

The following table summarizes key revenue and census statistics for continuing operations for each period:

|                                 | Six Months Ended June 30, |           |
|---------------------------------|---------------------------|-----------|
|                                 | 2017                      | 2016      |
| Skilled nursing occupancy       | 80.0%                     | 76.7%     |
| As a percent of total census:   |                           |           |
| Medicare census                 | 11.8%                     | 12.0%     |
| Medicaid census                 | 68.6%                     | 67.4%     |
| Managed Care census             | 3.8%                      | 3.7%      |
| As a percent of total revenues: |                           |           |
| Medicare revenues               | 27.1%                     | 28.1%     |
| Medicaid revenues               | 51.5%                     | 49.3%     |
| Managed Care revenues           | 7.3%                      | 7.2%      |
| Average rate per day:           |                           |           |
| Medicare                        | \$ 452.15                 | \$ 455.15 |
| Medicaid                        | \$ 173.83                 | \$ 167.86 |
| Managed Care                    | \$ 386.31                 | \$ 391.86 |

### *Operating Expense*

Operating expense increased for the six months ended June 30, 2017 to \$223.8 million as compared to \$157.0 million for the six months ended June 30, 2016 . Operating expense decreased as a percentage of revenue at 78.8% in 2017 as compared to 81.0% in 2016 . The following table summarizes the expense increases attributable to our portfolio growth (in thousands):

|                              | Six Months Ended June 30, |            |            |
|------------------------------|---------------------------|------------|------------|
|                              | 2017                      | 2016       | Change     |
| Same-store operating expense | \$ 152,374                | \$ 157,003 | \$ (4,629) |
| 2016 acquisition expense     | 71,459                    | —          | 71,459     |
| Total expense                | \$ 223,833                | \$ 157,003 | \$ 66,830  |

The overall increase in operating expense of \$66.8 million is primarily attributable the acquisition of the Golden Living operations in Alabama and Mississippi during the fourth quarter of 2016 of \$71.5 million .

On a same-store center basis, operating expenses decreased by \$4.6 million , which is attributable to a provider tax refund of \$2.2 million from the state of Kentucky. Additionally, our bad debt expense decreased by \$1.6 million, which is partially offset by an increase in health insurance costs of \$0.5 million in 2017 .

One of the largest components of operating expenses is wages, which increased to \$130.8 million during 2017 as compared to \$90.2 million in, which is due to the centers acquired in 2016.

### *Lease Expense*

Lease expense increased for the six months ended June 30, 2017 to \$27.5 million as compared to \$14.1 million for the six months ended June 30, 2016 . The increase in lease expense was primarily attributable to the 22 newly leased centers in Alabama and Mississippi, which occurred during the fourth quarter of 2016.

### *Professional Liability*

Professional liability expense was \$5.4 million and \$4.0 million for the six months ended June 30, 2017 and 2016 , respectively. Our cash expenditures for professional liability costs of continuing operations were \$4.3 million and \$1.5 million for the six months ended June 30, 2017 and 2016 , respectively. Professional liability expense and cash expenditures fluctuate from year to year based respectively on the results of our third-party professional liability actuarial studies and on the costs incurred in defending and settling existing claims. See “Liquidity and Capital Resources” for further discussion of the accrual for professional liability.

### *General and Administrative Expense*

General and administrative expense was \$17.2 million for the six months ended June 30, 2017 as compared to \$13.6 million for the six months ended June 30, 2016 , an increase of \$3.6 million , but conversely a decrease as a percentage of revenue from 7.0% in 2016 to 6.1% in 2017 . The increase in general and administrative expense is primarily attributable to an increase in wages, travel and consulting fees by \$3.0 million, \$0.2 million and \$0.2 million, respectively, which is due to the acquisition of 22 new centers during the fourth quarter of 2016.

### *Depreciation and Amortization*

Depreciation and amortization expense was approximately \$5.1 million in 2017 as compared to \$4.1 million in 2016 . The increase in depreciation expense relates to fixed assets at the newly leased centers.

### *Gain on sale of investment in unconsolidated affiliate*

Gain on the sale of investment in unconsolidated affiliate was \$0.7 million for the six months ended June 30, 2017 . The Company and its partners entered into an asset purchase agreement to sell the pharmacy joint venture in the fourth quarter of 2016. A gain of \$1.4 million was recognized for the period ended December 31, 2016. The additional gain recognized in the first quarter of 2017 is related to the final liquidation of remaining net assets affiliated with the partnership.

### *Interest Expense, Net*

Interest expense was \$3.0 million for the six months ended June 30, 2017 and \$2.2 million for the six months ended June 30, 2016 , an increase of \$0.8 million . The increase was primarily attributable to higher debt balances in 2017 as a result of the change in ownership processes for the newly leased Alabama and Mississippi centers.

### *Income (loss) from Continuing Operations before Income Taxes; Income (loss) from Continuing Operations per Common Share*

As a result of the above, continuing operations reported income of \$2.7 million before income taxes for the six months ended June 30, 2017 as compared to a loss of \$3.6 million for the six months ended June 30, 2016 . The provision for income taxes was \$1.0 million for the six months ended June 30, 2017 , and the benefit for income taxes was \$1.3 million for the six months ended June 30, 2016 . The basic and diluted income per common share from continuing operations was \$0.28 and \$0.27 , respectively, for the six months ended June 30, 2017 as compared to both basic and diluted loss per common share from continuing operations of \$0.36 for the six months ended June 30, 2016 .

### **Liquidity and Capital Resources**

#### *Liquidity*

Our primary source of liquidity is the net cash flow provided by the operating activities of our centers. We believe that these internally generated cash flows will be adequate to service existing debt obligations, fund required capital expenditures as well as provide cash flows for investing opportunities. In determining priorities for our cash flow, we evaluate alternatives available to us and select the ones that we believe will most benefit us over the long-term. Options for our cash include, but are not limited to, capital improvements, dividends, purchase of additional shares of our common stock, acquisitions, payment of existing debt obligations as well as initiatives to improve nursing center performance. We review these potential uses and align them to our cash flows with a goal of achieving long-term success.

Net cash provided by operating activities of continuing operations totaled \$2.1 million for the six months ended June 30, 2017 , compared to net cash provided by operating activities of continuing operations of \$8.0 million in the same period of 2016 . One primary driver of the decline in cash provided by operating activities from continuing operations is the acquisition activity that occurred during the fourth quarter of 2016. The Company is required to complete a Change in Ownership ("CHOW") process for each of the nursing centers for which we assumed operations which results in limited cash inflows from the operations at these centers during this initial process.

Our cash expenditures related to professional liability claims of continuing operations were \$4.3 million and \$1.5 million for six months ended June 30, 2017 and 2016 , respectively. Although we work diligently to limit the cash required to settle and defend professional liability claims, a significant judgment entered against us in one or more legal actions could have a material adverse impact on our cash flows and could result in our being unable to meet all of our cash needs as they become due.

Investing activities of continuing operations used cash of \$12.7 million and \$8.4 million in 2017 and 2016 , respectively. The fluctuation is primarily attributable to the asset purchases of Hutchinson and Clinton in February 2016.

Financing activities of continuing operations provided cash of \$10.6 million in 2017 primarily due to draws on the Company's revolving credit facility. In 2016 , financing activities of continuing operations provided cash of \$1.8 million primarily due to the new debt associated with the Company's refinance in February 2016.

#### *Dividends*

On July 27, 2017 , the Board of Directors declared a quarterly dividend of \$0.055 per common share payable to shareholders of record as of September 30, 2017 , to be paid on October 16, 2017 . While the Board of Directors intends to pay quarterly dividends, the Board will make the determination of the amount of future cash dividends, if any, to be declared and paid based on, among other things, the Company's financial condition, funds from operations, the level of its capital expenditures and its future business prospects and opportunities.

#### *Professional Liability*

The Company has professional liability insurance coverage for its nursing centers that, based on historical claims experience, is likely to be substantially less than the claims that are expected to be incurred. Effective July 1, 2013, the Company established a wholly-owned, offshore limited purpose insurance subsidiary, SHC Risk Carriers, Inc. ("SHC"), to replace some of the expiring commercial policies. SHC covers losses up to specified limits per occurrence. On a per claim basis, coverage for losses in excess of those covered by SHC is maintained through unaffiliated commercial reinsurance carriers. All of the Company's nursing centers in Florida and Tennessee are now covered under the captive insurance policies along with most of the nursing centers in Alabama, Kentucky, and Texas. The insurance coverage provided for these centers under the SHC policy include coverage limits of \$0.5 million or \$1.0 million per medical incident with a sublimit per center of \$1.0 million and total annual aggregate policy limits of \$5.0 million . All other centers within the Company's portfolio are covered through various commercial insurance policies which provide coverage limits of \$1.0 million per claim and have sublimits of \$3.0 million per center, with varying aggregate policy limits and deductibles.

As of June 30, 2017, we have recorded total liabilities for reported and settled professional liability claims and estimates for incurred, but unreported claims of \$19.4 million. Our calculation of this estimated liability is based on an assumption that the Company will not incur a severely adverse judgment with respect to any asserted claim; however, a significant judgment could be entered against us in one or more of these legal actions, and such a judgment could have a material adverse impact on our financial position and cash flows.

#### *Capital Resources*

As of June 30, 2017, we had \$94.0 million of outstanding long-term debt and capital lease obligations. The \$94.0 million total includes \$1.5 million in capital lease obligations and \$24.5 million currently outstanding on the revolving credit facility. The balance of the long-term debt is comprised of \$68.0 million owed on our mortgage loan, which includes \$65.5 million on the term loan facility and \$2.5 million on the acquisition loan facility.

On February 26, 2016, the Company executed an Amended and Restated Credit Agreement (the "Credit Agreement") which modified the terms of the Original Mortgage Loan and the Original Revolver Agreements dated April 30, 2013. The Credit Agreement increases the Company's borrowing capacity to \$100.0 million allocated between a \$72.5 million Mortgage Loan ("Amended Mortgage Loan") and a \$27.5 million Revolver ("Amended Revolver"). The Amended Mortgage Loan consists of a \$60 million term loan facility and a \$12.5 million acquisition loan facility. Loan acquisition costs associated with the Amended Mortgage Loan and the Amended Revolver were capitalized in the amount of \$2.2 million and are being amortized over the five-year term of the agreements.

Under the terms of the amended agreements, the syndicate of banks provided the Amended Mortgage Loan with an original balance of \$72.5 million with a five-year maturity through February 26, 2021, and a \$27.5 million Amended Revolver through February 26, 2021. The Amended Mortgage Loan has a term of five years, with principal and interest payable monthly based on a 25-year amortization. Interest on the term and acquisition loan facilities is based on LIBOR plus 4.0% and 4.75%, respectively. A portion of the Amended Mortgage Loan is effectively fixed at 5.79% pursuant to an interest rate swap with an initial notional amount of \$30.0 million. As of June 30, 2017, the interest rate related to the Amended Mortgage Loan was 5.25%. The Amended Mortgage Loan is secured by seventeen owned nursing centers, related equipment and a lien on the accounts receivable of these centers. The Amended Mortgage Loan and the Amended Revolver are cross-collateralized and cross-defaulted. The Company's Amended Revolver has an interest rate of LIBOR plus 4.0% and is secured by accounts receivable and is subject to limits on the maximum amount of loans that can be outstanding under the revolver based on borrowing base restrictions.

Effective October 3, 2016, the Company entered into the Second Amendment ("Second Revolver Amendment") to amend the Amended Revolver. The Second Revolver Amendment increased the Amended Revolver capacity from the \$27.5 million in the Amended Revolver to \$52.3 million; provided that the maximum revolving facility be reduced to \$42.3 million on August 1, 2017. Subsequently, on June 30, 2017, the Company executed a Fourth Amendment (the "Fourth Revolver Amendment") to amend the Amended Revolver, which modifies the capacity of the revolver to remain at \$52.3 million.

On December 29, 2016, the Company executed a Third Amendment ("Third Revolver Amendment") to amend the Amended Revolver. The Third Amendment modifies the terms of the Amended Mortgage Loan Agreement by increasing the Company's letter of credit sublimit from \$10.0 million to \$15.0 million.

Effective June 30, 2017, the Company entered into a Second Amendment to the Second Amended (the "Second Term Amendment") to amend the Amended Mortgage Loan. The Second Term Amendment amends the terms of the Amended Mortgage Loan Agreement by increasing the Company's term loan facility by \$7.5 million.

As of June 30, 2017, the Company had \$24.5 million borrowings outstanding under the Amended Revolver compared to \$15.0 million outstanding as of December 31, 2016. The outstanding borrowings on the revolver primarily compensate for accumulated Medicaid and Medicare receivables at recently acquired facilities as these facilities proceed through the change in ownership process with CMS. Annual fees for letters of credit issued under the Amended Revolver are 3.00% of the amount outstanding. The Company has eleven letters of credit with a total value of \$13.4 million outstanding as of June 30, 2017. Considering the balance of eligible accounts receivable, the letters of credit, the amounts outstanding under the revolving credit facility and the maximum loan amount of 40.8 million, the balance available for borrowing under the Amended Revolver was \$0.8 million at June 30, 2017.

Our lending agreements contain various financial covenants, the most restrictive of which relates to debt service coverage ratios. We are in compliance with all such covenants at June 30, 2017.

Our calculated compliance with financial covenants is presented below:

|   | <b>Requirement</b> | <b>Level at<br/>June 30, 2017</b> |
|---|--------------------|-----------------------------------|
| Minimum fixed charge coverage ratio     | 1.05:1.00          | 1.10:1.00                         |
| Minimum adjusted EBITDA                 | \$11.5 million     | \$16.7 million                    |
| EBITDAR (mortgaged centers)             | \$10.0 million     | \$15.1 million                    |
| Current ratio (as defined in agreement) | 1.00:1.00          | 1.37:1.00                         |

As part of the debt agreements entered into in February 2016, we amended our interest rate swap agreement with a member of the bank syndicate as the counterparty. The interest rate swap agreement has the same effective date and maturity date as the Amended Mortgage Loan, and carries an initial notional amount of \$30.0 million. The interest rate swap agreement requires us to make fixed rate payments to the bank calculated on the applicable notional amount at an annual fixed rate of 5.79% while the bank is obligated to make payments to us based on LIBOR on the same notional amounts. We entered into the interest rate swap agreement to mitigate the variable interest rate risk on our outstanding mortgage borrowings.

### Receivables

Our operations could be adversely affected if we experience significant delays in reimbursement from Medicare, Medicaid or other third-party revenue sources. Our future liquidity will continue to be dependent upon the relative amounts of current assets (principally cash, accounts receivable and inventories) and current liabilities (principally accounts payable and accrued expenses). In that regard, accounts receivable can have a significant impact on our liquidity. Continued efforts by governmental and third-party payors to contain or reduce the acceleration of costs by monitoring reimbursement rates, by increasing medical review of bills for services, or by negotiating reduced contract rates, as well as any delay by us in the processing of our invoices, could adversely affect our liquidity and financial position.

Accounts receivable attributable to patient services of continuing operations totaled \$76.7 million at June 30, 2017 compared to \$72.5 million at December 31, 2016, representing approximately 46 days and 47 days revenue in accounts receivable, respectively. The decrease in accounts receivable is due to an increase in Medicaid collections from the centers undergoing the change in ownership process.

The allowance for bad debt was \$12.1 million at June 30, 2017 as compared to \$10.3 million at December 31, 2016. We continually evaluate the adequacy of our bad debt reserves based on patient mix trends, aging of older balances, payment terms and delays with regard to third-party payors, collateral and deposit resources, as well as other factors. We continue to evaluate and implement additional procedures to strengthen our collection efforts and reduce the incidence of uncollectible accounts.

### Off-Balance Sheet Arrangements

We have eleven letters of credit outstanding with an aggregate value of approximately \$13.4 million as of June 30, 2017. Eleven of these letters of credit serve as a security deposits for certain center leases, while one was issued in conjunction with the initial funding of our wholly-owned captive insurance company. These letters of credit were issued under our revolving credit facility. Our accounts receivable serve as the collateral for this revolving credit facility.

### Forward-Looking Statements

The foregoing discussion and analysis provides information deemed by management to be relevant to an assessment and understanding of our consolidated results of operations and financial condition. This discussion and analysis should be read in conjunction with our interim consolidated financial statements included herein. Certain statements made by or on behalf of us, including those contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those contemplated by the forward-looking statements made herein. Forward-looking statements are predictive in nature and are frequently identified by the use of terms such as "may," "will," "should," "expect," "believe," "estimate," "intend," and similar words indicating possible future expectations, events or actions. In addition to any assumptions and other factors referred to specifically in connection with such statements, other factors, many of which are beyond our ability to control or predict, could cause our actual results to differ materially from the results expressed or implied in any forward-looking statements including, but not limited to, our ability to successfully integrate the operations of our new nursing centers in Alabama, Mississippi, Kansas and Kentucky, as well as successfully operate all of our centers, our ability to increase census at our centers, changes in governmental reimbursement, government regulation, the impact of the recently adopted federal health care reform or any future health care reform, any increases in the cost of borrowing under our credit agreements, our ability to extend or replace our current credit facility, our ability to comply with covenants contained in those credit agreements, our ability to renew or extend our leases at or prior to the end of the existing lease terms, the outcome of professional liability lawsuits and claims, our ability to control ultimate professional liability costs, the accuracy of our estimate of our anticipated professional liability expense, the impact of future licensing surveys, the outcome of proceedings alleging violations of state or Federal False Claims Acts, laws and regulations governing quality of care or other laws and regulations applicable to our business including HIPAA and laws governing reimbursement from government payors, the costs of investing in our business initiatives and development, our ability to control



costs, changes to our valuation of deferred tax assets, changes in occupancy rates in our centers, changing economic and competitive conditions, changes in anticipated revenue and cost growth, changes in the anticipated results of operations, the effect of changes in accounting policies as well as others. Investors also should refer to the risks identified in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as risks identified in “Part I. Item 1A. Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2016, for a discussion of various risk factors of the Company and that are inherent in the health care industry. Given these risks and uncertainties, we can give no assurances that these forward-looking statements will, in fact, transpire and, therefore, caution investors not to place undue reliance on them. These assumptions may not materialize to the extent assumed, and risks and uncertainties may cause actual results to be different from anticipated results. These risks and uncertainties also may result in changes to the Company’s business plans and prospects. Such cautionary statements identify important factors that could cause our actual results to materially differ from those projected in forward-looking statements. In addition, we disclaim any intent or obligation to update these forward-looking statements.

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

The chief market risk factor affecting our financial condition and operating results is interest rate risk. As of June 30, 2017, we had outstanding borrowings of approximately \$92.5 million, \$63.5 million of which was subject to variable interest rates. In connection with our February 2016 financing agreement, we entered into an interest rate swap with an initial notional amount of \$30.0 million to mitigate the floating interest rate risk of a portion of such borrowing. In the event that interest rates were to change 1%, the impact on future pre-tax cash flows would be approximately \$0.6 million annually, representing the impact of increased or decreased interest expense on variable rate debt.

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

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), our management, including our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of June 30, 2017. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Quarterly Report on Form 10-Q, is properly recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission’s rules and forms. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures that, by their nature, can provide only reasonable assurance regarding management’s control objectives. Management does not expect that its disclosure controls and procedures will prevent all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance, and cannot guarantee that it will succeed in its stated objectives.

Based on an evaluation of the effectiveness of the design and operation of disclosure controls and procedures, our chief executive officer and chief financial officer concluded that, as of June 30, 2017, our disclosure controls and procedures were effective in reaching a reasonable level of assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission’s rules and forms.

## **PART II — OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

The provision of health care services entails an inherent risk of liability. Participants in the health care industry are subject to lawsuits alleging malpractice, negligence, violations of false claims acts, product liability, or related legal theories, many of which involve large claims and significant defense costs. Like many other companies engaged in the long-term care profession in the United States, we have numerous pending liability claims, disputes and legal actions for professional liability and other related issues. It is expected that we will continue to be subject to such suits as a result of the nature of our business. Further, as with all health care providers, we are periodically subject to regulatory actions seeking fines and penalties for alleged violations of health care laws and are potentially subject to the increased scrutiny of regulators for issues related to compliance with health care fraud and abuse laws and with respect to the quality of care provided to residents of our facilities. Like other health care providers, in

the ordinary course of our business, we are also subject to claims made by employees and other disputes and litigation arising from the conduct of our business.

As of June 30, 2017, we are engaged in 74 professional liability lawsuits. Seventeen lawsuits are currently scheduled for trial or arbitration during the next twelve months, and it is expected that additional cases will be set for trial or hearing. The ultimate results of any of our professional liability claims and disputes cannot be predicted. We have limited, and sometimes no, professional liability insurance with regard to most of these claims. A significant judgment entered against us in one or more of these legal actions could have a material adverse impact on our financial position and cash flows.

In July 2013, the Company learned that the United States Attorney for the Middle District of Tennessee ("DOJ") had commenced a civil investigation of potential violations of the False Claims Act ("FCA"). In October 2014, the Company learned that the investigation was started by the filing under seal of a false claims action against two of its centers. In response to civil investigative demands ("CIDs") and informal requests, the Company has provided to the DOJ documents and information relating to the Company's practices and policies for rehabilitation and other services, relating to the preadmission evaluation forms ("PAEs") required by TennCare, and relating to the Pre-Admission Screening and Resident Reviews ("PASRRs") required by the Medicare program. The DOJ has also issued CID's for testimony from current and former employees of the Company. The DOJ's civil investigation has been focused on six of our centers, but the DOJ has indicated that all of the Company's centers are the subject of the investigation related to rehabilitation therapy.

In June 2016, the Company received an authorized investigative demand (a form of subpoena) for documents in connection with a criminal investigation by the DOJ related to our practices with respect to PAEs and PASRRs. The Company has responded to this subpoena and provided additional information as requested. The Company cannot predict the outcome of these investigations or the related lawsuits, and the outcome could have a materially adverse effect on the Company, including the imposition of treble damages, criminal charges, fines, penalties and/or a corporate integrity agreement. The Company is committed to provide caring and professional services to its patients and residents in compliance with applicable laws and regulations.

In January 2009, a purported class action complaint was filed in the Circuit Court of Garland County, Arkansas against the Company and certain of its subsidiaries and Garland Nursing & Rehabilitation Center (the "Center"). The Company answered the original complaint in 2009, and there was no other activity in the case until May 2017. At that time, plaintiff filed an amended complaint asserting new causes of action. The amended complaint alleges that the defendants breached their statutory and contractual obligations to the patients of the Center over a multi-year period by failing to meet minimum staffing requirements, failing to otherwise adequately staff the Center and failing to provide a clean and safe living environment in the Center. The Company has filed an answer to the amended complaint denying plaintiffs' allegations and has asked the Court to dismiss the new causes of action asserted in the amended complaint because the Company was prejudiced by plaintiff's long delay in filing the amended complaint. The lawsuit remains in its early stages and has not yet been certified by the court as a class action. The Company intends to defend the lawsuit vigorously.

We cannot currently predict with certainty the ultimate impact of any of the above cases on our financial condition, cash flows or results of operations. Our reserve for professional liability expenses does not include any amounts for the pending DOJ investigation or the purported class action against the Arkansas centers. An unfavorable outcome in any of these lawsuits or any of our professional liability actions, any regulatory action, any investigation or lawsuit alleging violations of fraud and abuse laws or of elderly abuse laws or any state or Federal False Claims Act case could subject us to fines, penalties and damages, including exclusion from the Medicare or Medicaid programs, and could have a material adverse impact on our financial condition, cash flows or results of operations.

**ITEM 1A. RISK FACTORS.**

In addition to the other information contained in this Quarterly Report, the risks and uncertainties that we believe could materially affect our business, financial condition or future results and are most important for you to consider are discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K filed with the SEC on March 2, 2017. Additional risks and uncertainties which are not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also materially and adversely affect any of our business, financial position or future results.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURE.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS**

The exhibits filed as part of this report on Form 10-Q are listed in the Exhibit Index immediately following the signature page.

**SIGNATURES**

Pursuant to the requirements 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.

**Diversicare Healthcare Services, Inc.**

August 3, 2017

By: /s/ Kelly J. Gill  
\_\_\_\_\_  
Kelly J. Gill  
President and Chief Executive Officer, Principal Executive Officer and  
An Officer Duly Authorized to Sign on Behalf of the Registrant

By: /s/ James R. McKnight, Jr.  
\_\_\_\_\_  
James R. McKnight, Jr.  
Executive Vice President and Chief Financial Officer and  
An Officer Duly Authorized to Sign on Behalf of the Registrant

| Exhibit Number | Description of Exhibits  |
|----------------|--|
| 3.1            | Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement No. 33-76150 on Form S-1).  |
| 3.2            | Certificate of Designation of Registrant (incorporated by reference to Exhibit 3.5 to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2006).   |
| 3.3            | Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement No. 33-76150 on Form S-1).   |
| 3.4            | Bylaw Amendment adopted November 5, 2007 (incorporated by reference to Exhibit 3.4 to the Company's annual report on Form 10-K for the year ended December 31, 2007).  |
| 3.5            | Amendment to Certificate of Incorporation dated March 23, 1995 (incorporated by reference to Exhibit A of Exhibit 1 to the Company's Form 8-A filed March 30, 1995).   |
| 3.6            | Certificate of Designation of Registrant (incorporated by reference to Exhibit 3.4 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2001).   |
| 3.7            | Certificate of Ownership and Merger of Diversicare Healthcare Services, Inc. with and into Advocat Inc. (incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K filed March 14, 2013). |
| 3.8            | Amendment to Certificate of Incorporation dated June 9, 2016 (incorporated by reference to Exhibit 3.8 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2016).                          |
| 3.9            | Bylaw Second Amendment adopted April 14, 2016.   |
| 4.1            | Form of Common Stock Certificate (incorporated by reference to Exhibit 4 to the Company's Registration Statement No. 33-76150 on Form S-1).  |
| 10.1           | Fourth Amendment to Third Amended and Restated Revolving Loan and Security Agreement dated June 30, 2017.  |
| 10.2           | Second Amendment to Second Amended and Restated Term Loan and Security Agreement dated June 30, 2017.  |
| 31.1           | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).   |
| 31.2           | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).   |
| 32             | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b).   |
| 101.INS        | XBRL Instance Document   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB        | XBRL Taxonomy Extension Labels Linkbase Document   |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document   |

**FOURTH AMENDMENT TO THIRD  
AMENDED AND RESTATED REVOLVING LOAN AND SECURITY AGREEMENT**

THIS FOURTH AMENDMENT TO THIRD AMENDED AND RESTATED REVOLVING LOAN AND SECURITY AGREEMENT (this “ Amendment ”) dated as of June 30, 2017, is by and among **THE PRIVATEBANK AND TRUST COMPANY** , an Illinois banking corporation (together with its successors and assigns, “ Administrative Agent ”) in its capacity as administrative agent for the Lenders (as defined below), the Lenders, **DIVERSICARE MANAGEMENT SERVICES CO.** , a Tennessee corporation, and certain of its affiliates parties hereto identified on the signature pages as “Original Borrower” (individually and collectively, “ Original Borrower ”), and **DIVERSICARE OF SELMA, LLC** , a Delaware limited liability company (“ New Opco ”) and **DIVERSICARE SELMA PROPERTY, LLC** , a Delaware limited liability company (“ New Propco ”; New Propco together with New Opco are hereinafter referred to, individually and collectively, as “ New Borrower ”). New Borrower and Original Borrower are hereinafter referred to individually and collectively as, “ Borrower ”.

**RECITALS :**

**WHEREAS** , Original Borrower, Administrative Agent, and the financial institutions signatories thereto (the “ Lenders ”) are parties to that certain Third Amended and Restated Revolving Loan and Security Agreement dated as of February 26, 2016 (as the same has been, and may hereafter be, amended, restated, supplemented or otherwise modified from time to time, the “ Loan Agreement ”; all capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Loan Agreement as amended by this Amendment); and

**WHEREAS** , Borrower, Administrative Agent and Lenders desire to amend the Loan Agreement as provided in and subject to the terms and conditions of this Amendment.

**NOW, THEREFORE** , for and in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto (intending to be legally bound) hereby agree as follows:

1. **Joinder and Assumption** . From and after the date hereof, New Borrower hereby absolutely and unconditionally (i) joins as and becomes a party to the Loan Agreement as a Borrower thereunder and to each Financing Agreement to which Original Borrower is a party, (ii) assumes, as a joint and several obligor thereunder, all of the obligations, liabilities and indemnities of a Borrower under the Loan Agreement and all other Financing Agreements, (iii) covenants and agrees to be bound by and adhere to all of the terms, covenants, waivers, releases, agreements and conditions of or respecting a Borrower with respect to the Loan Agreement and the other Financing Agreements and all of the representations and warranties contained in the Loan Agreement and the other Financing Agreements with respect to a Borrower, and (iv) collaterally assigns and transfers to Administrative Agent (for the benefit of Lenders and itself) and hereby grants to Administrative Agent (for the benefit of Lenders and itself) a continuing first-priority security interest in all of New Borrower’s now owned and existing and hereafter acquired and arising Collateral, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of all of the Liabilities, subject to any applicable Intercreditor Agreements. New Borrower hereby authorizes Administrative Agent to file at any time uniform commercial code financing statements in such jurisdictions and offices as Administrative Agent deems necessary in connection with the perfection of a security interest in all of New Borrower’s now owned or hereafter arising or acquired Collateral, including, without limitation, Accounts and Deposit Accounts of New Borrower, and all proceeds and products thereof. From and after the date hereof, any reference to the term “Borrower” in the Loan Agreement and the Financing Agreements shall also include New Borrower.

2. **Supplementation of Certain Disclosure Schedules** . In connection with the joinder of New Borrower to the Loan Agreement, Schedule 1.1(a) (Borrowers), Schedule 1.1(b) (Affiliated Term Borrowers), Schedule 1.1(c) (Propco Borrowers), Schedule 1.1(f) (Facilities, Locations, Real Property, Operators, Owners, Leases), Schedule 7.8 (Names), Schedule 7.12 (Organizational Chart), Schedule 7.33 (Capitalization) and Schedule 7.36 (Commercial Leases) of the Loan Agreement shall be supplemented from and after the date of this Amendment as set forth on the applicable and respective schedules attached hereto and made a part hereof so that such schedules shall reflect the matters intended to be shown thereon as of the date of this Amendment.

3. **Amendments to Loan Agreement** . Subject to the satisfaction of the conditions set forth in Section 6 below and in reliance upon the representations and warranties set forth in Section 5 below, Borrower, Administrative Agent and Lenders hereby amend the Loan Agreement as follows:

(a) Subsection (d) of the definition of “Change of Control” in Section 1.1 of the Loan Agreement shall be amended and restated in its entirety to read as follows:

(d) Diversicare Holding Company, LLC shall at any time after the Closing Date have control and voting power over less than all of the issued and outstanding Stock of Diversicare Kansas, LLC, Diversicare of Glasgow, LLC, Diversicare of Fulton, LLC and Diversicare of Selma, LLC,

(b) The definition of “Financing Agreements” in Section 1.1 of the Loan Agreement shall hereafter be deemed to also include this Amendment and each of the documents identified in Sections 6(c), (d), (e), (f), (g) and (p) in this Amendment.

(c) The definition of “Libor Base Rate” contained in Section 1.1 of the Loan Agreement is hereby amended by deleting the last sentence at the end of such definition.

(d) The definition of “Maximum Revolving Facility” in Section 1.1 of the Loan Agreement shall be amended and restated in its entirety as follows:

“ Maximum Revolving Facility ” means an amount equal to Fifty-Two Million Two Hundred Fifty Thousand and No/100 Dollars (\$52,250,000.00).

(e) Section 9.3 of the Loan Agreement shall be amended to amend and restate the second proviso therein to read as follows:

provided further, that, subject to the terms and conditions of the Term Loan Agreement, the Hutchinson Propco (as defined therein), Clinton Propco (as defined therein) and Selma Propco (as defined therein) may enter into the Hutchinson Acquisition (as defined therein), Clinton Acquisition (as defined therein) and Selma Acquisition (as defined therein), respectively, an Affiliated Term Loan Borrower may enter into a Permitted Acquisition (as defined therein) subject to satisfaction of all of the related conditions precedent thereto.

(f) Annex A (Lenders, Pro Rata Shares/Dollar Allocations, and Notice Information) to the Loan Agreement shall be amended and restated and replaced with Annex A attached hereto.

4. **No Other Amendments**. Borrower acknowledges and expressly agrees that this Amendment is limited to the extent expressly set forth herein and shall not constitute a modification or amendment of the Loan Agreement or any other Financing Agreements or a course of dealing at variance with the terms or conditions of the Loan Agreement or any other Financing Agreements (other than as expressly set forth in this Amendment and the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith, including those identified in Sections 6(c), (d), (e), (f), (g) and (p)).

5. **Representations and Warranties**. In order to induce Administrative Agent and Lenders to enter into this Amendment, Borrower hereby represents and warrants to Administrative Agent and Lenders (which representations and warranties shall survive the execution and delivery hereof), both before and after giving effect to this Amendment that:

(a) Each of the representations and warranties of each Borrower (including Original Borrower and New Borrower) contained in the Loan Agreement and the other Financing Agreements to which Borrower is a party are true and correct in all material respects (without duplication of any materiality carve out already provided therein) on and as of the date hereof, in each case as if made on and as of such date, other than representations and warranties that expressly relate solely to an earlier date (in which case such representations and warranties were true and correct on and as of such earlier date); the principal place of business and chief executive office for New Borrower is as set forth on Schedule 1.1(a) (as revised pursuant to Section 2 hereof);

(b) Borrower has the corporate or limited liability company (as applicable) power and authority (i) to enter into the Loan Agreement as amended by this Amendment and (ii) to do all acts and things as are required or contemplated hereunder to be done, observed and performed by Borrower;

(c) This Amendment has been duly authorized, validly executed and delivered by one or more Duly Authorized Officers of Borrower, and each of this Amendment, the Loan Agreement as amended hereby, and each of the other Financing

Agreements to which Borrower is a party, constitutes the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, subject to bankruptcy, insolvency or other similar laws affecting the enforcement of creditor's rights and remedies generally;

(d) The execution and delivery of this Amendment and performance by Borrower under this Amendment, the Loan Agreement and each of the other Financing Agreements to which Borrower is a party do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over Borrower that has not already been obtained, nor be in contravention of or in conflict with the organizational documents of Borrower, or any provision of any statute, judgment, order, indenture, instrument, agreement, or undertaking, to which Borrower is party or by which Borrower's respective assets or properties are bound; and

(e) No Default or Event of Default will result after giving effect to this Amendment, and no event has occurred that has had or could reasonably be expected to have a Material Adverse Effect after giving effect to this Amendment.

6. **Conditions Precedent to Effectiveness of this Amendment**. The joinder contained in Section 1 and the amendments contained in Sections 2 and 3 of this Amendment shall become effective on the date hereof as long as each of the following conditions precedent is satisfied as determined by Administrative Agent:

(a) all of the representations and warranties of Borrower under Section 5 hereof, which are made as of the date hereof, are true and correct;

(b) receipt by Administrative Agent of duly executed signature pages to this Amendment from Borrower and Lenders;

(c) receipt by Administrative Agent of duly executed signature pages to the modifications to promissory notes dated as of the date hereof by Borrower in favor of each Lender;

(d) Administrative Agent shall have received a duly executed Reaffirmation of Second Amended and Restated Guaranty in the form attached hereto;

(e) receipt by Administrative Agent of duly executed signature pages to the First Amendment to and Reaffirmation of Second Amended and Restated Pledge Agreement dated as of the date hereof, among Diversicare Holding Company, LLC, New Opco and Administrative Agent (the "Diversicare Holding Company Pledge Agreement Amendment"), in form and substance reasonably acceptable to Administrative Agent;

(f) receipt by Administrative Agent of duly executed signature pages to the First Amendment to and Reaffirmation of Second Amended and Restated Pledge Agreement dated as of the date hereof, among Diversicare Property Co., LLC, New Propco and Administrative Agent (the "Diversicare Property Co. Pledge Agreement Amendment"), in form and substance reasonably acceptable to Administrative Agent;

(g) Administrative Agent shall have received a duly executed Reaffirmation of Pledge Agreements in the form attached hereto;

(h) receipt by Administrative Agent of copies of resolutions of the governing body of New Borrower authorizing the execution, delivery and performance by New Borrower of the Loan Agreement, as amended by this Amendment, and each of the other instruments, agreements and documents entered into in connection with this Amendment to which New Borrower is a party (including with respect to the security interest and equity pledge provided in favor of Administrative Agent), certified by a Duly Authorized Officer of New Borrower;

(i) receipt by Administrative Agent of copies of resolutions of the governing body of Original Borrower authorizing the execution, delivery and performance by Original Borrower of this Amendment and each of the other instruments, agreements and documents entered into in connection with this Amendment to which Original Borrower is a party, certified by a Duly Authorized Officer of Original Borrower;



- (j) receipt by Administrative Agent of UCC tax, lien, pending suit, bankruptcy and judgment searches on New Borrower, each as of a recent date, the results of which must be in form and substance acceptable to Administrative Agent;
- (k) receipt by Administrative Agent of good standing certificates for New Borrower from the Delaware Secretary of State and certificates of authorization for New Borrower from the Secretary of State of the State of Alabama (as of a recent date);
- (l) receipt by Administrative Agent of an opinion of Bass Berry & Sims, PLC, the legal counsel to Borrower and Guarantor, in form and substance reasonably satisfactory to Administrative Agent;
- (m) receipt by Administrative Agent of a certified copy of New Borrower's certificate of formation, certified by the Delaware Secretary of State (as of a recent date);
- (n) receipt by Administrative Agent of a true, correct and complete copy of the operating agreement of New Borrower, certified by a Duly Authorized Officer of New Borrower;
- (o) UCC Financing Statements, as requested by Administrative Agent, naming New Borrower as debtor and Administrative Agent as secured party with respect to the Collateral, together with such UCC termination statements necessary to release all Liens (other than Permitted Liens) in any of the Collateral except Administrative Agent, and other documents as Administrative Agent deems necessary or appropriate, shall have been filed in all jurisdictions that Administrative Agent deems necessary or advisable;
- (p) receipt of a duly executed Second Amendment to Second Amended and Restated Blocked Account Agreement, in form and substance reasonably acceptable to Administrative Agent;
- (q) receipt of certificates from Borrower's insurance carriers evidencing Administrative Agent as additional insured with respect to New Borrower's general liability insurance;
- (r) receipt by Administrative Agent of a true, correct and complete copy of the Management Agreement between New Opco and Manager available as of the date hereof, certified by a Duly Authorized Officer of New Borrower;
- (s) receipt by Administrative Agent of a true, correct and complete copy of the Leases for the Property of New Borrower available as of the date hereof, and each certified by a Duly Authorized Officer of New Borrower;
- (t) receipt by Administrative Agent of a duly signed and completed perfection certificate with respect to New Borrower;
- (u) UCC Financing Statement naming Diversicare Holding Company, LLC as debtor and Administrative Agent as secured party with respect to the equity of New Opco pledged pursuant to the Diversicare Holding Company Pledge Agreement Amendment shall have been filed in all jurisdictions that Administrative Agent deems necessary or advisable (including the Delaware Secretary of State);
- (v) UCC Financing Statement naming Diversicare Property Co., LLC as debtor and Administrative Agent as secured party with respect to the equity of New Propco pledged pursuant to the Diversicare Property Co. Pledge Agreement Amendment shall have been filed in all jurisdictions that Administrative Agent deems necessary or advisable (including the Delaware Secretary of State);
- (w) receipt by Administrative Agent of copies of resolutions of the governing body of Diversicare Holding Company, LLC authorizing the execution, delivery and performance by Diversicare Holding Company, LLC of the Diversicare Holding Company Pledge Agreement Amendment, certified by a Duly Authorized Officer of Diversicare Holding Company, LLC;
- (x) receipt by Administrative Agent of copies of resolutions of the governing body of Diversicare Property Co., LLC authorizing the execution, delivery and performance by Diversicare Property Co., LLC of the Diversicare Property Co. Pledge Agreement Amendment, certified by a Duly Authorized Officer of Diversicare Property Co., LLC;

(y) receipt by Administrative Agent of copies of resolutions of the governing body of Guarantor authorizing the execution, delivery and performance by Guarantor of the Guaranty Reaffirmation, certified by a Duly Authorized Officer of Guarantor;

(z) receipt by Administrative Agent of copies of the supplemented Schedule 1.1(a) (Borrowers), Schedule 1.1(b) (Affiliated Term Borrowers), Schedule 1.1(c) (Propco Borrowers), Schedule 1.1(f) (Facilities, Locations, Real Property, Operators, Owners, Leases), Schedule 7.8 (Names), Schedule 7.12 (Organizational Chart), Schedule 7.33 (Capitalization) and Schedule 7.36 (Commercial Leases) of the Loan Agreement;

(aa) receipt of any applicable Letter of Credit Document (including an amendment to the Master Letter of Credit Agreement or an entirely new Master Letter of Credit Agreement) as Administrative Agent may require in connection with this Amendment; and

(bb) receipt by Administrative Agent of such other certificates, schedules, exhibits, documents, opinions, instruments, reaffirmations, amendments or consents Administrative Agent may reasonably require, if any.

#### **7. Reaffirmation; References to Loan Agreement; Additional Agreements and Covenants; Etc.**

(a) Borrower acknowledges and agrees that all of Borrower's obligations and Liabilities under the Loan Agreement and the other Financing Agreements, as amended hereby, are and shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. The first priority perfected security interests and Liens and rights in the Collateral securing payment of the Liabilities are hereby ratified and confirmed by Borrower in all respects.

(b) Upon the effectiveness of this Amendment, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement, as amended by this Amendment.

(c) The failure by Administrative Agent, at any time or times hereafter, to require strict performance by any Borrower of any provision or term of the Loan Agreement, this Amendment or any of the Financing Agreements shall not waive, affect or diminish any right of Administrative Agent hereafter to demand strict compliance and performance herewith or therewith. Any suspension or waiver by Administrative Agent of a breach of this Amendment or any Event of Default under or pursuant to the Loan Agreement shall not, except as expressly set forth in a writing signed by Administrative Agent, suspend, waive or affect any other breach of this Amendment or any Event of Default under or pursuant to the Loan Agreement, 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 any Borrower contained in this Amendment, shall be deemed to have been suspended or waived by Administrative Agent unless such suspension or waiver is (i) in writing and signed by Administrative Agent (and, if applicable, the Required Lenders) and (ii) delivered to Borrower by Administrative Agent or its counsel.

(d) In no event shall Administrative Agent's execution and delivery of this Amendment establish a course of dealing among Administrative Agent, any Borrower, pledgor or Guarantor or any other obligor, or in any other way obligate Administrative Agent to hereafter provide any amendments or modifications or, if at any time applicable, consents or waivers with respect to the Loan Agreement or any other Financing Agreement. The terms and provisions of this Amendment shall be limited precisely as written and shall not be deemed (x) to be a consent to any amendment or modification of any other term or condition of the Loan Agreement or of any of the Financing Agreements (except as expressly provided herein or in any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith, including those identified in Sections 6(c), (d), (e), (f), (g) and (p)); or (y) to prejudice any right or remedy which Administrative Agent may now have under or in connection with the Loan Agreement or any of the other Financing Agreements. In the event an ambiguity or question of intent or interpretation arises, this Amendment 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 Amendment.

(e) Except as expressly provided herein (or in any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith, including those identified in Sections 6(c), (d), (e), (f), (g) and (p)), the Loan Agreement and all of the other Financing Agreements shall remain unaltered, and the Loan Agreement and all of the other

Financing Agreements shall remain in full force and effect and are hereby ratified and confirmed in all respects.

(f) Borrower shall deliver to Administrative Agent promptly upon receipt evidence that New Opco has received its Medicare and Medicaid provider numbers for the Selma Facility.

8. **Release.**

(a) In consideration of, among other things, the consent and amendments provided for herein, and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, Borrower and Guarantor (on behalf of themselves and their respective subsidiaries, Affiliates, successors and assigns), and, to the extent permitted by applicable law and the same is claimed by right of, through or under the above, for their past, present and future employees, directors, members, managers, partners, agents, representatives, officers, directors, and equity holders (all collectively, with Borrower and Guarantor, the “Releasing Parties”), do hereby unconditionally, irrevocably, fully, and forever remise, satisfy, acquit, release and discharge Administrative Agent, Issuing Lender, and Lenders and each of Administrative Agent’s, Issuing Lender’s and Lender’s past, present and future officers, directors, agents, employees, attorneys, parent, shareholders, successors, assigns, subsidiaries and Affiliates and all other persons and entities to whom Administrative Agent or Lenders would be liable if such persons or entities were found in any way to be liable to any of the Releasing Parties (collectively, the “Lender Parties”), of and from any and all manner of action and actions, cause and causes of action, claims, cross-claims, charges, demands, counterclaims, suits, proceedings, disputes, debts, dues, sums of money, accounts, bonds, covenants, contracts, controversies, damages, judgments, liabilities, damages, costs, expenses, executions, liens, claims of liens, claims of costs, penalties, attorneys’ fees, or any other compensation, recovery or relief on account of any liability, obligation, demand, proceedings or cause of action of whatever nature, whether in law, equity or otherwise (including, without limitation, those arising under 11 U.S.C. §§ 541-550 and interest or other carrying costs, penalties, legal, accounting and other professional fees and expenses, and incidental, consequential and punitive damages payable to third parties), whether known or unknown, fixed or contingent, joint and/or several, secured or unsecured, due or not due, primary or secondary, liquidated or unliquidated, contractual or tortious, direct, indirect, or derivative, asserted or unasserted, foreseen or unforeseen, suspected or unsuspected, now existing, heretofore existing or which may have heretofore accrued against any or all of Lender Parties, whether held in a personal or representative capacity, that the Releasing Parties (or any of them) have or may have against the Lender Parties or any of them (whether directly or indirectly) and which are based on any act, fact, event, action or omission or any other matter, condition, cause or thing occurring at or from any time prior to and including the date hereof in any way, directly or indirectly arising out of, connected with or relating to this Amendment, the Loan Agreement or any other Financing Agreement and the transactions contemplated hereby and thereby, the Collateral or the Liabilities, and all other agreements, certificates, instruments and other documents and statements (whether written or oral) related to any of the foregoing, other than any applicable good faith claim as to which a final determination is made in a judicial proceeding (in which Administrative Agent and any of the Released Parties have had an opportunity to be heard) which determination includes a specific finding that Administrative Agent acted in a grossly negligent manner or with actual willful misconduct or illegal activity. Borrower and Guarantor each acknowledges that Administrative Agent and Lenders are specifically relying upon the representations, warranties and agreements contained herein and that such representations, warranties and agreements constitute a material inducement to Administrative Agent and Lenders in entering into this Amendment.

(b) Borrower and Guarantor each understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) To the furthest extent permitted by law, Borrower and Guarantor each hereby knowingly, voluntarily, intentionally and expressly waives and relinquishes any and all rights and benefits that it respectively may have as against Lender Parties under any law, rule or regulation of any jurisdiction that would or could have the effect of limiting the extent to which a general release extends to claims which a Lender Party or Releasing Party does not know or suspect to exist as of the date hereof. Borrower and Guarantor each hereby acknowledges that the waiver set forth in the prior sentence was separately bargained for and that such waiver is an essential term and condition of this Amendment (and without which the joinder in Section 1 and the amendments in Sections 2 and 3 hereof would not have been agreed to by Administrative Agent and Lenders).

9. **Costs and Expenses.** Without limiting the obligation of Borrower to reimburse Administrative Agent for all costs, fees,

disbursements and expenses incurred by Administrative Agent as specified in the Loan Agreement, Borrower agrees to and shall pay on demand all reasonable costs, fees, disbursements and expenses of Administrative Agent in connection with the preparation, negotiation, revision, execution and delivery of this Amendment and the other agreements, amendments, modifications, reaffirmations, instruments and documents contemplated hereby, including, without limitation, reasonable attorneys' fees and out-of-pocket expenses. All obligations provided herein shall survive any termination of this Amendment and the Loan Agreement as amended hereby.

10. **Financing Agreement**. This Amendment shall constitute a Financing Agreement.

11. **Titles**. Titles and section headings herein shall be without substantive meaning and are provided solely for the convenience of the parties.

12. **Severability; Etc.** Whenever possible, each provision of this Amendment shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Amendment 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 Amendment. The parties hereto have participated jointly in the negotiation and drafting of this Amendment. In the event an ambiguity or question of intent or interpretation arises, this Amendment 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 Amendment.

13. **Successors and Assigns**. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, no Borrower may assign any of its respective rights or obligations under this Amendment without the prior written consent of Administrative Agent.

14. **Further Assurances**. Borrower shall, at its own cost and expense, cause to be promptly and duly taken, executed, acknowledged and delivered all such further acts, certificates, instruments, reaffirmations, amendments, documents and assurances as may from time to time be necessary or as Administrative Agent may from time to time reasonably request in order to more fully carry out the intent and purposes of this Amendment or any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith, including those identified in Sections 6(c), (d), (e), (f), (g) and (p).

15. **Counterparts; Faxes**. This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which when taken together shall constitute 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.

16. **Governing Law**. This Amendment shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois, without regard to conflict of law principles that would require the application of any other laws.

[Signature Pages Follow]

**IN WITNESS WHEREOF**, the parties hereto have duly executed this Fourth Amendment to Third Amended and Restated Revolving Loan and Security Agreement as of the day and year first above written.

**BORROWER** :

**ORIGINAL BORROWER** :

**ADVOCAT FINANCE, INC.  
DIVERSICARE MANAGEMENT SERVICES CO.  
DIVERSICARE LEASING CORP.  
STERLING HEALTH CARE MANAGEMENT, INC.  
DIVERSICARE TEXAS I, LLC  
DIVERSICARE HOLDING COMPANY, LLC  
DIVERSICARE KANSAS, LLC  
DIVERSICARE LEASING COMPANY II, LLC**

**DIVERSICARE PROPERTY CO., LLC**

By: /s/ James R. McKnight, Jr.

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief Financial Officer

**SENIOR CARE CEDAR HILLS, LLC  
SENIOR CARE GOLFCREST, LLC  
SENIOR CARE GOLFVIEW, LLC  
SENIOR CARE SOUTHERN PINES, LLC**

**BY: SENIOR CARE FLORIDA LEASING, LLC** , its sole member

**BY: DIVERSICARE LEASING CORP.** , its sole member

By: /s/ James R. McKnight, Jr.

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief Financial Officer

**SENIOR CARE FLORIDA LEASING, LLC  
DIVERSICARE AFTON OAKS, LLC  
DIVERSICARE BRIARCLIFF, LLC  
DIVERSICARE CHISOLM, LLC  
DIVERSICARE HARTFORD, LLC  
DIVERSICARE HILLCREST, LLC  
DIVERSICARE LAMPASAS, LLC  
DIVERSICARE PINEDALE, LLC  
DIVERSICARE WINDSOR HOUSE, LLC  
DIVERSICARE YORKTOWN, LLC  
DIVERSICARE ROSE TERRACE, LLC  
DIVERSICARE THERAPY SERVICES, LLC  
DIVERSICARE CLINTON, LLC  
DIVERSICARE HIGHLANDS, LLC**

**BY: DIVERSICARE LEASING CORP.** , its sole member

By: /s/ James R. McKnight, Jr.

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief Financial Officer

**DIVERSICARE BALLINGER, LLC  
DIVERSICARE DOCTORS, LLC  
DIVERSICARE ESTATES, LLC  
DIVERSICARE HUMBLE, LLC  
DIVERSICARE KATY, LLC  
DIVERSICARE NORMANDY TERRACE, LLC  
DIVERSICARE TREMONT, LLC**

**DIVERSICARE PARIS, LLC**

**BY: DIVERSICARE TEXAS I, LLC** , its sole member

By: /s/ James R. McKnight, Jr.

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief Financial Officer

**DIVERSICARE OF CHANUTE, LLC  
DIVERSICARE OF COUNCIL GROVE, LLC  
DIVERSICARE OF HAYSVILLE, LLC  
DIVERSICARE OF SEDGWICK, LLC  
DIVERSICARE OF HUTCHINSON, LLC  
DIVERSICARE OF LARNED, LLC**

**BY: DIVERSICARE KANSAS, LLC**  
its sole member

By: /s/ James R. McKnight, Jr.

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief Financial Officer

**DIVERSICARE OF SENECA PLACE, LLC  
DIVERSICARE OF BRADFORD PLACE, LLC  
DIVERSICARE OF PROVIDENCE, LLC  
DIVERSICARE OF SIENA WOODS, LLC  
DIVERSICARE OF ST. THERESA, LLC  
DIVERSICARE OF BIG SPRINGS, LLC  
DIVERSICARE OF NICHOLASVILLE, LLC  
DIVERSICARE OF AVON, LLC  
DIVERSICARE OF MANSFIELD, LLC  
DIVERSICARE OF RIVERSIDE, LLC  
DIVERSICARE OF CHATEAU, LLC  
DIVERSICARE OF ST. JOSEPH, LLC  
DIVERSICARE OF GREENVILLE, LLC**

**By: DIVERSICARE LEASING COMPANY II, LLC**, its sole member

By: /s/ James R. McKnight, Jr.

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief Financial Officer

**DIVERSICARE AFTON OAKS PROPERTY, LLC  
DIVERSICARE BRIARCLIFF PROPERTY, LLC  
DIVERSICARE CHANUTE PROPERTY, LLC  
DIVERSICARE CHISOLM PROPERTY, LLC  
DIVERSICARE COUNCIL GROVE PROPERTY, LLC  
DIVERSICARE HAYSVILLE PROPERTY, LLC  
DIVERSICARE HARTFORD PROPERTY, LLC  
DIVERSICARE HILLCREST PROPERTY, LLC**

**DIVERSICARE HUTCHINSON PROPERTY, LLC  
DIVERSICARE LAMPASAS PROPERTY, LLC  
DIVERSICARE LARNED PROPERTY, LLC  
DIVERSICARE SEDGWICK PROPERTY, LLC  
DIVERSICARE WINDSOR HOUSE PROPERTY, LLC  
DIVERSICARE YORKTOWN PROPERTY, LLC  
DIVERSICARE GLASGOW PROPERTY, LLC  
DIVERSICARE CLINTON PROPERTY, LLC  
DIVERSICARE FULTON PROPERTY, LLC**

By: **DIVERSICARE PROPERTY CO., LLC** , its sole member

By: /s/ James R. McKnight, Jr. \_\_\_\_\_  
Name: James R. McKnight, Jr.  
Its: Executive Vice President & Chief  
Financial Officer

**DIVERSICARE OF GLASGOW, LLC  
DIVERSICARE OF FULTON, LLC**

By: **DIVERSICARE HOLDING COMPANY, LLC** , its sole member

By: /s/ James R. McKnight, Jr. \_\_\_\_\_  
Name: James R. McKnight, Jr.  
Its: Executive Vice President & Chief  
Financial Officer

**DIVERSICARE LEASING COMPANY III, LLC**

By: /s/ James R. McKnight, Jr. \_\_\_\_\_  
Name: James R. McKnight, Jr.  
Its: Executive Vice President & Chief Financial Officer

**DIVERSICARE OF ARAB, LLC  
DIVERSICARE OF BOAZ, LLC  
DIVERSICARE OF FOLEY, LLC  
DIVERSICARE OF HUEYTOWN, LLC  
DIVERSICARE OF LANETT, LLC  
DIVERSICARE OF BESSEMER, LLC  
DIVERSICARE OF MONTGOMERY, LLC  
DIVERSICARE OF ONEONTA, LLC  
DIVERSICARE OF OXFORD, LLC  
DIVERSICARE OF PELL CITY, LLC  
DIVERSICARE OF RIVERCHASE, LLC  
DIVERSICARE OF WINFIELD, LLC  
DIVERSICARE OF AMORY, LLC  
DIVERSICARE OF BATESVILLE, LLC  
DIVERSICARE OF BROOKHAVEN, LLC  
DIVERSICARE OF CARTHAGE, LLC  
DIVERSICARE OF EUPORA, LLC  
DIVERSICARE OF MERIDIAN, LLC  
DIVERSICARE OF RIPLEY, LLC  
DIVERSICARE OF SOUTHAVEN, LLC**

**DIVERSICARE OF TUPELO, LLC  
DIVERSICARE OF TYLERTOWN, LLC**

**By: DIVERSICARE LEASING COMPANY III, LLC**, its sole member

By: /s/ James R. McKnight, Jr.

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief Financial Officer

**NEW BORROWER:**

**DIVERSICARE OF SELMA, LLC**

**By: DIVERSICARE HOLDING COMPANY, LLC** , its sole member

By: /s/ James R. McKnight, Jr.

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief  
Financial Officer

**DIVERSICARE SELMA PROPERTY, LLC**

**By: DIVERSICARE PROPERTY CO., LLC** , its sole member

By: /s/ James R. McKnight, Jr.

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief  
Financial Officer

Acknowledged and Agreed :

**DIVERSICARE HEALTHCARE SERVICES, INC.**

/s/ Kelly J. Gill

\_\_\_\_\_  
Name: Kelly J. Gill

Its: President and Chief Executive Officer

**ADMINISTRATIVE AGENT :**

**THE PRIVATEBANK AND TRUST COMPANY** , in its capacity as administrative agent

By: /s/ Adam D. Panos

Name: Adam D. Panos



Its: Managing Director

**LENDER :**

**THE PRIVATEBANK AND TRUST COMPANY**

By: /s/ Adam D. Panos

Name: Adam D. Panos

Its: Managing Director

**LENDER :**

**BANKERS TRUST COMPANY**

By: /s/ Jon M. Doll

Name: Jon M. Doll

Its: Vice President

**LENDER :**

**BOKF, NA D/B/A BANK OF OKLAHOMA**

By: /s/ Ky Chaffin

Name: Ky Chaffin

Its: Senior Vice President

**LENDER :**

**CIT BANK, N.A.**

By: /s/ Edward Shuster

Name: Edward Shuster

Its: Director

**LENDER :**

**OPUS BANK ,**  
a California commercial bank

By:  /s/ Randy Boba\_\_\_\_\_

Name: Randy Boba

Its: SVP, Healthcare Banking

**LENDER :**

**FRANKLIN SYNERGY BANK**

By:  /s/ Lisa Fletcher\_\_\_\_\_

Name: Lisa Fletcher

Its: Senior Vice President

**REAFFIRMATION OF SECOND AMENDED AND RESTATED GUARANTY**

Dated as of June 30, 2017

The undersigned (“Guarantor”) hereby: (i) confirms and agrees with The PrivateBank and Trust Company, an Illinois banking corporation in its capacity as administrative agent (together with its successors and assigns, “Administrative Agent”) that Guarantor’s Second Amended and Restated Guaranty dated as of February 26, 2016 made in favor of Administrative Agent (as amended or modified, “Guaranty”), remains in full force and effect and is hereby ratified and confirmed in all respects, including with regard to the Third Amended and Restated Revolving Loan and Security Agreement dated as of February 26, 2016, as amended prior to the date hereof and as further amended by the foregoing Fourth Amendment to Third Amended and Restated Revolving Loan and Security Agreement (“Amendment”), and each reference to the term “Borrower” in the Guaranty shall also include New Borrower (as defined in the Amendment) and each reference to the “Loan Agreement” shall refer to the Loan Agreement as amended by the Amendment; (ii) represents and warrants to Administrative Agent, which representations and warranties shall survive the execution and delivery hereof, that Guarantor’s representations and warranties contained in the Guaranty are true and correct as of the date hereof, with the same effect as though made on the date hereof, except to the extent that such representations expressly related solely to an earlier date, in which case such representations were true and correct on and as of such earlier date (and except for the representations in Section 10(b) thereof which were true and correct on and as of the date when made); (iii) agrees and acknowledges that such ratification and confirmation is not a condition to the continued effectiveness of the Amendment or the Guaranty; and (iv) agrees that neither such ratification and confirmation, nor Administrative Agent’s solicitation of such ratification and confirmation, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or confirmation from the undersigned with respect to subsequent amendments or modifications, if any, to the Loan Agreement, as amended by the Amendment or any other Financing Agreement (as defined in the Loan Agreement, as amended by the Amendment). The execution, delivery and effectiveness of this instrument shall not operate as a waiver of any right, power or remedy of Administrative Agent under or pursuant to the Guaranty. Guarantor acknowledges and agrees that Guarantor has received and reviewed a fully-executed copy of the Amendment (and any other instrument, document or agreement executed or delivered in connection therewith) and understands the contents thereof. 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. This instrument shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois, without regard to conflict of law principles that would require the application of any other laws.

[Signature Page Follows]

**DIVERSICARE HEALTHCARE SERVICES, INC.**

By: /s/ Kelly J. Gill

Name: Kelly J. Gill

Its: President and Chief Executive Officer

**REAFFIRMATION OF PLEDGE AGREEMENTS**

Dated as of June 30, 2017

For good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the undersigned, respectively and as applicable hereby (a) confirms and agrees with The PrivateBank and Trust Company, an Illinois banking corporation in its capacity as administrative agent (together with its successors and assigns, “ Administrative Agent ”), that (i) Second Amended and Restated Pledge Agreement by and between Diversicare Management Services Co. and Administrative Agent dated as of February 26, 2016, (ii) Second Amended and Restated Pledge Agreement by and between Advocat Finance, Inc. and Administrative Agent dated as of February 26, 2016, (iii) Second Amended and Restated Pledge Agreement by and between Diversicare Leasing Corp. and Administrative Agent dated as of February 26, 2016, (iv) Second Amended and Restated Pledge Agreement by and between Senior Care Florida Leasing Corp. and Administrative Agent dated as of February 26, 2016, (v) Amended and Restated Pledge Agreement by and between Diversicare Leasing Company II, LLC and Administrative Agent dated as of February 26, 2016, (vi) Amended and Restated Pledge Agreement by and between Diversicare Kansas, LLC and Administrative Agent dated as of February 26, 2016, (vii) Second Amended and Restated Pledge Agreement by and between Diversicare Healthcare Services, Inc. (f/k/a Advocat Inc.) and Administrative Agent dated as of February 26, 2016 and (viii) Pledge Agreement by and between Diversicare Leasing Company III, LLC and Administrative Agent dated as of October 1, 2016 and effective as of October 3, 2016 (the foregoing, as the same may be amended, restated, supplemented or otherwise modified from time to time, individually, “ Pledge Agreement ” and, collectively, “ Pledge Agreements ”), each remains in full force and effect and is hereby ratified and confirmed in all respects, including with regard to the Third Amended and Restated Revolving Loan and Security Agreement dated as of February 26, 2016 by and among Diversicare Management Services Co., a Tennessee corporation, and those certain affiliates of Diversicare Management Services Co. that are signatories thereto as borrowers, Administrative Agent and the Lenders, as the same has been amended prior to the date hereof and as amended by the foregoing Fourth Amendment to Third Amended and Restated Revolving Loan and Security Agreement dated of even date herewith (“ Amendment ”), and each reference to the term “Borrower” in each Pledge Agreement shall also include New Borrower (as defined in the Amendment) and each reference to the “Loan Agreement” shall refer to the Loan Agreement as amended by the Amendment, and all of the undersigned’s respective liabilities and obligations under and pursuant to the respective Pledge Agreement, as modified by the Amendment (if and as applicable), are and shall be valid and enforceable and shall not be impaired or limited in any way by the execution, delivery or effectiveness of the Amendment; (b) acknowledges and agrees that each Pledge Agreement is hereby amended to include Diversicare of Selma, LLC, a Delaware limited liability company, and Diversicare Selma Property, LLC, a Delaware limited liability company, as an additional “Borrower” thereunder for all purposes; (c) represents and warrants to Administrative Agent and Lenders, which representations and warranties shall survive the execution and delivery hereof, that each of the undersigned’s representations and warranties contained in the Pledge Agreement are true and correct as of the date hereof, with the same effect as though made on the date hereof, except to the extent that such representations expressly related solely to an earlier date, in which case such representations were true and correct on and as of such earlier date, each of the undersigned has the full right, authority and power to enter into this Reaffirmation and this Reaffirmation constitutes the legal, valid and binding obligation of each of the undersigned, enforceable against each of the undersigned in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar law affecting creditor’s rights generally and general principles of equity; (d) agrees and acknowledges that such ratification and confirmation is not a condition to the continued effectiveness of the Amendment or the Pledge Agreement; and (e) agrees that neither such ratification and confirmation, nor the solicitation of such ratification and confirmation by Administrative Agent and Lenders, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or confirmation from the undersigned with respect to subsequent amendments or modifications, if any, to the Loan Agreement, as amended by the Amendment or any other Financing Agreement (as defined in the Loan Agreement). The execution, delivery and effectiveness of this instrument shall not operate as a waiver of any right, power or remedy of Administrative Agent or Lenders under the Pledge Agreements. Each of the undersigned acknowledges and agrees that it has received and reviewed a fully-executed copy of the Amendment and understands the contents thereof. 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. Illinois law shall govern the construction, interpretation and enforcement of this instrument.

[Signature Pages Follows]

IN WITNESS WHEREOF, each of the undersigned has duly executed this Reaffirmation of Pledge Agreements on and as of the date above.

**DIVERSICARE MANAGEMENT SERVICES CO.**, a Tennessee corporation

By:  /s/ James R. McKnight, Jr. \_\_\_\_\_  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**ADVOCAT FINANCE INC.**, a Delaware corporation

By:  /s/ James R. McKnight, Jr. \_\_\_\_\_  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**DIVERSICARE LEASING CORP .**,  
a Tennessee corporation

By:  /s/ James R. McKnight, Jr. \_\_\_\_\_  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**SENIOR CARE FLORIDA LEASING, LLC**, a Delaware limited liability company

By: **Diversicare Leasing Corp.** , its sole member

By:  /s/ James R. McKnight, Jr. \_\_\_\_\_  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**DIVERSICARE LEASING COMPANY II, LLC** , a Delaware limited liability company

By:  /s/ James R. McKnight, Jr. \_\_\_\_\_  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**DIVERSICARE KANSAS, LLC** , a Delaware limited liability company

By: **DIVERSICARE HOLDING COMPANY, LLC** , its sole member

By: /s/ James R. McKnight, Jr.  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**DIVERSICARE LEASING COMPANY III, LLC** ,  
a Delaware limited liability company

By: /s/ James R. McKnight, Jr.  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**DIVERSICARE HEALTHCARE SERVICES, INC.** , a Delaware limited liability  
company

By: /s/ Kelly J. Gill  
Kelly J. Gill, President & Chief Executive Officer

**SUPPLEMENTAL SCHEDULE 1.1(a)**  
**to Third Amended and Restated Revolving Loan and Security Agreement**  
**(Fourth Amendment)**

**BORROWERS**

| <i>Name</i>                     | <i>State of Formation</i> | <i>Principal Place of Business and Chief Executive Office</i> | <i>Organizational Number</i> |
|---------------------------------|---------------------------|---|------------------------------|
| Diversicare of Selma, LLC       | Delaware                  | 1621 Galleria Boulevard<br>Brentwood, TN 37027                | 6323833                      |
| Diversicare Selma Property, LLC | Delaware                  | 1621 Galleria Boulevard<br>Brentwood, TN 37027                | 6323836                      |

**SUPPLEMENTAL SCHEDULE 1.1(b)**  
**to Third Amended and Restated Revolving Loan and Security Agreement**  
**(Fourth Amendment)**

**AFFILIATED TERM BORROWERS**

| <i>Name</i>                     | <i>State of Formation</i> | <i>Principal Place of Business and Chief Executive Office</i> | <i>Organizational Number</i> |
|---------------------------------|---------------------------|---|------------------------------|
| Diversicare of Selma, LLC       | Delaware                  | 1621 Galleria Boulevard<br>Brentwood, TN 37027                | 6323833                      |
| Diversicare Selma Property, LLC | Delaware                  | 1621 Galleria Boulevard<br>Brentwood, TN 37027                | 6323836                      |

**SUPPLEMENTAL SCHEDULE 1.1(c)**  
**to Third Amended and Restated Revolving Loan and Security Agreement**  
**(Fourth Amendment)**

**PROPCO BORROWERS**

| <i>Name</i>                     | <i>State of Formation</i> | <i>Principal Place of Business and Chief Executive Office</i> | <i>Organizational Number</i> |
|---------------------------------|---------------------------|---|------------------------------|
| Diversicare Selma Property, LLC | Delaware                  | 1621 Galleria Boulevard<br>Brentwood, TN 37027                | 6323836                      |

**SUPPLEMENTAL SCHEDULE 1.1(f)**  
**to Third Amended and Restated Revolving Loan and Security Agreement**  
**(Fourth Amendment)**

**FACILITIES; LOCATIONS; REAL PROPERTY; OPERATORS; OWNERS; LEASES**

| <i>Facility Name</i> | <i>Real Property/ Location Address</i> | <i>Owner / Lessor</i>              | <i>Operator / Lessee</i>     | <i>Lease Expiration Date and Options to Extend</i> |
|----------------------|--|------------------------------------|------------------------------|--|
| Park Place           | 100 Park Place<br>Selma, AL 36701      | Diversicare Selma<br>Property, LLC | Diversicare of Selma,<br>LLC | June 30, 2027; two 5-year<br>renewals              |

**SUPPLEMENTAL SCHEDULE 7.8**  
**to Third Amended and Restated Revolving Loan and Security Agreement**  
**(Fourth Amendment)**

**OTHER NAMES**

Diversicare of Selma, LLC does business in the State of Alabama as “Park Place.”

**SUPPLEMENTAL SCHEDULE 7.12**  
**to Third Amended and Restated Revolving Loan and Security Agreement**  
**(Fourth Amendment)**

**ORGANIZATIONAL CHART**

See attached.

**SUPPLEMENTAL SCHEDULE 7.33**  
**to Third Amended and Restated Revolving Loan and Security Agreement**  
**(Fourth Amendment)**

**CAPITALIZATION**

| <b>Borrower</b>                 | <b>Number of Authorized Stock/LLC Interests</b> | <b>Holder of Equity Securities</b> | <b>Ownership Percentage</b> |
|---------------------------------|---|------------------------------------|-----------------------------|
| Diversicare of Selma, LLC       | N/A   | Diversicare Holding Company, LLC   | 100%                        |
| Diversicare Selma Property, LLC | N/A   | Diversicare Property Co., LLC      | 100%                        |

**SUPPLEMENTAL SCHEDULE 7.36**  
**to Third Amended and Restated Revolving Loan and Security Agreement**  
**(Fourth Amendment)**

**COMMERCIAL LEASES**

Lease Agreement dated as of July 1, 2017 by and between Diversicare Selma Property, LLC, as Lessor, and Diversicare of Selma, LLC, as Lessee, with respect to (i) that certain nursing home facility formerly known as "Park Place Nursing and Rehabilitation Center" and located at 100 Park Place, Selma, Dallas County, Alabama and (ii) the currently vacant building formerly used as an assisted living facility and located at 903 Medical Center Parkway, Selma, Dallas County, Alabama.

**ANNEX A**

**(LENDERS, PRO RATA SHARES/DOLLAR ALLOCATIONS, AND NOTICE INFORMATION)**

| <u>Lender</u>                     | <u>Contact Information</u>   | <u>Pro Rata Shares</u> |
|-----------------------------------|--|------------------------|
| The PrivateBank and Trust Company | 120 South LaSalle Street<br>Chicago, IL 60603<br>Attn.: Adam D. Panos<br>Managing Director<br>Tel.: (312) 564-1278<br>Fax: (312) 683-0446<br><br><u>Dollar Allocation :</u><br><br>\$19,250,000.00 | 36.84210526%           |
| CIT Bank, N.A.                    | 11 West 42 <sup>nd</sup> Street<br>New York, NY 10036<br>Attn.: Edward Shuster<br>Director<br>Tel.: (212) 771-9303<br><br><u>Dollar Allocation :</u><br><br>\$11,000,000.00                        | 21.05263158%           |
| Bankers Trust Company             | 453 7th Street<br>Des Moines, IA 50304-0897<br>Attn.: Jon M. Doll<br>Vice President<br>Tel.: (515) 245-2837<br>Fax: (515) 245-5216<br><br><u>Dollar Allocation :</u><br><br>\$8,250,000.00         | 15.78947368%           |
| BOKF, NA d/b/a Bank of Oklahoma   | One Williams Center, Suite 8NE<br>Tulsa, OK 74172<br>Attn.: Ky Chaffin<br>Senior Vice President<br>Tel.: (918) 588-6866<br>Fax: (918) 280-3368   | 5.26315789%            |

Dollar Allocation :

\$2,750,000.00

Opus Bank

19900 MacArthur Blvd.  
12<sup>th</sup> Floor  
Irvine, CA 92612  
Attn.: Randy Boba  
SVP, Healthcare Banking  
Tel.: (949) 251-8123  
Fax: (949) 250-9988

10.52631579%

Dollar Allocation :

\$5,500,000.00

Franklin Synergy Bank

722 Columbia Ave.  
Franklin, TN 37064  
Chicago, IL 60606  
Attn.: Lisa Fletcher  
Senior Vice President  
Tel.: (615) 564-6374  
Fax: (312) 564-7375

10.52631579%

Dollar Allocation :

\$5,500,000.00



**SECOND AMENDMENT TO  
SECOND AMENDED AND RESTATED TERM LOAN AND SECURITY AGREEMENT**

THIS SECOND AMENDMENT TO SECOND AMENDED AND RESTATED TERM LOAN AND SECURITY AGREEMENT (this “Amendment”) dated as of June 30, 2017, by and among **THE PRIVATEBANK AND TRUST COMPANY**, an Illinois banking corporation (together with its successors and assigns, “Administrative Agent”) in its capacity as administrative agent for the Lenders (as defined below), the Lenders, the Affiliates of Diversicare Healthcare Services, Inc. identified on the signature pages as “Original Borrower” (individually and collectively, “Original Borrower”), and **DIVERSICARE OF SELMA, LLC**, a Delaware limited liability company (“New Opco”), and **DIVERSICARE SELMA PROPERTY, LLC**, a Delaware limited liability company (“New Propco”; New Propco together with New Opco are hereinafter referred to, individually and collectively, as “New Borrower”). New Borrower and Original Borrower are hereinafter referred to individually and collectively as, “Borrower”.

**WHEREAS**, Original Borrower, Administrative Agent, and the financial institutions signatories thereto (the “Lenders”) are parties to that certain Second Amended and Restated Term Loan and Security Agreement dated as of February 26, 2016 (as the same has been, and may hereafter be, amended, restated, supplemented or otherwise modified from time to time, the “Loan Agreement”; all capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Loan Agreement as amended by this Amendment); and

**WHEREAS**, Borrower, Administrative Agent and Lenders desire to amend the Loan Agreement as provided in and subject to the terms and conditions of this Amendment.

**NOW, THEREFORE**, for and in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto (intending to be legally bound) hereby agree as follows:

1. **Consent**. Subject to the satisfaction of the conditions set forth in Section 7 below and in reliance upon the representations and warranties set forth in Section 6 below, Administrative Agent and the Lenders hereby consent to the disbursement of One Million Five Hundred Thousand and no/100 Dollars (\$1,500,000.00) from the Acquisition Loan to Borrowers, to be used by New Borrower to acquire that certain skilled nursing facility located at 100 Park Place, Selma, Alabama 36701, known as “Park Place Nursing & Rehabilitation Center” and defined herein as the Selma Acquisition.

2. **Joinder and Assumption**. From and after the date hereof, New Borrower hereby absolutely and unconditionally (i) joins as and becomes a party to the Loan Agreement as a Borrower thereunder and to each Financing Agreement to which Original Borrower is a party, (ii) assumes, as a joint and several obligor thereunder, all of the obligations, liabilities and indemnities of a Borrower under the Loan Agreement and all other Financing Agreements, (iii) covenants and agrees to be bound by and adhere to all of the terms, covenants, waivers, releases, agreements and conditions of or respecting a Borrower with respect to the Loan Agreement and the other Financing Agreements and all of the representations and warranties contained in the Loan Agreement and the other Financing Agreements with respect to a Borrower, and (iv) collaterally assigns and transfers to Administrative Agent (for the benefit of Lenders and itself) and hereby grants to Administrative Agent (for the benefit of Lenders and itself) a continuing first-priority security interest in all of New Borrower’s now owned and existing and hereafter acquired and arising Collateral, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of all of the Liabilities, subject to any applicable Intercreditor Agreements. New Borrower hereby authorizes Administrative Agent to file at any time uniform commercial code financing statements in such jurisdictions and offices as Administrative Agent deems necessary in connection with the perfection of a security interest in all of New Borrower’s now owned or hereafter arising or acquired Collateral, including, without limitation, Accounts and Deposit Accounts of New Borrower, and all proceeds and products thereof. From and after the date hereof, any reference to the term “Borrower” in the Loan Agreement and the Financing Agreements shall also include New Borrower.

3. **Supplementation of Certain Disclosure Schedules**. In connection with the joinder of New Borrower to the Loan Agreement, Schedule 1.1(a) (Borrowers), Schedule 1.1(b) (Propco Borrowers), Schedule 1.1(c) (Affiliated Revolving Borrowers), Schedule 1.1(d) (Facilities, Locations, Real Property, Operators, Owners, Leases), Schedule 7.8 (Names), Schedule 7.12 (Organizational Chart), and Schedule 7.33 (Capitalization) of the Loan Agreement shall be supplemented from and after the date of

this Amendment as set forth on the applicable and respective schedules attached hereto and made a part hereof so that such schedules shall reflect the matters intended to be shown thereon as of the date of this Amendment.

4. **Amendments to Loan Agreement**. Subject to the satisfaction of the conditions set forth in Section 7 below and in reliance upon the representations and warranties set forth in Section 6 below, Borrower, Administrative Agent and Lenders hereby amend the Loan Agreement as follows:

(a) The following definitions shall be inserted in correct alphabetical order in Section 1.1 of the Loan Agreement:

“Second Amendment Effective Date” shall mean June 30, 2017.

“Selma Acquisition” means the sale/purchase transaction intended to be consummated on the Second Amendment Effective Date pursuant to and in accordance with the Selma Acquisition Documents.

“Selma Acquisition Agreement” means that certain Asset Purchase Agreement dated as of June 8, 2017 by and among the Sellers (as defined therein) and New Opco, as amended by the First Amendment dated as of June 19, 2017.

“Selma Acquisition Documents” means, collectively, the Selma Acquisition Agreement, and any and all of the other material documents, instruments and agreements executed or delivered in connection therewith, in each case as the same may be amended or modified in conformity with Section 9.16 of this Agreement.

(b) Section 1.1 of the Loan Agreement shall be amended by amending and restating the following definitions therein in their entirety to read as follows:

“Maximum Facility” means an amount equal to \$77,969,996.

“Maximum Term Loan Facility” means an amount equal to \$65,469,996.

(c) Subsection (d) of the definition of “Change of Control” in Section 1.1 of the Loan Agreement shall be amended and restated in its entirety to read as follows:

(d) Diversicare Holding shall at any time after the Closing Date have control and voting power over less than all of the issued and outstanding Stock of Diversicare Kansas, LLC, Diversicare of Glasgow, LLC, Diversicare of Fulton, LLC and Diversicare of Selma, LLC,

(d) The definition of “Libor Base Rate” contained in Section 1.1 of the Loan Agreement is hereby amended by deleting the last sentence at the end of such definition.

(e) The definition of “Restricted Agreements” in Section 1.1 of the Loan Agreement shall be amended to add “the Selma Acquisition Documents” immediately following “the Clinton Acquisition Documents,” therein.

(f) Section 2.1 of the Loan Agreement shall be amended by amending and restating the first and second sentence therein in their entirety to read as follows:

On the terms and subject to the conditions set forth in this Agreement, and provided there does not then exist a Default or an Event of Default, each Lender with a Term Loan Commitment, severally and for itself alone, agrees to make in Dollars such Lender’s Pro Rata Share of a term loan (the “Term Loan”) (i) in one advance to the Borrower on the Closing Date in the aggregate amount of (x) the Maximum Term Loan Facility (as defined as of the Closing Date) minus (y) the outstanding aggregate principal amount of the “Term Loan” (as defined in the Original Term Loan Agreement) on the date hereof and (ii) in one advance to the Borrower on the Second Amendment Effective Date in the aggregate amount of \$7,500,000. (w) As of the Closing Date, the outstanding aggregate principal amount of the “Term Loan” (as defined in the Original Term Loan Agreement) is equal to Forty-Two Million Two Hundred Twenty-Four Thousand Nine Hundred Ninety-Nine and 82/100 Dollars (\$42,224,999.82), (x) immediately after giving effect to such advance on the Closing Date, the outstanding aggregate principal amount of the “Term Loan” (as defined in this Agreement) is equal to \$60,000,000, (y) as of the Second Amendment Effective Date, the outstanding aggregate principal amount of the “Term Loan” (as defined in this Agreement) is

equal to \$57,969,996 and (z) immediately after giving effect to such advance on the Second Amendment Effective Date, the outstanding aggregate principal amount of the “Term Loan” (as defined in this Agreement) is equal to the Maximum Term Loan Facility.

(g) Section 2.1(b) of the Loan Agreement shall be amended by amending and restating the amortization schedule set forth therein as follows:

|                                       |                               |
|---------------------------------------|-------------------------------|
| Year 1:                               | \$1,610,000 (\$134,167/month) |
| Year 2 (on or prior to June 1, 2017): | \$1,680,000 (\$140,000/month) |
| Year 2 (on and after July 1, 2017):   | \$1,830,000 (\$152,500/month) |
| Year 3:                               | \$1,920,000 (\$160,000/month) |
| Year 4:                               | \$2,010,000 (\$167,500/month) |
| Year 5:                               | \$2,110,000 (\$175,833/month) |

(h) Section 2.16 of the Loan Agreement shall be amended and restated in its entirety to read as follows:

2.16 Closing Fee. On the Closing Date, the Borrower shall pay to the Administrative Agent a one-time closing fee pursuant to a Fee Letter in immediately available funds, which fee shall be nonrefundable and deemed fully earned as of such date (“Closing Date Closing Fee”). On the Second Amendment Effective Date, the Borrower shall pay to the Administrative Agent a one-time closing fee pursuant to a Fee Letter in immediately available funds, which fee shall be nonrefundable and deemed fully earned as of such date (“Second Amendment Closing Fee”; and together with the Closing Date Closing Fee, collectively, the “Closing Fee”).

(i) Section 9.3 of the Loan Agreement shall be amended to add “, the Selma Acquisition” immediately following “the Clinton Acquisition” therein.

(j) Section 9.7 of the Loan Agreement shall be amended by adding a new subsection (f) therein immediately following subsection (e) to read as follows:

(f) to finance the consummation of the Selma Acquisition.

(k) Annex A (Lenders, Pro Rata Shares/Dollar Allocations, and Notice Information) to the Loan Agreement shall be amended and restated and replaced with Annex A attached hereto.

5. **No Other Amendments**. Borrower acknowledges and expressly agrees that this Amendment is limited to the extent expressly set forth herein and shall not constitute a modification or amendment of the Loan Agreement or any other Financing Agreements or a course of dealing at variance with the terms or conditions of the Loan Agreement or any other Financing Agreements (other than as expressly set forth in this Amendment and the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith, including those identified in Sections 7(c), (d), (e), (f), (g), (p), (q), (t), (ee), (ff), (gg), (hh) and (ii)).

6. **Representations and Warranties**. In order to induce Administrative Agent and Lenders to enter into this Amendment, Borrower hereby represents and warrants to Administrative Agent and Lenders (which representations and warranties shall survive the execution and delivery hereof), both before and after giving effect to this Amendment that:

(a) Each of the representations and warranties of each Borrower (including Original Borrower and New Borrower) contained in the Loan Agreement and the other Financing Agreements to which Borrower is a party are true and correct in all material respects (without duplication of any materiality carve out already provided therein) on and as of the date hereof, in each case as if made on and as of such date, other than representations and warranties that expressly relate solely to an earlier date (in which case such representations and warranties were true and correct on and as of such earlier date); the principal place of business and chief executive office for New Borrower is as set forth on Schedule 1.1(a) (as revised pursuant to Section 3 hereof);

(b) Borrower has the corporate or limited liability company (as applicable) power and authority (i) to enter into the

Loan Agreement as amended by this Amendment and (ii) to do all acts and things as are required or contemplated hereunder to be done, observed and performed by Borrower;

(c) This Amendment has been duly authorized, validly executed and delivered by one or more Duly Authorized Officers of Borrower, and each of this Amendment, the Loan Agreement as amended hereby, and each of the other Financing Agreements to which Borrower is a party, constitutes the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, subject to bankruptcy, insolvency or other similar laws affecting the enforcement of creditor's rights and remedies generally;

(d) The execution and delivery of this Amendment and performance by Borrower under this Amendment, the Loan Agreement and each of the other Financing Agreements to which Borrower is a party do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over Borrower that has not already been obtained, nor be in contravention of or in conflict with the organizational documents of Borrower, or any provision of any statute, judgment, order, indenture, instrument, agreement, or undertaking, to which Borrower is party or by which Borrower's respective assets or properties are bound; and

(e) No Default or Event of Default will result after giving effect to this Amendment, and no event has occurred that has had or could reasonably be expected to have a Material Adverse Effect after giving effect to this Amendment.

(f) Borrower has delivered true, correct and complete copies of the fully-signed Selma Acquisition Documents to the Administrative Agent on or prior to the Second Amendment Effective Date. On the Second Amendment Effective Date and concurrently with the making of the transactions completed hereunder, the Selma Acquisition will have been consummated in accordance with the terms of the Selma Acquisition Documents and in accordance in all material respects with all applicable laws. As of the Second Amendment Effective Date, to the Borrower's knowledge, the Seller (as defined in the Selma Acquisition Documents) is not in default or breach of or under the Selma Acquisition Documents to which Seller is a party. All consents and approvals of, and filings and registrations with, and all other actions by, any Governmental Authority and (except where the failure to obtain or make the same could not reasonably be expected to have an adverse effect on the Selma Acquisition or any portion thereof or a Material Adverse Effect) to the best of Borrower's knowledge each other Person required in order to make or consummate the Selma Acquisition have been obtained, given, filed or taken, or shall be obtained, given, filed or taken as soon as reasonably practicable following the Second Amendment Effective Date, and are or will be in full force and effect.

7. **Conditions Precedent to Effectiveness of this Amendment**. The joinder contained in Section 2 and the amendments contained in Sections 3 and 4 of this Amendment shall become effective on the date hereof as long as each of the following conditions precedent is satisfied as determined by Administrative Agent:

(a) all of the representations and warranties of Borrower under Section 6 hereof, which are made as of the date hereof, are true and correct;

(b) receipt by Administrative Agent of duly executed signature pages to this Amendment from Borrower and Lenders;

(c) receipt by Administrative Agent of duly executed signature pages to the modifications to promissory notes dated as of the date hereof by Borrower in favor of each Lender;

(d) Administrative Agent shall have received a duly executed Reaffirmation of Second Amended and Restated Guaranty in the form attached hereto;

(e) receipt by Administrative Agent of duly executed signature pages to the First Amendment to and Reaffirmation of Second Amended and Restated Pledge Agreement dated as of the date hereof, among Diversicare Holding Company, LLC, New Opco and Administrative Agent (the "Diversicare Holding Company Pledge Agreement Amendment"), in form and substance reasonably acceptable to Administrative Agent;

(f) receipt by Administrative Agent of duly executed signature pages to the First Amendment to and Reaffirmation

of Second Amended and Restated Pledge Agreement dated as of the date hereof, among Diversicare Property Co., LLC, New Propco and Administrative Agent (the “Diversicare Property Co. Pledge Agreement Amendment”), in form and substance reasonably acceptable to Administrative Agent;

(g) receipt by Administrative Agent of a duly executed Reaffirmation of Pledge Agreements in the form attached hereto;

(h) receipt by Administrative Agent of copies of resolutions of the governing body of New Borrower authorizing the execution, delivery and performance by New Borrower of the Loan Agreement, as amended by this Amendment, and each of the other instruments, agreements and documents entered into in connection with this Amendment to which New Borrower is a party (including with respect to the security interest and equity pledge provided in favor of Administrative Agent), certified by a Duly Authorized Officer of New Borrower;

(i) receipt by Administrative Agent of copies of resolutions of the governing body of Original Borrower authorizing the execution, delivery and performance by Original Borrower of this Amendment and each of the other instruments, agreements and documents entered into in connection with this Amendment to which Original Borrower is a party, certified by a Duly Authorized Officer of Original Borrower;

(j) receipt by Administrative Agent of UCC tax, lien, pending suit, bankruptcy and judgment searches on New Borrower, each as of a recent date, the results of which must be in form and substance acceptable to Administrative Agent;

(k) receipt by Administrative Agent of good standing certificates for New Borrower from the Delaware Secretary of State and certificates of authorization for New Borrower from the Secretary of State of the State of Alabama (as of a recent date);

(l) receipt by Administrative Agent of an opinion of Bass Berry & Sims, PLC, the legal counsel to Borrower and Guarantor, in form and substance reasonably satisfactory to Administrative Agent;

(m) receipt by Administrative Agent of a certified copy of New Borrower’s certificate of formation, certified by the Delaware Secretary of State (as of a recent date);

(n) receipt by Administrative Agent of a true, correct and complete copy of the operating agreement of New Borrower, certified by a Duly Authorized Officer of New Borrower;

(o) UCC Financing Statements, as requested by Administrative Agent, naming New Borrower as debtor and Administrative Agent as secured party with respect to the Collateral, together with such UCC termination statements necessary to release all Liens (other than Permitted Liens) in any of the Collateral except Administrative Agent, and other documents as Administrative Agent deems necessary or appropriate, shall have been filed in all jurisdictions that Administrative Agent deems necessary or advisable;

(p) receipt of a duly executed Second Amendment to the Blocked Account Agreement, in form and substance reasonably acceptable to Administrative Agent;

(q) receipt by Administrative Agent of duly executed signature pages to that certain fee letter dated as of the date hereof, by Borrower in favor of Administrative Agent, and receipt by Administrative Agent in immediately available funds of all fees payable thereunder;

(r) receipt of certificates from Borrower’s insurance carriers evidencing Administrative Agent as additional insured with respect to New Borrower’s general liability insurance;

(s) receipt by Administrative Agent of a true, correct and complete copy of the Management Agreement between New Opco and Manager available as of the date hereof, certified by a Duly Authorized Officer of New Borrower;

(t) receipt by Administrative Agent of duly executed signature pages to the First Amendment to Amended and Restated Assignment and Subordination of Management Agreements dated as of the date hereof, among Manager, New Opco and

Administrative Agent, in form and substance reasonably acceptable to Administrative Agent;

- (u) receipt by Administrative Agent of a true, correct and complete copy of the Lease for the Property between New Opco and New Propco available as of the date hereof, and certified by a Duly Authorized Officer of New Borrower;
- (v) receipt by Administrative Agent of a true, correct and complete copy of the fully executed Selma Acquisition Documents, together with all applicable amendments thereto;
- (w) the closing of the transaction contemplated by the Selma Acquisition Documents (including all material conditions precedent thereto, including, without limitation, the obtaining of any and all consents and approvals) shall occur in accordance with its terms concurrently with the transactions contemplated by this Amendment;
- (x) receipt by Administrative Agent of a duly signed and completed perfection certificate with respect to New Borrower;
- (y) UCC Financing Statement naming Diversicare Holding Company, LLC as debtor and Administrative Agent as secured party with respect to the equity of New Opco pledged pursuant to the Diversicare Holding Company Pledge Agreement Amendment shall have been filed in all jurisdictions that Administrative Agent deems necessary or advisable (including the Delaware Secretary of State);
- (z) UCC Financing Statement naming Diversicare Property Co., LLC as debtor and Administrative Agent as secured party with respect to the equity of New Propco pledged pursuant to the Diversicare Property Co. Pledge Agreement Amendment shall have been filed in all jurisdictions that Administrative Agent deems necessary or advisable (including the Delaware Secretary of State);
- (aa) receipt by Administrative Agent of copies of resolutions of the governing body of Diversicare Holding Company, LLC authorizing the execution, delivery and performance by Diversicare Holding Company, LLC of the Diversicare Holding Company Pledge Agreement Amendment, certified by a Duly Authorized Officer of Diversicare Holding Company, LLC;
- (bb) receipt by Administrative Agent of copies of resolutions of the governing body of Diversicare Property Co., LLC authorizing the execution, delivery and performance by Diversicare Property Co., LLC of the Diversicare Property Co. Pledge Agreement Amendment, certified by a Duly Authorized Officer of Diversicare Property Co., LLC;
- (cc) receipt by Administrative Agent of copies of resolutions of the governing body of Guarantor authorizing the execution, delivery and performance by Guarantor of the Guaranty Reaffirmation, certified by a Duly Authorized Officer of Guarantor;
- (dd) receipt by Administrative Agent of copies of the supplemented Schedule 1.1(a) (Borrowers), Schedule 1.1(b) (Propco Borrowers), Schedule 1.1(c) (Affiliated Revolving Borrowers), Schedule 1.1(d) (Facilities, Locations, Real Property, Operators, Owners, Leases), Schedule 7.8 (Names), Schedule 7.12 (Organizational Chart), and Schedule 7.33 (Capitalization) of the Loan Agreement;
- (ee) receipt by Administrative Agent of duly executed amendments to the Mortgages of each Original Borrower, as applicable;
- (ff) receipt by Administrative Agent of duly executed Mortgage by New Propco;
- (gg) receipt by Administrative Agent of duly executed amendments to those Assignments of Rents and Leases by each Original Borrower, as applicable;
- (hh) receipt by Administrative Agent of a duly executed Assignment of Rents and Leases by New Propco;
- (ii) receipt by Administrative Agent of a duly executed Second Amendment and Joinder to Environmental Indemnity Agreement by New Borrower;

(jj) receipt by Administrative Agent of tract searches for the Property of each Original Borrower, the form and results of which shall be satisfactory to the Administrative Agent in its sole and absolute determination;

(kk) receipt by Administrative Agent of a title insurance policy in the form of ALTA Form Mortgagee Title Insurance Policy which shall be issued by an insurer (reasonably acceptable to the Administrative Agent) in favor of the Administrative Agent for the Property of New Propco. Each title insurance policy shall contain such endorsements as deemed appropriate by the Administrative Agent that are available in the applicable state. Copies of all documents of record concerning the Property of New Propco as identified on the commitment for the ALTA Policy referred to above;

(ll) receipt by Administrative Agent of a Phase I environmental report of the Property of New Propco addressed to Administrative Agent prepared by an environmental audit firm reasonably acceptable to the Administrative Agent, the form and results of which shall be satisfactory to the Administrative Agent in its sole and absolute determination;

(mm) receipt by Administrative Agent of an ALTA plat of survey which shall be prepared on the Property of New Propco;

(nn) receipt by Administrative Agent of a flood insurance policy, if applicable, concerning the Property of New Propco, reasonably satisfactory to the Administrative Agent, if required by the Flood Disaster Protection Act of 1973;

(oo) receipt by Administrative Agent of an Appraisal prepared by an independent appraiser of the Property of New Propco engaged by Administrative Agent, which appraisal shall satisfy the requirements of the FIRREA, 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 combined loan-to-value ratio on a “stabilized value” not to exceed 75%). Such appraisal (and the results thereof) shall be satisfactory to the Administrative Agent in its sole and absolute determination;

(pp) receipt by Administrative Agent of a Property Condition Report for the parcel of Property related to New Propco, the form, substance and results of which shall be satisfactory to the Administrative Agent in its sole and absolute determination; and

(qq) receipt by Administrative Agent of such other certificates, schedules, exhibits, documents, opinions, affidavits, instruments, reaffirmations, amendments, or consents Administrative Agent may reasonably require, if any.

**1. Reaffirmation; References to Loan Agreement; Additional Agreements and Covenants; Etc.**

(a) Borrower acknowledges and agrees that all of Borrower’s obligations and Liabilities under the Loan Agreement and the other Financing Agreements, as amended hereby, are and shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. The first priority perfected security interests and Liens and rights in the Collateral securing payment of the Liabilities are hereby ratified and confirmed by Borrower in all respects.

(b) Upon the effectiveness of this Amendment, each reference in the Loan Agreement to “this Agreement,” “hereunder,” “hereof,” “herein” or words of like import shall mean and be a reference to the Loan Agreement, as amended by this Amendment.

(c) The failure by Administrative Agent, at any time or times hereafter, to require strict performance by any Borrower of any provision or term of the Loan Agreement, this Amendment or any of the Financing Agreements shall not waive, affect or diminish any right of Administrative Agent hereafter to demand strict compliance and performance herewith or therewith. Any suspension or waiver by Administrative Agent of a breach of this Amendment or any Event of Default under or pursuant to the Loan Agreement shall not, except as expressly set forth in a writing signed by Administrative Agent, suspend, waive or affect any other breach of this Amendment or any Event of Default under or pursuant to the Loan Agreement, 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 any Borrower contained in this Amendment, shall be deemed to have been suspended or waived by Administrative Agent unless such suspension or waiver is (i) in writing and signed by Administrative Agent (and, if applicable, the Required Lenders) and (ii) delivered to Borrower by Administrative Agent or its counsel.

(d) In no event shall Administrative Agent's execution and delivery of this Amendment establish a course of dealing among Administrative Agent, any Borrower, pledgor or Guarantor or any other obligor, or in any other way obligate Administrative Agent to hereafter provide any amendments or modifications or, if at any time applicable, consents or waivers with respect to the Loan Agreement or any other Financing Agreement. The terms and provisions of this Amendment shall be limited precisely as written and shall not be deemed (x) to be a consent to any amendment or modification of any other term or condition of the Loan Agreement or of any of the Financing Agreements (except as expressly provided herein or in any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith, including those identified in Sections 7(c), (d), (e), (f), (g), (p), (q), (t), (ee), (ff), (gg), (hh) and (ii); or (y) to prejudice any right or remedy which Administrative Agent may now have under or in connection with the Loan Agreement or any of the other Financing Agreements. In the event an ambiguity or question of intent or interpretation arises, this Amendment 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 Amendment.

(e) Except as expressly provided herein (or in any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith, including those identified in Sections 7(c), (d), (e), (f), (g), (p), (q), (t), (ee), (ff), (gg), (hh) and (ii), the Loan Agreement and all of the other Financing Agreements shall remain unaltered, and the Loan Agreement and all of the other Financing Agreements shall remain in full force and effect and are hereby ratified and confirmed in all respects.

## 2. Release.

(a) In consideration of, among other things, the consent and amendments provided for herein, and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, Borrower and Guarantor (on behalf of themselves and their respective subsidiaries, Affiliates, successors and assigns), and, to the extent permitted by applicable law and the same is claimed by right of, through or under the above, for their past, present and future employees, directors, members, managers, partners, agents, representatives, officers, directors, and equity holders (all collectively, with Borrower and Guarantor, the "Releasing Parties"), do hereby unconditionally, irrevocably, fully, and forever remise, satisfy, acquit, release and discharge Administrative Agent and Lenders and each of Administrative Agent's and Lender's past, present and future officers, directors, agents, employees, attorneys, parent, shareholders, successors, assigns, subsidiaries and Affiliates and all other persons and entities to whom Administrative Agent or Lenders would be liable if such persons or entities were found in any way to be liable to any of the Releasing Parties (collectively, the "Lender Parties"), of and from any and all manner of action and actions, cause and causes of action, claims, cross-claims, charges, demands, counterclaims, suits, proceedings, disputes, debts, dues, sums of money, accounts, bonds, covenants, contracts, controversies, damages, judgments, liabilities, damages, costs, expenses, executions, liens, claims of liens, claims of costs, penalties, attorneys' fees, or any other compensation, recovery or relief on account of any liability, obligation, demand, proceedings or cause of action of whatever nature, whether in law, equity or otherwise (including, without limitation, those arising under 11 U.S.C. §§ 541-550 and interest or other carrying costs, penalties, legal, accounting and other professional fees and expenses, and incidental, consequential and punitive damages payable to third parties), whether known or unknown, fixed or contingent, joint and/or several, secured or unsecured, due or not due, primary or secondary, liquidated or unliquidated, contractual or tortious, direct, indirect, or derivative, asserted or unasserted, foreseen or unforeseen, suspected or unsuspected, now existing, heretofore existing or which may have heretofore accrued against any or all of Lender Parties, whether held in a personal or representative capacity, that the Releasing Parties (or any of them) have or may have against the Lender Parties or any of them (whether directly or indirectly) and which are based on any act, fact, event, action or omission or any other matter, condition, cause or thing occurring at or from any time prior to and including the date hereof in any way, directly or indirectly arising out of, connected with or relating to this Amendment, the Loan Agreement or any other Financing Agreement and the transactions contemplated hereby and thereby, the Collateral or the Liabilities, and all other agreements, certificates, instruments and other documents and statements (whether written or oral) related to any of the foregoing, other than any applicable good faith claim as to which a final determination is made in a judicial proceeding (in which Administrative Agent and any of the Released Parties have had an opportunity to be heard) which determination includes a specific finding that Administrative Agent acted in a grossly negligent manner or with actual willful misconduct or illegal activity. Borrower and Guarantor each acknowledges that Administrative Agent and Lenders are specifically relying upon the representations, warranties and agreements contained herein and that such representations, warranties and agreements constitute a material inducement to Administrative Agent and Lenders in



entering into this Amendment.

(b) Borrower and Guarantor each understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) To the furthest extent permitted by law, Borrower and Guarantor each hereby knowingly, voluntarily, intentionally and expressly waives and relinquishes any and all rights and benefits that it respectively may have as against Lender Parties under any law, rule or regulation of any jurisdiction that would or could have the effect of limiting the extent to which a general release extends to claims which a Lender Party or Releasing Party does not know or suspect to exist as of the date hereof. Borrower and Guarantor each hereby acknowledges that the waiver set forth in the prior sentence was separately bargained for and that such waiver is an essential term and condition of this Amendment (and without which the joinder in Section 2 and the amendments in Sections 3 and 4 hereof would not have been agreed to by Administrative Agent and Lenders).

3. **Costs and Expenses**. Without limiting the obligation of Borrower to reimburse Administrative Agent for all costs, fees, disbursements and expenses incurred by Administrative Agent as specified in the Loan Agreement, Borrower agrees to and shall pay on demand all reasonable costs, fees, disbursements and expenses of Administrative Agent in connection with the preparation, negotiation, revision, execution and delivery of this Amendment and the other agreements, amendments, modifications, reaffirmations, instruments and documents contemplated hereby, including, without limitation, reasonable attorneys' fees and out-of-pocket expenses. All obligations provided herein shall survive any termination of this Amendment and the Loan Agreement as amended hereby.

4. **Financing Agreement**. This Amendment shall constitute a Financing Agreement.

5. **Titles**. Titles and section headings herein shall be without substantive meaning and are provided solely for the convenience of the parties.

6. **Severability; Etc.** Whenever possible, each provision of this Amendment shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Amendment 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 Amendment. The parties hereto have participated jointly in the negotiation and drafting of this Amendment. In the event an ambiguity or question of intent or interpretation arises, this Amendment 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 Amendment.

7. **Successors and Assigns**. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, no Borrower may assign any of its respective rights or obligations under this Amendment without the prior written consent of Administrative Agent.

8. **Further Assurances**. Borrower shall, at its own cost and expense, cause to be promptly and duly taken, executed, acknowledged and delivered all such further acts, certificates, instruments, reaffirmations, amendments, documents and assurances as may from time to time be necessary or as Administrative Agent may from time to time reasonably request in order to more fully carry out the intent and purposes of this Amendment or any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith, including those identified in Sections 7(c), (d), (e), (f), (g), (p), (q), (t), (ee), (ff), (gg), (hh) and (ii).

9. **Counterparts; Faxes**. This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which when taken together shall constitute 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.

10. **Governing Law**. This Amendment shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois, without regard to conflict of law principles that would require the application of any other laws.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have duly executed this Second Amendment to Second Amended and Restated Term Loan and Security Agreement as of the day and year first above written.

**BORROWER :**

**ORIGINAL BORROWER:**

**DIVERSICARE AFTON OAKS, LLC**

**DIVERSICARE BRIARCLIFF, LLC**

**DIVERSICARE CHISOLM, LLC**

**DIVERSICARE HARTFORD, LLC**

**DIVERSICARE WINDSOR HOUSE, LLC**

**DIVERSICARE HILLCREST, LLC**

**DIVERSICARE LAMPASAS, LLC**

**DIVERSICARE YORKTOWN, LLC**

**DIVERSICARE CLINTON, LLC**

BY: Diversicare Leasing Corp., its sole member

By: /s/ James R. McKnight, Jr.

\_\_\_\_\_  
Name: James R. McKnight, Jr.

Its: Executive Vice President &  
Chief Financial Officer

**DIVERSICARE OF CHANUTE, LLC**

**DIVERSICARE OF COUNCIL GROVE,  
LLC**

**DIVERSICARE OF HAYSVILLE, LLC**

**DIVERSICARE OF SEDGWICK, LLC**

**DIVERSICARE OF HUTCHINSON, LLC**

**DIVERSICARE OF LARNED, LLC**

BY:  
Diversicare Kansas, LLC,  
its sole member

By: /s/ James R. McKnight, Jr.

\_\_\_\_\_  
Name: James R. McKnight, Jr.

Its: Executive Vice President &  
Chief Financial Officer

**DIVERSICARE PROPERTY CO., LLC**

By: /s/ James R. McKnight, Jr.

\_\_\_\_\_  
Name: James R. McKnight, Jr.

Its: Executive Vice President &  
Chief Financial Officer

**DIVERSICARE AFTON OAKS  
PROPERTY, LLC**

**DIVERSICARE BRIARCLIFF  
PROPERTY, LLC**

**DIVERSICARE CHANUTE PROPERTY,  
LLC**

**DIVERSICARE CHISOLM PROPERTY,  
LLC**

**DIVERSICARE COUNCIL GROVE  
PROPERTY, LLC**

**DIVERSICARE HAYSVILLE  
PROPERTY, LLC**

**DIVERSICARE HARTFORD  
PROPERTY, LLC**

**DIVERSICARE HILLCREST  
PROPERTY, LLC**

**DIVERSICARE LAMPASAS  
PROPERTY, LLC**

**DIVERSICARE LARNED PROPERTY,  
LLC**

**DIVERSICARE SEDGWICK  
PROPERTY, LLC**

**DIVERSICARE WINDSOR HOUSE  
PROPERTY, LLC**

**DIVERSICARE YORKTOWN  
PROPERTY, LLC**

**DIVERSICARE GLASGOW PROPERTY,  
LLC**

**DIVERSICARE HUTCHINSON  
PROPERTY, LLC**

**DIVERSICARE CLINTON PROPERTY,  
LLC**

**DIVERSICARE FULTON PROPERTY,  
LLC**

BY: Diversicare Property Co., LLC, its sole  
member

By: /s/ James R. McKnight, Jr.

\_\_\_\_\_  
Name: James R. McKnight, Jr.

Its: Executive Vice President &  
Chief Financial Officer

**DIVERSICARE OF GLASGOW, LLC**

**DIVERSICARE OF FULTON, LLC**

BY: Diversicare Holding Company, LLC, its  
sole member

By: /s/ James R. McKnight, Jr.

\_\_\_\_\_  
Name: James R. McKnight, Jr.

Its: Executive Vice President &  
Chief Financial Officer

**NEW BORROWER:**

**DIVERSICARE OF SELMA, LLC**

By: **DIVERSICARE HOLDING COMPANY, LLC** , its sole member

By: /s/ James R. McKnight, Jr. \_\_\_\_\_

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief  
Financial Officer

**DIVERSICARE SELMA PROPERTY, LLC**

By: **DIVERSICARE PROPERTY CO., LLC** , its sole member

By: /s/ James R. McKnight, Jr. \_\_\_\_\_

Name: James R. McKnight, Jr.

Its: Executive Vice President & Chief  
Financial Officer

**Acknowledged and Agreed :**

**DIVERSICARE HEALTHCARE SERVICES, INC.**

/s/ Kelly J. Gill

\_\_\_\_\_  
Name: Kelly J. Gill

Its: President and Chief Executive Officer

**ADMINISTRATIVE AGENT :**

**THE PRIVATEBANK AND TRUST COMPANY** , in its capacity as administrative  
agent

By: /s/ Adam D. Panos

Name: Adam D. Panos

Its: Managing Director

**LENDER :**

**THE PRIVATEBANK AND TRUST COMPANY**

By: /s/ Adam D. Panos

Name: Adam D. Panos

Its: Managing Director

**LENDER :**

**BANKERS TRUST COMPANY**

By: /s/ Jon M. Doll

Name: Jon M. Doll

Its: Vice President

**LENDER :**

**BOKF, NA D/B/A BANK OF OKLAHOMA**

By: /s/ Ky Chaffin

Name: Ky Chaffin

Its: Senior Vice President

**LENDER :**

**CIT BANK, N.A.**

By: /s/ Edward Shuster

Name: Edward Shuster

Its: Director

**LENDER :**

**OPUS BANK ,**  
a California commercial bank

By: /s/ Randy Boba

Name: Randy Boba

Its: SVP, Healthcare Banking

**LENDER :**

**FRANKLIN SYNERGY BANK**

By: /s/ Lisa Fletcher  
Name: Lisa Fletcher  
Its: Senior Vice President

**REAFFIRMATION OF SECOND AMENDED AND RESTATED GUARANTY**

Dated as of June 30, 2017

The undersigned (“Guarantor”) hereby (i) confirms and agrees with The PrivateBank and Trust Company, an Illinois banking corporation in its capacity as administrative agent (together with its successors and assigns, “Administrative Agent”) that Guarantor’s Second Amended and Restated Guaranty dated as of February 26, 2016 made in favor of Administrative Agent (as amended or modified, “Guaranty”), remains in full force and effect and is hereby ratified and confirmed in all respects, including with regard to the Second Amended and Restated Term Loan and Security Agreement dated as of February 26, 2016, as amended prior to the date hereof and as further amended by the foregoing Second Amendment to Second Amended and Restated Term Loan and Security Agreement (“Amendment”), and each reference to the term “Borrower” in the Guaranty shall also include New Borrower (as defined in the Amendment) and each reference to the “Loan Agreement” shall refer to the Loan Agreement as amended by the Amendment; (ii) represents and warrants to Administrative Agent, which representations and warranties shall survive the execution and delivery hereof, that Guarantor’s representations and warranties contained in the Guaranty are true and correct as of the date hereof, with the same effect as though made on the date hereof, except to the extent that such representations expressly related solely to an earlier date, in which case such representations were true and correct on and as of such earlier date (and except for the representations in Section 10(b) thereof which were true and correct on and as of the date when made); (iii) agrees and acknowledges that such ratification and confirmation is not a condition to the continued effectiveness of the Amendment or the Guaranty; and (iv) agrees that neither such ratification and confirmation, nor Administrative Agent’s solicitation of such ratification and confirmation, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or confirmation from the undersigned with respect to subsequent amendments or modifications, if any, to the Loan Agreement, as amended by the Amendment or any other Financing Agreement (as defined in the Loan Agreement, as amended by the Amendment). The execution, delivery and effectiveness of this instrument shall not operate as a waiver of any right, power or remedy of Administrative Agent under or pursuant to the Guaranty. Guarantor acknowledges and agrees that Guarantor has received and reviewed a fully-executed copy of the Amendment (and any other instrument, document or agreement executed or delivered in connection therewith) and understands the contents thereof. 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. This instrument shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois, without regard to conflict of law principles that would require the application of any other laws.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has duly executed this Reaffirmation of Second Amended and Restated Guaranty on and as of the date above.

**DIVERSICARE HEALTHCARE SERVICES, INC. (F/K/A ADVOCAT INC.)**

By: /s/ Kelly J. Gill  
Name: Kelly J. Gill  
Its: President and Chief Executive Officer

**REAFFIRMATION OF PLEDGE AGREEMENTS**

Dated as of June 30, 2017

For good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the undersigned,

respectively and as applicable hereby (a) confirms and agrees with The PrivateBank and Trust Company, an Illinois banking corporation in its capacity as administrative agent (together with its successors and assigns, “ Administrative Agent ”), that (i) Second Amended and Restated Pledge Agreement by and between Diversicare Management Services Co. and Administrative Agent dated as of February 26, 2016, (ii) Second Amended and Restated Pledge Agreement by and between Advocat Finance, Inc. and Administrative Agent dated as of February 26, 2016, (iii) Second Amended and Restated Pledge Agreement by and between Diversicare Leasing Corp. and Administrative Agent dated as of February 26, 2016, (iv) Second Amended and Restated Pledge Agreement by and between Senior Care Florida Leasing Corp. and Administrative Agent dated as of February 26, 2016, (v) Amended and Restated Pledge Agreement by and between Diversicare Leasing Company II, LLC and Administrative Agent dated as of February 26, 2016, (vi) Amended and Restated Pledge Agreement by and between Diversicare Kansas, LLC and Administrative Agent dated as of February 26, 2016, (vii) Second Amended and Restated Pledge Agreement by and between Diversicare Healthcare Services, Inc. (f/k/a Advocat Inc.) and Administrative Agent dated as of February 26, 2016 and (viii) Pledge Agreement by and between Diversicare Leasing Company III, LLC and Administrative Agent dated as of October 1, 2016 and effective as of October 3, 2016 (the foregoing, as the same may be amended, restated, supplemented or otherwise modified from time to time, individually, “ Pledge Agreement ” and, collectively, “ Pledge Agreements ”), each remains in full force and effect and is hereby ratified and confirmed in all respects, including with regard to the Second Amended and Restated Term Loan and Security Agreement dated as of February 26, 2016 by and among those certain affiliates of Diversicare Healthcare Services, Inc. that are signatories thereto as borrowers, Administrative Agent and the Lenders, as the same has been amended prior to the date hereof and as amended by the foregoing Second Amendment to Third Amended and Restated Term Loan and Security Agreement dated of even date herewith (“ Amendment ”), and each reference to the term “Borrower” in each Pledge Agreement shall also include New Borrower (as defined in the Amendment) and each reference to the “Loan Agreement” shall refer to the Loan Agreement as amended by the Amendment, and all of the undersigned’s respective liabilities and obligations under and pursuant to the respective Pledge Agreement, as modified by the Amendment (if and as applicable), are and shall be valid and enforceable and shall not be impaired or limited in any way by the execution, delivery or effectiveness of the Amendment; (b) acknowledges and agrees that each Pledge Agreement is hereby amended to include Diversicare of Selma, LLC, a Delaware limited liability company, and Diversicare Selma Property, LLC, a Delaware limited liability company, as an additional “Borrower” thereunder for all purposes; (c) represents and warrants to Administrative Agent and Lenders, which representations and warranties shall survive the execution and delivery hereof, that each of the undersigned’s representations and warranties contained in the Pledge Agreement are true and correct as of the date hereof, with the same effect as though made on the date hereof, except to the extent that such representations expressly related solely to an earlier date, in which case such representations were true and correct on and as of such earlier date, each of the undersigned has the full right, authority and power to enter into this Reaffirmation and this Reaffirmation constitutes the legal, valid and binding obligation of each of the undersigned, enforceable against each of the undersigned in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar law affecting creditor’s rights generally and general principles of equity; (d) agrees and acknowledges that such ratification and confirmation is not a condition to the continued effectiveness of the Amendment or the Pledge Agreement; and (e) agrees that neither such ratification and confirmation, nor the solicitation of such ratification and confirmation by Administrative Agent and Lenders, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or confirmation from the undersigned with respect to subsequent amendments or modifications, if any, to the Loan Agreement, as amended by the Amendment or any other Financing Agreement (as defined in the Loan Agreement). The execution, delivery and effectiveness of this instrument shall not operate as a waiver of any right, power or remedy of Administrative Agent or Lenders under the Pledge Agreements. Each of the undersigned acknowledges and agrees that it has received and reviewed a fully-executed copy of the Amendment and understands the contents thereof. 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. Illinois law shall govern the construction, interpretation and enforcement of this instrument.

[Signature Pages Follows]

IN WITNESS WHEREOF, each of the undersigned has duly executed this Reaffirmation of Pledge Agreements on and as of the date above.

**DIVERSICARE MANAGEMENT SERVICES CO.**, a Tennessee corporation

By: /s/ James R. McKnight, Jr.  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**ADVOCAT FINANCE INC.**, a Delaware corporation



By: /s/ James R. McKnight, Jr.  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**DIVERSICARE LEASING CORP .,**  
a Tennessee corporation

By: /s/ James R. McKnight, Jr.  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**SENIOR CARE FLORIDA LEASING, LLC,** a Delaware limited liability company

By: **Diversicare Leasing Corp. ,** its sole member

By: /s/ James R. McKnight, Jr.  
James R. McKnight, Jr.,  
Executive Vice President & Chief Financial Officer

**DIVERSICARE LEASING COMPANY II, LLC ,** a Delaware limited liability company

By: /s/ James R. McKnight, Jr.  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**DIVERSICARE KANSAS, LLC ,** a Delaware limited liability company

By: **DIVERSICARE HOLDING COMPANY, LLC ,** its sole member

By: /s/ James R. McKnight, Jr.  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**DIVERSICARE LEASING COMPANY III, LLC ,**  
a Delaware limited liability company

By: /s/ James R. McKnight, Jr.  
James R. McKnight, Jr., Executive Vice President & Chief Financial Officer

**DIVERSICARE HEALTHCARE SERVICES, INC. ,** a Delaware limited liability company

By: /s/ Kelly J. Gill  
Kelly J. Gill, President & Chief Executive Officer

**SUPPLEMENTAL SCHEDULE 1.1(a)**

**to Second Amended and Restated Term Loan and Security Agreement  
(Second Amendment)**

**BORROWERS**

| <i>Name</i>                     | <i>State of Formation</i> | <i>Principal Place of Business and Chief Executive Office</i> | <i>Organizational Number</i> |
|---------------------------------|---------------------------|---|------------------------------|
| Diversicare of Selma, LLC       | Delaware                  | 1621 Galleria Boulevard<br>Brentwood, TN 37027                | 6323833                      |
| Diversicare Selma Property, LLC | Delaware                  | 1621 Galleria Boulevard<br>Brentwood, TN 37027                | 6323836                      |

**SUPPLEMENTAL SCHEDULE 1.1(b)  
to Second Amended and Restated Term Loan and Security Agreement  
(Second Amendment)**

**PROPCO BORROWERS**

| <i>Name</i>                     | <i>State of Formation</i> | <i>Principal Place of Business and Chief Executive Office</i> | <i>Organizational Number</i> |
|---------------------------------|---------------------------|---|------------------------------|
| Diversicare Selma Property, LLC | Delaware                  | 1621 Galleria Boulevard<br>Brentwood, TN 37027                | 6323836                      |

**SUPPLEMENTAL SCHEDULE 1.1(c)  
to Second Amended and Restated Term Loan and Security Agreement  
(Second Amendment)**

**AFFILIATED REVOLVING BORROWERS**

| <i>Name</i>                     | <i>State of Formation</i> | <i>Principal Place of Business and Chief Executive Office</i> | <i>Organizational Number</i> |
|---------------------------------|---------------------------|---|------------------------------|
| Diversicare of Selma, LLC       | Delaware                  | 1621 Galleria Boulevard<br>Brentwood, TN 37027                | 6323833                      |
| Diversicare Selma Property, LLC | Delaware                  | 1621 Galleria Boulevard<br>Brentwood, TN 37027                | 6323836                      |

**SUPPLEMENTAL SCHEDULE 1.1(d)  
to Second Amended and Restated Term Loan and Security Agreement  
(Second Amendment)**

**FACILITIES; LOCATIONS; REAL PROPERTY; OPERATORS; OWNERS; LEASES**

| <i>Facility Name</i> | <i>Real Property/ Location Address</i> | <i>Owner / Lessor</i>              | <i>Operator / Lessee</i>     | <i>Lease Expiration Date and Options to Extend</i> |
|----------------------|--|------------------------------------|------------------------------|--|
| Park Place           | 100 Park Place<br>Selma, AL 36701      | Diversicare Selma<br>Property, LLC | Diversicare of Selma,<br>LLC | June 30, 2027; two 5-year<br>renewals              |

**SUPPLEMENTAL SCHEDULE 7.8  
to Second Amended and Restated Term Loan and Security Agreement**

**(Second Amendment)**

**OTHER NAMES**

Diversicare of Selma, LLC does business in the State of Alabama as “Park Place.”

**SUPPLEMENTAL SCHEDULE 7.12  
to Second Amended and Restated Term Loan and Security Agreement  
(Second Amendment)**

**ORGANIZATIONAL CHART**

See attached.

**SUPPLEMENTAL SCHEDULE 7.33  
to Second Amended and Restated Term Loan and Security Agreement  
(Second Amendment)**

**CAPITALIZATION**

| <b>Borrower</b>                 | <b>Number of Authorized Stock/LLC Interests</b> | <b>Holder of Equity Securities</b> | <b>Ownership Percentage</b> |
|---------------------------------|---|------------------------------------|-----------------------------|
| Diversicare of Selma, LLC       | N/A   | Diversicare Holding Company, LLC   | 100%                        |
| Diversicare Selma Property, LLC | N/A   | Diversicare Property Co., LLC      | 100%                        |

**ANNEX A**

**LENDERS, PRO RATA SHARES/DOLLAR ALLOCATIONS, AND NOTICE INFORMATION**

| <u>Lender</u>                     | <u>Contact Information</u>  | <u>Pro Rata Shares</u>   |
|-----------------------------------|---|--|
| The PrivateBank and Trust Company | 120 South LaSalle Street<br>Chicago, IL 60603<br>Attn.: Adam D. Panos<br>Managing Director<br>Tel.: (312) 564-1278<br>Fax: (312) 683-0446 | Term Loan Commitment: 35.000000000%<br><br>Acquisition Loan Commitment:<br>35.000000000% |
|                                   | <u>Dollar Allocations :</u><br><br>Term Loan Commitment: \$22,914,498.60<br><br>Acquisition Loan Commitment: \$4,375,000.00               |  |
| CIT Bank, N.A.                    | 11 West 42 <sup>nd</sup> Street<br>New York, NY 10036<br>Attn.: Ed Shuster, Director<br>Tel.: (212) 771-9303                              | Term Loan Commitment: 20.000000000%<br><br>Acquisition Loan Commitment:<br>20.000000000% |
|                                   | <u>Dollar Allocations :</u><br><br>Term Loan Commitment: \$13,093,999.20  |  |

|                                 |   |   |
|---------------------------------|---|---|
| Bankers Trust Company           | <p>Acquisition Loan Commitment: \$2,500,000</p> <p>453 7<sup>th</sup> Street<br/> Des Moines, IA 50304-0897<br/> Attn.: Jon M. Doll<br/> Vice President<br/> Tel.: (515) 245-2837<br/> Fax: (515) 245-5216</p> <p><u>Dollar Allocations :</u></p> <p>Term Loan Commitment: \$9,820,499.40</p> <p>Acquisition Loan Commitment: \$1,875,000</p> | <p>Term Loan Commitment: 15.000000000%</p> <p>Acquisition Loan Commitment:<br/> 15.000000000%</p> |
| BOKF, NA d/b/a Bank of Oklahoma | <p>One Williams Center, Suite 8NE<br/> Tulsa, OK 74172<br/> Attn.: Ky Chaffin<br/> Senior Vice President<br/> Tel.: (918) 588-6866<br/> Fax: (918) 280-3368</p> <p><u>Dollar Allocations :</u></p> <p>Term Loan Commitment: \$6,546,996.60</p> <p>Acquisition Loan Commitment: \$1,250,000</p>  | <p>Term Loan Commitment: 10.000000000%</p> <p>Acquisition Loan Commitment:<br/> 10.000000000%</p> |
| Opus Bank                       | <p>1990 MacArthur Blvd.<br/> 12<sup>th</sup> Floor<br/> Irvine, CA 92612<br/> Attn.: Randy Boba,<br/> SVP, Healthcare Banking<br/> Tel.: (949) 251-8123<br/> Fax: (949) 250-9988</p> <p><u>Dollar Allocations :</u></p> <p>Term Loan Commitment: \$6,546,996.60</p> <p>Acquisition Loan Commitment: \$1,250,000</p>                           | <p>Term Loan Commitment: 10.000000000%</p> <p>Acquisition Loan Commitment:<br/> 10.000000000%</p> |
| Franklin Synergy Bank           | <p>722 Columbia Ave.<br/> Franklin, TN 37064<br/> Attn.: Lisa Fletcher, Senior Vice President<br/> Tel.: (615) 564-6374<br/> Fax: (615) 564-7375</p> <p><u>Dollar Allocations :</u></p> <p>Term Loan Commitment: \$6,546,996.60</p> <p>Acquisition Loan Commitment: \$1,250,000</p>   | <p>Term Loan Commitment: 10.000000000%</p> <p>Acquisition Loan Commitment:<br/> 10.000000000%</p> |

CERTIFICATIONS PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002

**(i) CERTIFICATION**

I, Kelly J. Gill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Diversicare Healthcare Services, 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;
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 we 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 quarter (the registrant's fourth 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 the 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: August 3, 2017

/s/ Kelly J. Gill

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Kelly J. Gill  
Chief Executive Officer

CERTIFICATIONS PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002

**(ii) CERTIFICATION**

I, James R. McKnight, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Diversicare Healthcare Services, 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;

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 we 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 quarter (the registrant's fourth 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 the 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: August 3, 2017

/s/ James R. McKnight, Jr.

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James R. McKnight, Jr.

Executive Vice President and Chief Financial Officer

**CERTIFICATION OF QUARTERLY REPORT ON FORM 10-Q  
OF DIVERSICARE HEALTHCARE SERVICES, INC.  
FOR THE QUARTER ENDED JUNE 30, 2017**

The undersigned 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 undersigned's best knowledge and belief, the Quarterly Report on Form 10-Q for Diversicare Healthcare Services, Inc. (the "Company") for the period ending June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"):

- (a) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This Certification is executed as of August 3, 2017 .

/s/ Kelly J. Gill

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Kelly J. Gill  
Chief Executive Officer

/s/ James R. McKnight, Jr.

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James R. McKnight, Jr.  
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.