Sabra Health Care REIT, Inc.
Form 10-K
February 22, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-34950

SABRA HEALTH CARE REIT, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	27-2560479
(State of Incorporation)	(I.R.S. Employer Identification No.)

18500 Von Karman Avenue, Suite 550
Irvine, CA 92612
(888) 393-8248
(Address, zip code and telephone number of Registrant)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)
7.125% Series A Cumulative Redeemable Preferred Stock	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter: $1.3 billion

As of February 13, 2017, there were 65,285,614 shares of the Registrant’s $0.01 par value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant's 2017 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2016, are incorporated by reference in Part III herein.

SABRA HEALTH CARE REIT, INC. AND SUBSIDIARIES
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References throughout this document to “Sabra,” “we,” “our,” “ours” and “us” refer to Sabra Health Care REIT, Inc. and its direct and indirect consolidated subsidiaries and not any other person.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K (this “10-K”) contain “forward-looking” information as that term is defined by the Private Securities Litigation Reform Act of 1995. Any statements that do not relate to historical or current facts or matters are forward-looking statements. Examples of forward-looking statements include all statements regarding our expected future financial position, results of operations, cash flows, liquidity, financing plans, business strategy, budgets, the expected amounts and timing of dividends and other distributions, projected expenses and capital expenditures, competitive position, growth opportunities, potential investments, plans and objectives for future operations, and compliance with and changes in governmental regulations. You can identify some of the forward-looking statements by the use of forward-looking words such as “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend,” “should,” “may” and other similar expressions, although not all forward-looking statements contain these identifying words.

Our actual results may differ materially from those projected or contemplated by our forward-looking statements as a result of various factors, including among others, the following:

- our dependence on Genesis Healthcare, Inc. (“Genesis”) and certain wholly owned subsidiaries of Holiday AL Holdings LP (collectively, “Holiday”) until we are able to further diversify our portfolio;
- our dependence on the operating success of our tenants;
- the significant amount of and our ability to service our indebtedness;
- covenants in our debt agreements that may restrict our ability to pay dividends, make investments, incur additional indebtedness and refinance indebtedness on favorable terms;
- increases in market interest rates;
- changes in foreign currency exchange rates;
- our ability to raise capital through equity and debt financings;
- the impact of required regulatory approvals of transfers of healthcare properties;
- the effect of increasing healthcare regulation and enforcement on our tenants and the dependence of our tenants on reimbursement from governmental and other third-party payors;
- the relatively illiquid nature of real estate investments;
- competitive conditions in our industry;
- the loss of key management personnel or other employees;
- the impact of litigation and rising insurance costs on the business of our tenants;
- the effect of our tenants declaring bankruptcy or becoming insolvent;
- uninsured or underinsured losses affecting our properties and the possibility of environmental compliance costs and liabilities;
- the ownership limits and anti-takeover defenses in our governing documents and Maryland law, which may restrict change of control or business combination opportunities;
- the impact of a failure or security breach of information technology in our operations;
- our ability to find replacement tenants and the impact of unforeseen costs in acquiring new properties;
- our ability to maintain our status as a real estate investment trust (“REIT”);
- changes in tax laws and regulations affecting REITs; and
- compliance with REIT requirements and certain tax and tax regulatory matters related to our status as a REIT.

We urge you to carefully consider these risks and review the additional disclosures we make concerning risks and other factors that may materially affect the outcome of our forward-looking statements and our future business and operating results, including those made in Item 1A, “Risk Factors” in this 10-K, as such risk factors may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission (“SEC”), including subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. We caution you that any forward-looking statements made in this 10-K are not guarantees of future performance, events or results, and you should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. We do not intend, and we undertake no obligation, to update any forward-looking information to reflect events or circumstances after the date of this 10-K or to reflect the occurrence of unanticipated events, unless required by law to do so.

TENANT AND BORROWER INFORMATION

This 10-K includes information regarding certain of our tenants that lease properties from us and our borrowers, most of which are not subject to SEC reporting requirements. Genesis is subject to the reporting requirements of the SEC and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to our tenants and borrowers that is provided in this 10-K has been provided by, or derived solely from information provided by, such tenants and borrowers. We have not independently verified this information. We have no reason to believe that such information is inaccurate in any material respect. We are providing this data for informational purposes only. Genesis's filings with the SEC can be found at www.sec.gov.

PART I

ITEM 1. BUSINESS

Overview

We operate as a self-administered, self-managed REIT that, through our subsidiaries, owns and invests in real estate serving the healthcare industry. Our primary business consists of acquiring, financing and owning real estate property to be leased to third party tenants in the healthcare sector. We primarily generate revenues by leasing properties to tenants and operators throughout the United States and Canada.

As of December 31, 2016, our investment portfolio consisted of 183 real estate properties held for investment (consisting of (i) 97 skilled nursing/transitional care facilities, (ii) 85 senior housing facilities, and (iii) one acute care hospital), 10 investments in loans receivable (consisting of (i) four mortgage loans, (ii) one construction loan, (iii) one mezzanine loan, (iv) three pre-development loans and (v) one debtor-in-possession ("DIP") loan) and 12 preferred equity investments. Included in the 183 real estate properties held for investment are facilities operated by third-party property managers pursuant to property management agreements (“Managed Properties”). As of December 31, 2016, Managed Properties consisted of two 100% owned senior housing facilities. As of December 31, 2016, our real estate properties held for investment had a total of 18,878 beds/units, spread across the United States and Canada. As of December 31, 2016, nearly all of our real estate properties were leased under triple-net operating leases with expirations ranging from four to 16 years.

We expect to continue to grow our portfolio primarily through the acquisition of assisted living, independent living and memory care facilities in the U.S. and Canada and with a secondary focus on acquiring skilled nursing/transitional care facilities in the U.S. We have and will continue to opportunistically acquire other types of healthcare real estate, originate financing secured directly or indirectly by healthcare facilities and invest in the development of senior housing and skilled nursing/transitional care facilities. We also expect to expand our portfolio through the development of purpose-built healthcare facilities through pipeline agreements and other arrangements with select developers. We further expect to work with existing operators to identify strategic development opportunities. These opportunities may involve replacing or renovating facilities in our portfolio that may have become less competitive and new development opportunities that present attractive risk-adjusted returns. In addition to pursuing acquisitions with triple-net leases, we expect to continue to pursue other forms of investment, including investments in third-party managed senior housing facilities, mezzanine and secured debt investments, and joint ventures for senior housing and skilled nursing/transitional care facilities.

In general, we originate loans and make preferred equity investments when an attractive investment opportunity is presented and either (a) the property is in or near the development phase or (b) the development of the property is completed but the operations of the facility are not yet stabilized. A key component of our strategy related to loan originations and preferred equity investments is our having the option to purchase the underlying real estate that is owned by our borrowers (and that directly or indirectly secures our loan investments) or by the entity in which we have an investment. These options become exercisable upon the occurrence of various criteria, such as the passage of time or the achievement of certain operating goals, and the method to determine the purchase price upon exercise of the option is set in advance based on the same valuation methods we use to value our investments in healthcare real estate. This strategy allows us to diversify our revenue streams and build relationships with operators and developers, and provides us with the option to add new properties to our existing real estate portfolio if we determine that those properties enhance our investment portfolio and stockholder value at the time the options are exercisable.

We employ a disciplined, opportunistic approach in our healthcare real estate investment strategy by investing in assets that provide attractive opportunities for dividend growth and appreciation of asset values, while maintaining balance sheet strength and liquidity, thereby creating long-term stockholder value. As we acquire additional properties and expand our portfolio, we expect to further diversify by tenant, asset class and geography within the healthcare sector. We may also achieve our objective of diversifying our portfolio by tenant and asset class through select asset sales and other arrangements with Genesis and other tenants. We have entered into memoranda of understanding with Genesis to market for sale 35 skilled nursing facilities and make certain other lease and corporate guarantee amendments for the remaining 43 facilities leased to Genesis. Upon completion of the sales, these asset sales and amendments will have the benefit of reducing our revenue concentration in Genesis and skilled nursing facilities, as well as strengthening our remaining Genesis-operated portfolio through the lease term extensions and guarantee enhancements; provided, however that there can be no assurances that we will successfully complete these sales on the terms or timing contemplated by the memoranda of understanding, or at all, in which event we may not achieve the anticipated benefits from such sales. Marketing of these 35 facilities is ongoing and is expected to be completed over the next several quarters.

We were incorporated on May 10, 2010 as a wholly owned subsidiary of Sun Healthcare Group, Inc. and we commenced operations on November 15, 2010 following the Company's separation from Sun Healthcare Group, Inc. (the "Separation Date"). We elected to be treated as a REIT with the filing of our U.S. federal income tax return for the taxable year beginning January 1, 2011. We believe that we have been organized and have operated, and we intend to continue to operate, in a manner to qualify as a REIT.

Our principal executive offices are located at 18500 Von Karman Avenue, Suite 550, Irvine, CA 92612, and our telephone number is (888) 393-8248. We maintain a website at www.sabrahealth.com. Sabra Health Care REIT, Inc. files reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We will make such filings available free of charge on our website as soon as reasonably practicable after such information has been filed or furnished with the SEC.

Our Industry

We operate as a REIT that holds investments in income-producing healthcare facilities located in the United States and Canada. We invest primarily in the United States and Canadian senior housing industry, which includes assisted living, independent living and memory care facilities, with a secondary focus on the nursing home industry, including skilled nursing and transitional care facilities. The primary growth drivers of these industries – an aging population and longer life expectancies – present attractive investment opportunities for us. According to the 2014 National Population Projections published by the United States Census Bureau, Americans over the age of 75 is projected to be the fastest growing segment of the population, growing at a compounded annual growth rate of 2.9% over the next five years and 3.6% over the next ten years. According to the same publication, life expectancy is expected to increase to 81.7 years in 2030 from 79.4 years in 2015. Furthermore, the National Investment Center for Seniors Housing and Care, a leading industry data provider, estimates that as of the fourth quarter of 2015, only 14.2% of senior housing and nursing care properties were owned by publicly traded REITs. The highly-fragmented nature of the senior housing and nursing home industries presents additional investment opportunities.

Demand for senior housing is expected to increase as a result of an aging population and an increase in acuity across the post-acute landscape. Cost containment measures adopted by the federal government have encouraged patient treatment in more cost-effective settings, such as skilled nursing facilities. As a result, high acuity patients that previously would have been treated in long-term acute care hospitals and inpatient rehabilitation facilities are increasingly being treated in skilled nursing facilities. According to the National Health Expenditure Projections for 2015-2025 published by the Centers for Medicare & Medicaid Services, nursing home expenditures are projected to grow from approximately $162 billion in 2015 to approximately $276 billion in 2025, representing a compounded annual growth rate of 5.5%. This focus on high acuity patients in skilled nursing facilities has resulted in the typical senior housing resident requiring more assistance with activities for daily living, such as assistance with bathing, grooming, dressing, eating, and medication management; however, many older senior housing facilities were not built to accommodate a resident who has more needs as well as increased mobility and cognitive issues than in the past. We believe that these trends will create an emphasis on operators who can effectively adapt their operating model to accommodate the changing nursing home patient and senior housing resident and will result in increased demand for purpose-built properties that are complementary to this new system of health care delivery.

Portfolio of Healthcare Investments

We have a geographically diverse portfolio of healthcare investments across the United States and Canada that offer a range of services including skilled nursing/transitional care, assisted and independent living, mental health and acute care. As of December 31, 2016, our investment portfolio consisted of 183 real estate properties held for investment, 10 investments in loans receivable and 12 preferred equity investments. Of our 183 properties held for investment as of December 31, 2016, we owned fee title to 177 properties and title under long-term ground leases for six properties. Our portfolio consisted of the following types of healthcare facilities as of December 31, 2016:

- Skilled Nursing/Transitional Care Facilities

•Skilled nursing facilities. Skilled nursing facilities provide services that include daily nursing, therapeutic rehabilitation, social services, housekeeping, nutrition and administrative services for individuals requiring certain assistance for activities in daily living. A typical skilled nursing facility includes mostly one and two bed units, each equipped with a private or shared bathroom and community dining facilities.

•Mental health facilities. Mental health facilities provide a range of inpatient and outpatient behavioral health services for adults and children through specialized treatment programs.

•Transitional care facilities/units. Transitional care facilities/units are licensed nursing facilities or distinct units within a licensed nursing facility that provide short term, intensive, high acuity nursing and medical services. These facilities tend to focus on delivering specialized treatment to patients with cardiac, neurological, pulmonary, orthopedic, and renal conditions. Length of service is typically 30 days or less with the majority of patients returning to prior living arrangements and functional abilities. Generally, transitional care facilities/units provide services to Medicare, managed care and commercial insurance patients.
•Senior Housing Facilities

•Independent living facilities. Independent living facilities are age-restricted multi-family properties with central dining facilities that provide services that include security, housekeeping, nutrition and limited laundry services. Our independent living facilities are designed specifically for independent seniors who are able to live on their own, but desire the security and conveniences of community living. Independent living facilities typically offer several services covered under a regular monthly fee.
•Assisted living facilities. Assisted living facilities provide services that include minimal assistance for activities in daily living and permit residents to maintain some of their privacy and independence as they do not require constant supervision and assistance. Services bundled within one regular monthly fee usually include three meals per day in a central dining room, daily housekeeping, laundry, medical reminders and 24-hour availability of assistance with the activities of daily living, such as eating, dressing and bathing. Professional nursing and healthcare services are usually available at the facility on call or at regularly scheduled times. Assisted living facilities typically are comprised of one and two bedroom suites equipped with private bathrooms and efficiency kitchens.
•Memory care facilities. Memory care facilities offer specialized options for seniors with Alzheimer's disease and other forms of dementia. Purpose built, free-standing memory care facilities offer an attractive alternative for private-pay residents affected by memory loss in comparison to other accommodations that typically have been provided within a secured unit of an assisted living or skilled nursing facility. These facilities offer dedicated care and specialized programming for various conditions relating to memory loss in a secured environment that is typically smaller in scale and more residential in nature than traditional assisted living facilities. Residents require a higher level of care and more assistance with activities of daily living than in assisted living facilities. Therefore, these facilities have staff available 24 hours a day to respond to the unique needs of their residents.
•Continuing care retirement community. Continuing care retirement communities, or CCRCs, provide, as a continuum of care, the services described above for independent living facilities, assisted living facilities and skilled nursing facilities in an integrated campus, under long-term contracts with the residents.
•Acute Care Hospital
•Acute care hospitals provide inpatient and outpatient medical care and other related services for surgery, acute medical conditions or injuries (usually for a short-term illness or condition).

Geographic and Property Type Diversification

The following tables display the distribution of our beds/units and the geographic concentration of our real estate held for investment by property type and investment as of December 31, 2016 (dollars in thousands):

Distribution of Beds/Units

Location	Total Number of Properties	Facility Type Skilled Nursing / Transitional Care	Senior Housing	Acute Care Hospital	Total	% of Total
New Hampshire	16	904	838	—	1,742	9.2 %
Texas	17	485	1,150	70	1,705	9.0
Connecticut	11	1,350	140	—	1,490	7.9
Florida	10	660	619	—	1,279	6.8
Kentucky	14	1,044	68	—	1,112	5.9
Canada	10	—	939	—	939	5.0
Ohio	8	900	—	—	900	4.8
Maryland	6	782	68	—	850	4.5
Nebraska	6	400	297	—	697	3.7
Colorado	5	509	132	—	641	3.4
Other (28 states)	80	3,785	3,738	—	7,523	39.8
	183	10,819	7,989	70	18,878	100.0%
% of Total beds/units		57.2 %	42.3 %	0.5 %	100.0 %	

Geographic Concentration — Property Type

Location	Skilled Nursing/Transitional Care	Senior Housing	Acute Care Hospital	Total	% of Total
Texas	4	12	1	17	9.3 %
New Hampshire	10	6	—	16	8.7
Kentucky	13	1	—	14	7.7
Connecticut	9	2	—	11	6.0
Michigan	—	10	—	10	5.5
Florida	5	5	—	10	5.5
Canada	—	10	—	10	5.5
Ohio	8	—	—	8	4.4
Oklahoma	6	1	—	7	3.8
Maryland	5	1	—	6	3.3
Other (28 states)	37	37	—	74	40.3
Total	97	85	1	183	100.0%
% of Total properties	53.0 %	46.4 %	0.6 %	100.0%	

Geographic Concentration — Investment [1]

Location	Total Number of Properties	Skilled Nursing/Transitional Care		Senior Housing		Acute Care Hospital		Total		% of Total	
Texas	17	$ 54,549		$201,264		$61,640		$317,453		13.8	%
Maryland	6	278,569		6,566		—		285,135		12.4	
Canada [2]	10	—		149,030		—		149,030		6.5	
Connecticut	11	115,833		29,124		—		144,957		6.3	
Florida	10	29,418		92,843		—		122,261		5.3	
Delaware	4	95,780		—		—		95,780		4.2	
Nebraska	6	63,088		28,297		—		91,385		4.0	
New Hampshire	16	46,839		40,848		—		87,687		3.8	
North Carolina	3	9,318		67,272		—		76,590		3.3	
Michigan	10	—		74,413		—		74,413		3.2	
Other (28 states)	90	349,360		498,294		—		847,654		37.2	
Total	183	$ 1,042,754		$1,187,951		$61,640		$2,292,345		100.0	%
% of Total investments		45.5	%	51.8	%	2.7	%	100.0	%		

[1] Represents the undepreciated book value of our real estate held for investment as of December 31, 2016.
[2] Investment balance in Canada is based on the exchange rate as of December 31, 2016 of $0.7440 per CAD $1.00.

Loans Receivable and Other Investments

As of December 31, 2016 and 2015, the Company’s loans receivable and other investments consisted of the following (dollars in thousands):

Investment	Quantity as of December 31, 2016	Facility Type	Principal Balance as of December 31, 2016 [1]	Book Value as of December 31, 2016		Book Value as of December 31, 2015		December 31, 2016 Weighted Average Contractual Interest Rate / Rate of Return		Weighted Average Annualized Effective Interest Rate / Rate of Return		Maturity Date as of December 31, 2016
Loans Receivable:												
Mortgage	4	Skilled Nursing / Senior Housing	$ 38,231	$ 38,262		$ 166,277		9.1	%	8.9	%	11/07/16 - 04/30/18
Construction	1	Senior Housing	795	842		75,201		8.0	%	7.7	%	03/31/21
Mezzanine	1	Senior Housing	9,640	9,656		15,613		11.0	%	10.8	%	08/31/17
Pre-development	3	Senior Housing	4,005	4,023		3,768		9.0	%	7.7	%	01/28/17 - 09/09/17
Debtor-in-possession	1	Acute Care Hospital	813	813		13,625		5.0	%	5.0	%	N/A
	10		53,484	53,596		274,484		9.3	%	9.1	%	
Loan loss reserve			—	(2,750	)	(4,300	)					

			53,484	50,846	270,184			
Other Investments:								
Preferred Equity	12	Skilled Nursing/Senior Housing	44,882	45,190	29,993	12.9%	12.9 %	N/A
Total	22		$ 98,366	$ 96,036	$ 300,177	10.9%	10.8 %	

(1) Principal balance includes amounts funded and accrued unpaid interest / preferred return and excludes capitalizable fees.

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Significant Credit Concentrations

The following table provides information regarding relationships that represent more than 10% of our annualized revenues as of December 31, 2016:

Tenant	Number of Investments	% of Total Investments [(1)]		% of Annualized Revenues	
Genesis Healthcare, Inc.	78	20.6	%	32.3	%
Holiday AL Holdings LP	21	22.7		16.2	
NMS Healthcare	5	11.7		12.4	

(1) Total investments consists of gross real estate investment balance, preferred equity investments, loans receivable investments plus capitalized origination fees net of loan loss reserves.

See “Risk Factors—Risks Related to Tenant Concentration” in Part I, Item 1A of this 10-K and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Concentration of Credit Risk” in Part I, Item 7 for additional information, including risks and uncertainties, regarding our significant tenant concentration.

Investment Financing Strategy

We intend to invest in additional healthcare properties as suitable opportunities arise and adequate sources of financing are available. We expect that future investments in properties, including any improvements or renovations of current or newly-acquired properties, will depend on and will be financed, in whole or in part, by our existing cash, borrowings available to us under our Revolving Credit Facility (as defined below), future borrowings or the proceeds from issuances of common stock, preferred stock, debt or other securities. In addition, we may seek financing from U.S. government agencies, including through Fannie Mae and the U.S. Department of Housing and Urban Development (“HUD”), in appropriate circumstances in connection with acquisitions. We also use derivative instruments in the normal course of business to mitigate interest rate and foreign currency risk.

Competitive Strengths

We believe the following competitive strengths contribute significantly to our success:

Geographically Diverse and Stable Property Portfolio

Our portfolio of 183 properties held for investment as of December 31, 2016, comprising 18,878 beds/units, is broadly diversified by location across the United States and Canada. Our properties in any one state or province did not account for more than 10% of our total beds/units as of December 31, 2016. Our geographic diversification will limit the effect of a decline in any one regional market on our overall performance. The annual occupancy percentages of our stabilized properties remained stable over the last three fiscal years at between 88.2% and 87.8% for our skilled nursing/transitional care facilities and between 89.4% and 89.1% for our senior housing facilities. We have also been able to diversify through acquisitions the extent to which our revenues are dependent on our tenants’, borrowers’, and equity investees' revenue from federal, state and local government reimbursement programs. Based on the information provided to us by our tenants and borrowers, which information is provided quarterly in arrears, on an annualized basis as of December 31, 2016, 49.8% of our tenants’, borrowers’, and equity investees' revenue was from federal, state and local government reimbursement programs.

Long-Term, Triple-Net Lease Structure

Nearly all our real estate properties held for investment are leased under triple-net operating leases with expirations ranging from four to 16 years, pursuant to which the tenants are responsible for all facility maintenance, insurance required in connection with the leased properties and the business conducted on the leased properties, taxes levied on or with respect to the leased properties and all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties. As of December 31, 2016, the leases had a weighted-average remaining term of over nine years. We retain substantially all of the risks and benefits of ownership of the real estate assets leased to tenants. In addition, we may receive additional security under these operating leases in the form of letters of credit and security deposits from the lessee or guarantees from the parent of the lessee or other parties related to the lessee. Security deposits received in cash related to tenant leases are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets and totaled $2.7 million and $1.3 million as of December 31, 2016 and 2015, respectively.

Strong Relationships with Operators

The members of our management team have developed an extensive network of relationships with qualified local, regional and national operators of skilled nursing and senior housing facilities across the United States and Canada. This extensive network has been built by our management team through over 25 years of operating experience, involvement in industry trade organizations and the development of banking relationships and investor relations within the skilled nursing and senior housing industries. We work collaboratively with our operators to help them achieve their growth and business objectives. We believe these strong relationships with operators help us to source investment opportunities.

Our relationships with operators include pipeline agreements that we have entered into with certain operators that provide for the acquisition of, and interim capital commitments for, various health care facilities. These pipeline agreements, together with repeat transactions with other operators, help support our future growth potential by providing additional investment opportunities with lower acquisition pursuit costs than would be required for investments with new operators.

Ability to Identify Talented Operators

As a result of our management team’s operating experience, network of relationships and industry insight, we have been able and expect to continue to be able to identify qualified local, regional and national operators. We seek operators who possess local market knowledge, demonstrate hands-on management, have proven track records and emphasize patient care. These operators are often located in secondary markets, which generally have lower costs to build and favorable demographics as demonstrated by the fact that the percentage of the population over the age of 65 is greater in the markets where we have invested than in the U.S. as a whole. We believe our management team’s experience gives us a key competitive advantage in objectively evaluating an operator’s financial position, emphasis on care and operating efficiency.

Significant Experience in Proactive Asset Management

The members of our management team have significant experience developing systems to collect and evaluate data relating to the underlying operational and financial success of healthcare companies and healthcare-related real estate assets. We are able to utilize this experience and expertise to provide our operators, when requested, with significant assistance in the areas of marketing, development, facility expansion and strategic planning. We actively monitor the operating results of our tenants and, when requested, will work closely with our operators to identify and capitalize on opportunities to improve the operations of our facilities and the overall financial and operating strength of our operators.

Experienced Management Team

Our management team has extensive healthcare and real estate experience. Richard K. Matros, Chairman, President and Chief Executive Officer of Sabra, has more than 25 years of experience in the acquisition, development and disposition of healthcare assets, including nine years at Sun Healthcare Group, Inc. Harold W. Andrews, Jr., Executive Vice President, Chief Financial Officer and Secretary of Sabra, is a finance professional with more than 15 years of experience in both the provision of healthcare services and healthcare real estate. Talya Nevo-Hacohen, Executive Vice President, Chief Investment Officer and Treasurer of Sabra, is a real estate finance executive with more than 20 years of experience in real estate finance, acquisition and development, including three years of experience managing and implementing the capital markets strategy of an S&P 500 healthcare REIT. Through years of public company experience, our management team also has extensive experience accessing both debt and equity capital markets to fund growth and maintain a flexible capital structure.

Flexible UPREIT Structure

We operate through an umbrella partnership, commonly referred to as an UPREIT structure, in which substantially all of our properties and assets are held by Sabra Health Care Limited Partnership, a Delaware limited partnership (the "Operating Partnership"), in which we are the sole general partner and our wholly owned subsidiaries are currently the only limited partners, or by subsidiaries of the Operating Partnership. Conducting business through the Operating Partnership allows us flexibility in the manner in which we acquire properties. In particular, an UPREIT structure enables us to acquire additional properties from sellers in exchange for limited partnership units, which may provide property owners the opportunity to defer the tax consequences that would otherwise arise from a sale of their real properties and other assets to us. As a result, this structure allows us to acquire assets more efficiently and may allow us to acquire assets that the owner would otherwise be unwilling to sell because of tax considerations.

Business Strategies

We pursue business strategies focused on opportunistic acquisitions and property diversification where such acquisitions meet our investing and financing strategy. We also intend to further develop our relationships with tenants and healthcare providers with a goal to progressively expand the mixture of tenants managing and operating our properties.

The key components of our business strategies include:

Diversify Asset Portfolio

We expect to continue to grow our portfolio primarily through the acquisition of assisted living, independent living and memory care facilities in the U.S. and Canada and with a secondary focus on acquiring skilled nursing and transitional care facilities in the U.S. We have and will continue to opportunistically acquire other types of healthcare real estate, originate financing secured directly or indirectly by healthcare facilities and invest in the development of senior housing and skilled nursing/transitional care facilities. We may also achieve our objective of diversifying our portfolio by tenant and asset class through select asset sales and other arrangements with Genesis and other tenants.

Maintain Balance Sheet Strength and Liquidity

We seek to maintain a capital structure that provides the resources and flexibility to support the growth of our business. As of December 31, 2016, we had approximately $499.5 million in liquidity, consisting of unrestricted cash and cash equivalents of $25.5 million (excluding joint venture cash and cash equivalents), and available borrowings under our Revolving Credit Facility of $474.0 million. The Credit Facility (as defined below) also contains an accordion feature that can increase the total available borrowings to $1.25 billion (from U.S. $745.0 million plus CAD $125.0 million), subject to terms and conditions.

We intend to maintain a mix of credit facility debt, term loan debt, mortgage debt and unsecured term debt which, together with our anticipated ability to complete future equity financings, we expect will fund the growth of our operations. Further, we may opportunistically seek access to U.S. government agency financing, including through Fannie Mae and HUD, in appropriate circumstances in connection with acquisitions.

Develop New Investment Relationships

We seek to cultivate our relationships with tenants and healthcare providers in order to expand the mix of tenants operating our properties and, in doing so, to reduce our dependence on any single tenant or operator. We have grown our investment relationships from one in 2010 to 33 as of December 31, 2016. We expect to continue to develop new investment relationships as part of our overall strategy to acquire new properties and further diversify our overall portfolio of healthcare properties.

Capital Source to Underserved Operators

We believe that there is a significant opportunity to be a capital source to healthcare operators through the acquisition and leasing of healthcare properties that are consistent with our investment and financing strategy, but that, due to size and other considerations, are not a focus for larger healthcare REITs. We utilize our management team’s operating experience, network of relationships and industry insight to identify financially strong and growing operators in need of capital funding for future growth. In appropriate circumstances, we may negotiate with operators to acquire individual healthcare properties from those operators and then lease those properties back to the operators pursuant to long-term triple-net leases or refinance new projects.

Strategic Capital Improvements

We intend to continue to support operators by providing capital to them for a variety of purposes, including for capital expenditures and facility modernization. We expect to structure these investments as either lease amendments that produce additional rents or as loans that are repaid by operators during the applicable lease term.

Pursue Strategic Development Opportunities

We intend to work with our operators to identify strategic development opportunities. These opportunities may involve replacing or renovating facilities in our portfolio that may have become less competitive and new development opportunities that present attractive risk-adjusted returns. In addition to pursuing acquisitions with triple-net leases, we expect to continue to pursue other forms of investment, including investments in third-party managed senior housing facilities, mezzanine and secured debt investments, and joint ventures for senior housing and skilled nursing/transitional care facilities.

Our Employees

As of December 31, 2016, we employed 14 full-time employees (including our executive officers), none of whom is subject to a collective bargaining agreement.

Competition

We compete for real property investments with other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders and other investors. Some of our competitors are significantly larger and have greater financial resources and lower costs of capital than we do. Increased competition will make it more challenging to identify and successfully capitalize on acquisition opportunities that meet our investment objectives. Our ability to compete is also impacted by national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends.

In addition, revenues from our properties are dependent on the ability of our tenants and operators to compete with other healthcare operators. These operators compete on a local and regional basis for residents and patients, and the operators' ability to successfully attract and retain residents and patients depends on key factors such as the number of facilities in the local market, the types of services available, the quality of care, reputation, age and appearance of each facility and the cost of care in each locality. Private, federal and state payment programs and the effect of other laws and regulations may also have a significant impact on the ability of our tenants and operators to compete successfully for residents and patients at the properties.

Government Regulation

Our tenants are subject to extensive and complex federal, state and local healthcare laws and regulations, including anti-kickback, anti-fraud and abuse provisions codified under the Social Security Act. These provisions prohibit certain business practices and relationships that might affect the provision and cost of healthcare services reimbursable under Medicare and Medicaid. Sanctions for violating these anti-kickback, anti-fraud and abuse provisions include criminal penalties, civil sanctions, fines and possible exclusion from government programs such as Medicare and Medicaid. If a center is decertified as a Medicare or Medicaid provider by the Centers for Medicare & Medicaid Services ("CMS") or a state, the center will not thereafter be reimbursed for caring for residents that are covered by Medicare and Medicaid, and the center would be forced to care for such residents without being reimbursed or to transfer such residents.

Most of our tenants' skilled nursing/transitional care centers, assisted living and mental health centers are licensed under applicable state law. Most of our skilled nursing/transitional care centers and mental health centers are certified or approved as providers under the Medicare and Medicaid programs. Some of our assisted living centers are certified or approved as providers under various state Medicaid and/or Medicaid waiver programs. State and local agencies survey all skilled nursing centers and some assisted living centers on a regular basis to determine whether such centers are in compliance with governmental operating and health standards and conditions for participation in government sponsored third party payor programs. Under certain circumstances, the federal and state agencies have the authority to take adverse actions against a center or service provider, including the imposition of a monitor, the imposition of monetary penalties and the decertification of a center or provider from participation in the Medicare and/or Medicaid/Medicaid waiver programs or licensure revocation. Challenging and appealing notices or allegations of noncompliance can require significant legal expenses and management attention.

Various states in which our tenants operate our centers have established minimum staffing requirements or may establish minimum staffing requirements in the future. Failure to comply with such minimum staffing requirements may result in the imposition of fines or other sanctions. Most states in which our tenants operate have statutes requiring that prior to the addition or construction of new nursing home beds, to the addition of new services or to certain capital expenditures in excess of defined levels, the tenant first must obtain a certificate of need, which certifies that the state has made a determination that a need exists for such new or additional beds, new services or capital expenditures. The certification process is intended to promote quality healthcare at the lowest possible cost and to avoid the unnecessary duplication of services, equipment and centers. This certification process can restrict or prohibit the undertaking of a project or lengthen the period of time required to enlarge or renovate a facility or replace a tenant.

In addition to the above, those of our tenants who provide services that are paid for by Medicare and Medicaid are subject to federal and state budgetary cuts and constraints that limit the reimbursement levels available from these government programs.

As of December 31, 2016, our subsidiaries owned 17 healthcare facilities (11 skilled nursing/transitional care facilities and six senior housing facilities) with mortgage loans that are guaranteed by HUD. Those facilities are subject to the rules and regulations of HUD, including periodic inspections by HUD, although the tenants of those facilities have the primary responsibility for maintaining the facilities in compliance with HUD's rules and regulations. The regulatory agreements entered into by each owner and each operator of the property restrict, among other things, any sale or other transfer of the property, modification of the lease between the owner and the operator, use of surplus cash from the property except upon certain conditions, renovations of the property and use of the property other than for a skilled nursing facility, all without prior HUD approval.

In addition, as an owner of real property, we are subject to various federal, state and local environmental and health and safety laws and regulations. These laws and regulations address various matters, including asbestos, fuel oil management, wastewater discharges, air emissions, medical wastes and hazardous wastes. The costs of complying with these laws and regulations and the penalties for non-compliance can be substantial. For example, although we do not operate or manage our properties, we may be held primarily or jointly and severally liable for costs relating to the investigation and clean up of any property from which there has been a release or threatened release of a regulated material as well as other affected properties, regardless of whether we knew of or caused the release. In addition to these costs, which are typically not limited by law or regulation and could exceed the property’s value, we could be liable for certain other costs, including governmental fines and injuries to persons, property or natural resources. See “Risk Factors—Risks Relating to Our Business—Environmental compliance costs and liabilities associated with real estate properties owned by us may materially impair the value of those investments.”

Updates to REIT Rules

The Protecting Americans from Tax Hikes Act of 2015 (the “PATH Act”) was enacted on December 18, 2015 and contains several provisions pertaining to REIT qualification and taxation, which are briefly summarized below:

- For taxable years beginning before January 1, 2018, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more taxable REIT subsidiaries (“TRSs”). For taxable years beginning after December 31, 2017, the PATH Act reduces this limit to 20%.
- For purposes of the REIT asset tests, the PATH Act provides that debt instruments issued by publicly offered REITs will constitute “real estate assets.” However, unless such a debt instrument is secured by a mortgage or otherwise would have qualified as a real estate asset under prior law, (i) interest income and gain from such a debt instrument is not qualifying income for purposes of the 75% gross income test and (ii) all such debt instruments may represent no more than 25% of the value of a REIT's total assets.
- For taxable years beginning after December 31, 2015, certain obligations secured by a mortgage on both real property and personal property are treated as a qualifying real estate asset and give rise to qualifying income for purposes of the 75% gross income test if the fair market value of such personal property does not exceed 15% of the total fair market value of all such property.
- A 100% excise tax is imposed on “redetermined TRS service income,” which is income of a TRS attributable to services provided to, or on behalf of, its associated REIT and which would otherwise be increased on distribution, apportionment, or allocation under Section 482 of the Code.
- For distributions made in taxable years beginning after December 31, 2014, the preferential dividend rules no longer apply.
- Additional exceptions to the rules under the Foreign Investment in Real Property Tax Act (“FIRPTA”) were introduced for non-U.S. persons that constitute “qualified shareholders” (within the meaning of Section 897(k)(3) of the Code) or “qualified foreign pension funds” (within the meaning of Section 897(l)(2) of the Code).
- After February 16, 2016, the FIRPTA withholding rate under Section 1445 of the Code for dispositions of U.S. real property interests was increased from 10% to 15%.
- The PATH Act increases from 5% to 10% the maximum stock ownership of the REIT that a non-U.S. shareholder may have held to avail itself of the FIRPTA exception for shares regularly traded on an established securities market.

In addition, the IRS issued guidance delaying the imposition of withholding under the Foreign Account Tax Compliance Act to the gross proceeds from a disposition of property that can produce U.S. source interest or dividends. Such withholding will apply only to dispositions occurring after December 31, 2018.

ITEM 1A. RISK FACTORS

The following describes the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.

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Risks Related to Tenant Concentration

We are dependent on Genesis until we further diversify our portfolio, and an event that has a material adverse effect on Genesis's business, financial position or results of operations would have a material adverse effect on our business, financial position or results of operations.

As of December 31, 2016, leases to subsidiaries of Genesis represented 32.3% of our annualized revenues, with Genesis guaranteeing the obligations under the lease agreements. There can be no assurance that Genesis and its subsidiaries will have sufficient assets, income and access to financing to enable them to satisfy their payment obligations under their lease agreements. The inability of Genesis and its subsidiaries to meet their rent obligations would materially adversely affect our business, financial position or results of operations including our ability to pay dividends to our stockholders as required to maintain our status as a REIT. The inability of Genesis and its subsidiaries to satisfy their other obligations under their lease agreements such as the payment of taxes, insurance and utilities could have a material adverse effect on the condition of the leased properties as well as on our business, financial position and results of operations. For these reasons, if Genesis were to experience a material adverse effect on its business, financial position or results of operations, our business, financial position or results of operations would also be materially adversely affected.

Due to our dependence on rental payments from Genesis and its subsidiaries as a significant source of revenues, we may be limited in our ability to enforce our rights under these lease agreements or to terminate a lease thereunder. Failure by Genesis and its subsidiaries to comply with the terms of their lease agreements or to comply with the healthcare regulations to which the leased properties and Genesis's operations are subject could require us to find other lessees for any affected leased properties and there could be a decrease or cessation of rental payments by Genesis and its subsidiaries. In such event, we may be unable to locate suitable replacement lessees willing to pay similar rental rates or at all, which would have the effect of reducing our rental revenues.

Holiday may be unable to cover its lease obligations to us and there can be no assurance that its indirect parent, Holiday AL Holdings LP (the "Guarantor"), will be able to cover any shortfall.

As of December 31, 2016, a lease with Holiday represented 16.2% of our annualized revenues, with the Guarantor guaranteeing the obligations under this lease. The 21 independent living facilities acquired (the "Holiday Portfolio") from Holiday Acquisition Holdings Corp. ("Holiday") were previously owner-operated by Holiday. As a result, Holiday did not have a lease expense to cover like the lease expense that is payable to us under the master lease relating to the Holiday Portfolio. If Holiday is not able to satisfy its obligations to us, we would be entitled, among other remedies, to use the letter of credit of Holiday then held by us as security for Holiday's performance of its obligations (approximately $15.1 million as of December 31, 2016) and to seek recourse against the Guarantor under the Guaranty. The guaranty of master lease (the "Guaranty") executed by the Guarantor in favor of us includes certain financial covenants of the Guarantor, including maintaining a minimum net worth of $150 million, a minimum fixed charge coverage ratio of 1.10x and a maximum leverage ratio of 10x (as each term is defined in the Guaranty). As of December 31, 2016, the Guarantor has guaranteed, or agreed to guarantee, significant lease obligations of various other of its subsidiaries in addition to its guarantee of Holiday's obligations to us. In the future, the Guarantor may execute additional guaranties of the lease obligations of its subsidiaries without limitation. There can be no assurance that the Guarantor will have the resources necessary to satisfy its obligations to us under the Guaranty in the event that Holiday fails to satisfy its lease obligations to us in full, which could have a material adverse effect on us.

Risks Relating to Our Business

We are dependent on the operating success of our tenants.

Our tenants' revenues are primarily driven by occupancy, Medicare and Medicaid reimbursement and private pay rates. Revenues from government reimbursement have been, and may continue to be, subject to rate cuts and further pressure from federal and state budgetary cuts and constraints. Overall weak economic conditions in the United States may adversely affect occupancy rates of healthcare facilities that rely on private pay residents. Our tenants' expenses are driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. In addition, any failure by a tenant to effectively conduct its operations or to maintain and improve our properties could adversely affect its business reputation and its ability to attract and retain residents in our properties. To the extent any decrease in revenues and/or any increase in operating expenses results in our tenants' not generating enough cash to make scheduled lease payments to us, our business, financial position or results of operations could be materially adversely affected.

We have substantial indebtedness and the ability to incur significant additional indebtedness.

As of December 31, 2016, we had outstanding indebtedness of $1.2 billion, which consisted of $700.0 million of senior unsecured notes, including $500.0 million total aggregate principal amount of 5.5% senior unsecured notes due 2021 (the “2021 Notes”) and $200.0 million aggregate principal amount of 5.375% senior notes due 2023 (the “2023 Notes” and, together with the 2021 Notes, the “Senior Notes”), $338.0 million in term loans, $26.0 million outstanding under our Revolving Credit Facility and aggregate mortgage indebtedness to third parties of $163.6 million on certain of our properties, and we had $474.0 million available for borrowing under our Revolving Credit Facility. Our high level of indebtedness may have the following important consequences to us:

- It may become more difficult for us to satisfy our obligations (including ongoing interest payments and, where applicable, scheduled amortization payments) with respect to the Senior Notes and our other debt;
- It may limit our ability to obtain additional financing to fund future acquisitions, working capital, capital expenditures or other general corporate requirements;
- It may increase our cost of borrowing;
- It may expose us to the risk of increased interest rates as borrowings under the Revolving Credit Facility are subject to variable rates of interest;
- We may need to dedicate a substantial portion of our cash flow from operations to the payment of debt service, thereby limiting our ability to invest in our business;
- It may limit our ability to adjust rapidly to changing market conditions and we may be vulnerable in the event of a downturn in general economic conditions or in the real estate and/or healthcare sectors;
- It may place us at a competitive disadvantage against less leveraged competitors; and
- It may require us to sell assets and properties at an inopportune time.

In addition, the Senior Notes Indentures (as defined below) permit us to incur substantial additional debt, including secured debt (to which the Senior Notes will be effectively subordinated). If we incur additional debt, the related risks described above could intensify.

We may be unable to service our indebtedness.

Our ability to make scheduled payments on and to refinance our indebtedness depends on and is subject to our financial and operating performance, which in turn is affected by general and regional economic, financial, competitive, business and other factors beyond our control, including the availability of financing in the international banking and capital markets. Our business may fail to generate sufficient cash flow from operations or future borrowings may be unavailable to us under our Revolving Credit Facility or from other sources in an amount sufficient to enable us to service our debt, to refinance our debt or to fund our other liquidity needs. If we are unable to meet our debt obligations or to fund our other liquidity needs, we will need to restructure or refinance all or a portion of our debt. We may be unable to refinance any of our debt, including our Credit Facility (as defined below), on commercially reasonable terms or at all. In particular, our Credit Facility will mature prior to the maturity of the Senior Notes. If we were unable to make payments or refinance our debt or obtain new financing under these circumstances, we would have to consider other options, such as asset sales, equity issuances and/or negotiations with our lenders to restructure the applicable debt. Our Credit Facility and the Senior Notes Indentures restrict, and market or business conditions may limit, our ability to take some or all of these actions. Any restructuring or refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants that could further restrict our business operations.

Covenants in our debt agreements restrict our activities and could adversely affect our business.

Our debt agreements, including the Senior Notes Indentures and our Credit Facility, contain various covenants that limit our ability and the ability of our restricted subsidiaries to engage in various transactions including:

- Incurring additional secured and unsecured debt;
- Paying dividends or making other distributions on, redeeming or repurchasing capital stock;
- Making investments or other restricted payments;
- Entering into transactions with affiliates;
- Issuing stock of or interests in restricted subsidiaries;
- Engaging in non-healthcare related business activities;

- Creating restrictions on the ability of our restricted subsidiaries to pay dividends or other amounts to us;
- Selling assets; or
- Effecting a consolidation or merger or selling all or substantially all of our assets.

These covenants limit our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively. In addition, our Credit Facility requires us to maintain specified financial covenants, which include a maximum leverage ratio, a minimum fixed charge coverage ratio and a minimum tangible net worth ratio, as well as satisfy other financial condition tests. The Senior Notes Indentures require us to maintain total unencumbered assets of at least 150% of our unsecured indebtedness. Our ability to meet these requirements may be affected by events beyond our control, and we may not meet these requirements.

A breach of any of the covenants or other provisions in our debt agreements could result in an event of default, which if not cured or waived, could result in such debt becoming immediately due and payable. This, in turn, could cause our other debt to become due and payable as a result of cross-acceleration provisions contained in the agreements governing such other debt. We may be unable to maintain compliance with these covenants and, if we fail to do so, we may be unable to obtain waivers from the lenders and/or amend the covenants. In the event that some or all of our debt is accelerated and becomes immediately due and payable, we may not have the funds to repay, or the ability to refinance, such debt.

An increase in market interest rates could increase our interest costs on borrowings on our Revolving Credit Facility and future debt and could adversely affect our stock price.

If interest rates increase, so could our interest costs for borrowings on our Revolving Credit Facility and any new debt. This increased cost could make the financing of any acquisition more costly. Rising interest rates could limit our ability to refinance existing debt when it matures or cause us to pay higher interest rates upon refinancing. In addition, an increase in interest rates could decrease the access third parties have to credit, thereby decreasing the amount they are willing to pay for our assets, and consequently limit our ability to reposition our portfolio promptly in response to changes in economic or other conditions.

Our ability to raise capital through equity financings is dependent, in part, on the market price of our common stock, which depends on market conditions and other factors affecting REITs generally.

Our ability to raise capital through equity financings depends, in part, on the market price of our common stock, which in turn depends on fluctuating market conditions and other factors including the following:

- The reputation of REITs and attractiveness of their equity securities in comparison with other equity securities, including securities issued by other real estate companies;
- Our financial performance and that of our tenants;
- Concentrations in our investment portfolio by tenant and facility type;
- Concerns about our tenants' financial condition due to uncertainty regarding reimbursement from governmental and other third-party payor programs;
- Our ability to meet or exceed investor expectations of prospective investment and earnings targets;
- The contents of analyst reports about us and the REIT industry;
- Changes in interest rates on fixed-income securities, which may lead prospective investors to demand a higher annual yield from investments in our common stock;
- Maintaining or increasing our dividend, which is determined by our board of directors and depends on our financial position, results of operations, cash flows, capital requirements, debt covenants (which include limits on distributions by us), applicable law, and other factors as our board of directors deems relevant; and
- Regulatory action and changes in REIT tax laws.

The market value of a REIT's equity securities is generally based upon the market's perception of the REIT's growth potential and its current and potential future earnings and cash distributions. If we fail to meet the market's expectation with regard to future earnings and cash distributions, the market price of our common stock could decline and our ability to raise capital through equity financings could be materially adversely affected.

We may be adversely affected by fluctuations in foreign currency exchange rates.

Our ownership of properties in Canada currently subjects us to fluctuations in the exchange rate between U.S. dollars and Canadian dollars. Although we have pursued hedging alternatives, by borrowing in Canadian dollar denominated debt and entering into cross currency swaps, to protect against foreign currency fluctuations, no amount of hedging activity can fully insulate us from the risks associated with changes in foreign currency exchange rates, and the failure to hedge effectively against foreign currency exchange rate risk could materially adversely affect our business, financial position or results of operations. In addition, any income derived from such hedging transactions may not qualify under the 75% gross income test or the 95% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT.

Required regulatory approvals can delay or prohibit transfers of our healthcare properties, which could result in periods in which we are unable to receive rent for such properties.

Our tenants are operators of skilled nursing and other healthcare facilities, which operators must be licensed under applicable state law and, depending upon the type of facility, certified or approved as providers under the Medicare and/or Medicaid programs. Prior to the transfer of the operations of such healthcare properties to successor operators, the new operator generally must become licensed under state law and, in certain states, receive change of ownership approvals under certificate of need laws (which laws provide for a certification that the state has made a determination that a need exists for the beds located on the applicable property). If applicable, Medicare and Medicaid provider approvals may be needed as well. In the event that an existing lease is terminated or expires and a new tenant is found, then any delays in the new tenant receiving regulatory approvals from the applicable federal, state or local government agencies, or the inability of such tenant to receive such approvals, may prolong the period during which we are unable to collect the applicable rent. We could also incur substantial additional expenses in connection with any licensing, receivership or change-of-ownership proceedings.

Our tenants may be adversely affected by increasing healthcare regulation and enforcement.

Over the last several years, the regulatory environment of the long-term healthcare industry has intensified both in the amount and type of regulations and in the efforts to enforce those regulations. This is particularly true for large for-profit, multi-facility providers. The extensive federal, state and local laws and regulations affecting the healthcare industry include those relating to, among other things, licensure, conduct of operations, ownership of facilities, addition of facilities and equipment, allowable costs, services, prices for services, qualified beneficiaries, quality of care, patient rights, fraudulent or abusive behavior, and financial and other arrangements that may be entered into by healthcare providers. Changes in enforcement policies by federal and state governments have resulted in a significant increase in the number of inspections, citations of regulatory deficiencies and other regulatory sanctions, including terminations from the Medicare and Medicaid programs, bars on Medicare and Medicaid payments for new admissions, civil monetary penalties and even criminal penalties.

If our tenants fail to comply with the extensive laws, regulations and other requirements applicable to their businesses and the operation of our properties, they could become ineligible to receive reimbursement from governmental and private third-party payor programs, face bans on admissions of new patients or residents, suffer civil or criminal penalties or be required to make significant changes to their operations. Our tenants also could be forced to expend considerable resources responding to an investigation, lawsuit or other enforcement action under applicable laws or regulations. In such event, the results of operations and financial condition of our tenants and the results of operations of our properties operated by those entities could be adversely affected, which, in turn, could have a material adverse effect on us. We are unable to predict future federal, state and local regulations and legislation, including the Medicare and Medicaid statutes and regulations, or the intensity of enforcement efforts with respect to such regulations and legislation, and any changes in the regulatory framework could have a material adverse effect on our tenants, which, in turn, could have a material adverse effect on us.

Our tenants depend on reimbursement from governmental and other third-party payor programs, and reimbursement rates from such payors may be reduced.

Many of our tenants depend on third-party payors, including Medicare, Medicaid or private third-party payors, for the majority of their revenue. The reduction in reimbursement rates from third-party payors, including insurance companies and the Medicare and Medicaid programs, or other measures reducing reimbursements for services provided by our tenants, may result in a reduction in our tenants' revenues and operating margins. In addition, reimbursement from private third-party payors may be reduced as a result of retroactive adjustment during claims settlement processes or as a result of post-payment audits. Furthermore, new laws and regulations could impose additional limitations on government and private payments to healthcare providers. For example, our tenants may be affected by health reform initiatives that modify certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste (e.g. the implementation of a voluntary bundled payment program and the creation of accountable care organizations). We cannot assure you that adequate reimbursement levels will continue to be available for the services provided by our tenants. Although moderate reimbursement rate reductions may not affect our tenants' ability to meet their financial obligations to us, significant limits on reimbursement rates or on the services reimbursed could have a material adverse effect on their business, financial position or results of operations, which could materially adversely affect their ability to meet their financial obligations to us.

While reimbursement rates have generally increased over the past few years, President Trump and members of the U.S. Congress may approve or propose various spending cuts and tax reform initiatives that could result in changes (including substantial reductions in funding) to Medicare, Medicaid or Medicare Advantage Plans. In addition, a number of states are currently managing budget deficits, which may put pressure on states to decrease reimbursement rates for our tenants with a goal of decreasing state expenditures under their state Medicaid programs. Any such existing or future federal or state legislation relating to deficit reduction that reduces reimbursement payments to healthcare providers could have a material adverse effect on our tenants' business, financial position or results of operations, which could materially adversely affect their ability to meet their financial obligations to us and could have a material adverse effect on us.

We may not be able to sell properties when we desire because real estate investments are relatively illiquid, which could have a material adverse effect on our business, financial position or results of operations.

Real estate investments generally cannot be sold quickly. In addition, some and potentially substantially all of our properties serve as collateral for our current and future secured debt obligations and cannot readily be sold unless the underlying mortgage indebtedness is concurrently repaid. We may not be able to vary our portfolio promptly in response to changes in the real estate market. A downturn in the real estate market could materially adversely affect the value of our properties and our ability to sell such properties for acceptable prices or on other acceptable terms. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property or portfolio of properties. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could have a material adverse effect on our business, financial position or results of operations.

The tax imposed on REITs engaging in "prohibited transactions" may limit our ability to engage in transactions which would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

Real estate is a competitive business and this competition may make it difficult for us to identify and purchase suitable healthcare properties, to finance acquisitions on favorable terms, or to retain or attract tenants.

We operate in a highly competitive industry and face competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders and other investors, some of whom are significantly larger than us and have greater resources and lower costs of capital than we do. This competition makes it more challenging to identify and successfully capitalize on acquisition opportunities that meet our investment objectives. Similarly, our properties face competition for tenants from other properties in the same market, which may affect our ability attract and retain tenants or may reduce the rents we are able to charge. If we cannot identify and purchase a sufficient quantity of healthcare properties at favorable prices, finance acquisitions on commercially favorable terms, or attract and retain profitable tenants, our business, financial position or results of operations could be materially adversely affected.

If we lose our key management personnel, we may not be able to successfully manage our business and achieve our objectives.

Our success depends in large part upon the leadership and performance of our executive management team, particularly Mr. Matros, our President and Chief Executive Officer. If we lose the services of Mr. Matros, we may not be able to successfully manage our business or achieve our business objectives.

We have a limited number of employees and, accordingly, the loss of any one of our employees could harm our operations.

As of December 31, 2016, we employed 14 full-time employees, including our executive officers. Accordingly, the impact we may feel from the loss of one of our employees may be greater than the impact such a loss would have on a larger organization. While it is anticipated that we could find replacements for our personnel, the loss of their services could harm our operations, at least in the short term.

Potential litigation and rising insurance costs may affect our tenants' ability to obtain and maintain adequate liability and other insurance and their ability to make lease payments and fulfill their insurance and indemnification obligations to us.

Our tenants may be subject to lawsuits filed by advocacy groups that monitor the quality of care at healthcare facilities or by patients, facility residents or their families. Significant damage awards are possible in cases where neglect has been found.

This litigation has increased our tenants' costs of monitoring and reporting quality of care and has resulted in increases in the cost of liability and medical malpractice insurance. These increased costs may materially adversely affect our tenants' ability to obtain and maintain adequate liability and other insurance; manage related risk exposures; fulfill their insurance, indemnification and other obligations to us under their leases; or make lease payments to us. In addition, from time to time, we may be subject to claims brought against us in lawsuits and other legal proceedings arising out of our alleged actions or the alleged actions of our tenants for which such tenants may have agreed to indemnify, defend and hold us harmless. An unfavorable resolution of any such pending or future litigation could materially adversely affect our liquidity, financial condition and results of operations and have a material adverse effect on us in the event that we are not ultimately indemnified by our tenants.

We face potential adverse consequences of bankruptcy or insolvency by our tenants, operators, borrowers, managers and other obligors.

We are exposed to the risk that our tenants could become bankrupt or insolvent. Although our lease agreements provide us with the right to exercise certain remedies in the event of default on the obligations owing to us or upon the occurrence of certain insolvency events, the bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization. For example, a lessee may reject its lease with us in a bankruptcy proceeding. In such a case, our claim against the lessee for unpaid and future rents would be limited by the statutory cap of the U.S. Bankruptcy Code. This statutory cap could be substantially less than the remaining rent actually owed under the lease, and any claim we have for unpaid rent might not be paid in full. In addition, a lessee may assert in a bankruptcy proceeding that its lease should be re-characterized as a financing agreement. If such a claim is successful, our rights and remedies as a lender, compared to a landlord, are generally more limited.

We may experience uninsured or underinsured losses, which could result in a significant loss of the capital we have invested in a property, decrease anticipated future revenues or cause us to incur unanticipated expenses.

While our lease agreements require that comprehensive insurance and hazard insurance be maintained by the tenants, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods, that may be uninsurable or not economically insurable. Insurance coverage may not be sufficient to pay the full current market value or current replacement cost of a loss. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it infeasible to use insurance proceeds to replace properties after they have been damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to restore the economic position with respect to a damaged property.

Environmental compliance costs and liabilities associated with real estate properties owned by us may materially impair the value of those investments.

As an owner of real property, we or our subsidiaries are subject to various federal, state and local environmental and health and safety laws and regulations. Although we do not currently operate or manage our properties, we or our subsidiaries may be held primarily or jointly and severally liable for costs relating to the investigation and clean-up of any property where there has been a release or threatened release of a hazardous regulated material as well as other affected properties, regardless of whether we knew of or caused the release. In addition to these costs, which are typically not limited by law or regulation and could exceed an affected property's value, we could be liable for certain other costs, including governmental fines and injuries to persons, property or natural resources. Further, some environmental laws provide for the creation of a lien on a contaminated site in favor of the government as security for damages and any costs the government incurs in connection with such contamination and associated clean-up. Although we require our operators and tenants to undertake to indemnify us for environmental liabilities they cause, the amount of such liabilities could exceed the financial ability of the tenant or operator to indemnify us. The presence of contamination or the failure to remediate contamination may adversely affect our ability to sell or lease the real estate or to borrow using the real estate as collateral.

An ownership limit and certain anti-takeover defenses could inhibit a change of control of Sabra or reduce the value of our stock.

Certain provisions of Maryland law and of our charter and bylaws may have an anti-takeover effect. The following provisions of Maryland law and these governing documents could have the effect of making it more difficult for a third party to acquire control of Sabra, including certain acquisitions that our stockholders may deem to be in their best interests:

- Our charter contains transfer and ownership restrictions on the percentage by number and value of outstanding shares of our stock that may be owned or acquired by any stockholder;
- Our charter permits the issuance of one or more classes or series of preferred stock with rights and preferences to be determined by the board of directors and permits our board of directors, without stockholder action, to amend the charter to increase or decrease the aggregate number of authorized shares or the number of shares of any class or series that we have authority to issue;
- "Business combination" provisions of Maryland law, subject to certain limitations, impose a moratorium on business combinations with "interested stockholders" or affiliates thereof for five years and thereafter impose additional requirements on such business combinations;
- Our bylaws require advance notice of stockholder proposals and director nominations; and
- Our bylaws may be amended only by our board of directors.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential tenant and other customer information, such as individually identifiable information, including information relating to financial accounts. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to find a replacement tenant for one or more of our leased properties.

We may need to find a replacement tenant for one or more of our leased properties for a variety of reasons, including upon the expiration of the lease term or the occurrence of a tenant default. During any period in which we are attempting to locate one or more replacement tenants, there could be a decrease or cessation of rental payments on the applicable property or properties. We cannot be sure that any of our current or future tenants will elect to renew their respective leases upon expiration of the terms thereof. Similarly, we cannot be sure that we will be able to locate a suitable replacement tenant or, if we are successful in locating a replacement tenant, that the rental payments from the new tenant would not be significantly less than the existing rental payments. Our ability to locate a suitable replacement tenant may be significantly delayed or limited by various state licensing, receivership, certificate of need or other laws, as well as by Medicare and Medicaid change-of-ownership rules. We also may incur substantial additional expenses in connection with any such licensing, receivership or change-of-ownership proceedings. Any such delays, limitations and expenses could delay or impact our ability to collect rent, obtain possession of leased properties or otherwise exercise remedies for default, which could materially adversely affect our business, financial condition and results of operations.

Risks Associated with Our Status as a REIT

Our failure to maintain our qualification as a REIT would subject us to U.S. federal income tax, which could adversely affect the value of the shares of our common stock and would substantially reduce the cash available for distribution to our stockholders.

Our qualification and taxation as a REIT will depend upon our ability to meet on a continuing basis, through actual annual operating results, certain qualification tests set forth in the U.S. federal tax laws. Accordingly, given the complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the potential tax treatment of investments we make, and the possibility of future changes in our circumstances, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements.

If we fail to qualify as a REIT in any calendar year, we would be required to pay U.S. federal income tax (and any applicable state and local tax), including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income (although such dividends received by certain non-corporate U.S. taxpayers generally would currently be subject to a preferential rate of taxation). Further, if we fail to qualify as a REIT, we might need to borrow money or sell assets in order to pay any resulting tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT, we no longer would be required under U.S. federal tax laws to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT was subject to relief under U.S. federal tax laws, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify.

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

To comply with the 90% taxable income distribution requirement applicable to REITs and to avoid the nondeductible excise tax, we must make distributions to our stockholders. The Senior Notes Indentures permit us to declare or pay any dividend or make any distribution that is necessary to maintain our REIT status if the aggregate principal amount of all outstanding Indebtedness of the Parent and its Restricted Subsidiaries on a consolidated basis at such time is less than 60% of Adjusted Total Assets (as each term is defined in the Senior Notes Indentures) and to make additional distributions if we pass certain other financial tests.

We are required under the Internal Revenue Code of 1986, as amended (the “Code”), to distribute at least 90% of our taxable income, determined without regard to the dividends-paid deduction and excluding any net capital gain, and the Operating Partnership is required to make distributions to us to allow us to satisfy these REIT distribution requirements. However, distributions may limit our ability to rely upon rental payments from our properties or subsequently acquired properties to finance investments, acquisitions or new developments.

Although we anticipate that we generally will have sufficient cash or liquid assets to enable us to satisfy the REIT distribution requirement, it is possible that, from time to time, we may not have sufficient cash or other liquid assets to meet the 90% distribution requirement. This may be due to the timing differences between the actual receipt of income and actual payment of deductible expenses, on the one hand, and the inclusion of that income and deduction of those expenses in arriving at our taxable income, on the other hand. In addition, non-deductible expenses such as principal amortization or repayments or capital expenditures in excess of non-cash deductions also may cause us to fail to have sufficient cash or liquid assets to enable us to satisfy the 90% distribution requirement.

In the event that such an insufficiency occurs, in order to meet the 90% distribution requirement and maintain our status as a REIT, we may have to sell assets at unfavorable prices, borrow at unfavorable terms, make taxable stock dividends, or pursue other strategies. This may require us to raise additional capital to meet our obligations. The terms of our Credit Facility and the terms of the Senior Notes Indentures may restrict our ability to engage in some of these transactions.

We could fail to qualify as a REIT if income we receive is not treated as qualifying income, including as a result of one or more of the lease agreements we have entered into or assumed not being characterized as true leases for U.S. federal income tax purposes, which would subject us to U.S. federal income tax at corporate tax rates.

Under applicable provisions of the Code, we will not be treated as a REIT unless we satisfy various requirements, including requirements relating to the sources of our gross income. Rents received or accrued by us will not be treated as qualifying rent for purposes of these requirements if the lease agreements we have entered into or assumed (as well as any other leases we enter into or assume) are not respected as true leases for U.S. federal income tax purposes and are instead treated as service contracts, joint ventures, loans or some other type of arrangement. In the event that the lease agreements entered into with lessees are not characterized as true leases for U.S. federal income tax purposes, we may fail to qualify as a REIT. In addition, rents received by us from a lessee will not be treated as qualifying rent for purposes of these requirements if we are treated, either directly or under the applicable attribution rules, as owning 10% or more of the lessee's stock, capital or profits. We will be treated as owning, under the applicable attribution rules, 10% or more of a lessee's stock, capital or profits at any time that a stockholder owns, directly or under the applicable attribution rules, (a) 10% or more of our common stock and (b) 10% or more of the lessee's stock, capital or profits. The provisions of our charter restrict the transfer and ownership of our common stock that would cause the rents received or accrued by us from a tenant of ours to be treated as non-qualifying rent for purposes of the REIT gross income requirements. Nevertheless, there can be no assurance that such restrictions will be effective in ensuring that we will not be treated as related to a tenant of ours. If we fail to qualify as a REIT, we would be subject to U.S. federal income tax (including any applicable minimum tax) on our taxable income at corporate tax rates, which would decrease the amount of cash available for distribution to holders of our common stock.

Complying with REIT requirements may cause us to forego otherwise attractive acquisition opportunities or liquidate otherwise attractive investments, which could materially hinder our performance.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy certain tests, including tests concerning the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders

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and the ownership of our stock. In order to meet these tests, we may be required to forego investments or acquisitions we might otherwise make. Thus, compliance with the REIT requirements may materially hinder our performance.

If we have significant amounts of non-cash taxable income, we may have to declare taxable stock dividends or make other non-cash distributions, which could cause our stockholders to incur tax liabilities in excess of cash received.

We currently intend to pay dividends in cash only, and not in-kind. However, if for any taxable year, we have significant amounts of taxable income in excess of available cash flow, we may have to declare dividends in-kind in order to satisfy the REIT annual distribution requirements. We may distribute a portion of our dividends in the form of our stock or our debt instruments. In either event, a holder of our common stock will be required to report dividend income as a result of such distributions even though we distributed no cash or only nominal amounts of cash to such stockholder.

The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in shares as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for U.S. federal income tax purposes. Those rulings may be relied upon only by taxpayers to whom they were issued. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and shares. We have no current intention to make a taxable dividend payable in cash and our shares. However, if we make such a distribution, U.S. holders would be required to include the full amount of the dividend (i.e., the cash and stock portion) as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. holder may be required to pay income taxes with respect to such dividends in excess of the cash received. If a U.S. holder sells our stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of the stock at the time of the sale. Furthermore, with respect to non-U.S. holders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, these sales may put downward pressure on the trading price of our stock. Moreover, various tax aspects of a taxable dividend payable in cash and/or stock are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable dividends payable in cash and/or stock, including on a retroactive basis, or assert that the requirements for such taxable dividends have not been met.

Our charter restricts the transfer and ownership of our stock, which may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares.

In order for us to maintain our qualification as a REIT, no more than 50% of the value of our outstanding stock may be owned, directly or constructively, by five or fewer individuals, as defined in the Code. For the purpose of preserving our REIT qualification, our charter prohibits, subject to certain exceptions, beneficial and constructive ownership of more than 9.9% in value or in number of shares, whichever is more restrictive, of our outstanding common stock or more than 9.9% in value of all classes or series of our outstanding stock. The constructive ownership rules are complex and may cause shares of stock owned directly or constructively by a group of related individuals to be constructively owned by one individual or entity. The ownership limits may have the effect of discouraging an acquisition of control of us without the approval of our board of directors.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax law could materially adversely affect our stockholders. We cannot predict with certainty whether, when, in what forms, or with what effective dates, the tax laws applicable to us or our stockholders may be changed.

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

The maximum income tax rate applicable to “qualified dividends” payable to domestic stockholders taxed at individual rates is currently 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although not adversely affecting the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends treated as qualified dividend income, which could adversely affect the value of the stock of REITs, including our common stock.

Our ownership of and relationship with any taxable REIT subsidiaries that we have formed or will form will be limited and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation (other than a REIT) of which a TRS directly or indirectly owns securities possessing more than 35% of the total voting power or total value of the outstanding securities of such corporation will automatically be treated as a TRS. Overall, no more than 25% of the value of a REIT's total assets may consist of stock or securities of one or more TRSs. Effective January 1, 2018, such overall limitation on the value of a REIT's total assets consisting of stock or securities of one or more TRSs will be reduced to 20%. A domestic TRS will pay U.S. federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's length basis. Any domestic TRS that we have formed or may form will pay U.S. federal, state and local income tax on its taxable income, and its after-tax net income will be available for distribution to us but is not required to be distributed to us unless necessary to maintain our REIT qualification.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2016, our investment portfolio consisted of 183 real estate properties held for investment (consisting of (i) 97 skilled nursing/transitional care facilities, (ii) 85 senior housing facilities, and (iii) one acute care hospital), 10 investments in loans receivable (consisting of (i) four mortgage loans, (ii) one construction loan, (iii) one mezzanine loan, (iv) three pre-development loans and (v) and one DIP loan) and 12 preferred equity investments. Included in the 183 real estate properties held for investment are two Managed Properties. As of December 31, 2016, our real estate properties held for investment had a total of 18,878 beds/units, spread across the United States and Canada. As of December 31, 2016, nearly all of our real estate properties were leased under triple-net operating leases with expirations ranging from four to 16 years.

Nearly all of our properties are leased under long term, triple-net leases. The following table displays the expiration of the annualized straight-line rental revenues under our lease agreements as of December 31, 2016 by year and facility type (dollars in thousands) and, in each case, without giving effect to any renewal options:

	2020	2021	2022	2023	2024	2025	2026	Thereafter	Total
Skilled Nursing/Transitional Care									
Properties	26	29	12	—	9	2	4	15	97
Beds/Units	2,957	3,337	893	—	1,056	222	500	1,854	10,819
Annualized Revenues	$27,066	$28,666	$10,383	$—	$13,533	$2,914	$10,578	$42,598	$135,738
Senior Housing [1]									
Properties	2	4	11	—	9	22	1	31	80
Beds/Units	266	378	646	—	668	1,797	100	3,820	7,675
Annualized Revenues	1,996	2,359	7,468	—	7,087	19,308	624	52,316	91,158
Acute Care Hospital									
Properties	—	—	—	—	—	—	—	1	1
Beds/Units	—	—	—	—	—	—	—	70	70

Annualized Revenues	—	—	—	—	—	—	—	5,493	5,493
Total Properties	28	33	23	—	18	24	5	47	178
Total Beds/Units	3,223	3,715	1,539	—	1,724	2,019	600	5,744	18,564
Total Annualized Revenues	$29,062	$31,025	$17,851	$—	$20,620	$22,222	$11,202	$100,407	$232,389
% of Revenue	12.5 %	13.4 %	7.7 %	—%	8.9 %	9.6 %	4.8 %	43.1 %	100.0 %

(1) Excludes two Managed Properties and three senior housing facilities transitioned to new operators that are not subject to leases.

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Occupancy Trends

The following table sets forth the occupancy percentage for our properties for the periods indicated.

	Occupancy % [1] Year Ended December 31,		
	2016	2015	2014
Skilled Nursing/Transitional Care	88.2%	87.0%	87.8%
Senior Housing	89.4%	90.3%	89.1%

[1] The percentages are calculated by dividing the actual census from the period presented by the available beds/units for the same period. Occupancy for independent living facilities can be greater than 100% for a given period as multiple residents could occupy a single unit. All facility financial performance data were provided by, or derived solely from information provided by operators/tenants without independent verification by the Company. All facility financial performance data are presented one quarter in arrears. The Company excludes the impact of Managed Properties and facilities held for sale or being positioned to be sold. Occupancy percentage for facilities with new tenants/operators are only included in periods subsequent to our acquisition. Occupancy percentage includes occupancy percentage for stabilized facilities owned by the Company as of the end of the respective period.

You should not rely upon occupancy percentages, either individually or in the aggregate, to determine the performance of a facility. Other factors that may impact the performance of a facility include the sources of payment, terms of reimbursement and the acuity level of the patients (i.e., the condition of patients that determines the level of skilled nursing and rehabilitation therapy services required).

See also the discussion above under the heading “Business—Portfolio of Healthcare Properties” for further discussion regarding the ownership of our properties and the types of healthcare facilities that comprise our properties.

Mortgage Indebtedness

Of our 183 properties held for investment, 20 are subject to mortgage indebtedness to third parties that, as of December 31, 2016, totaled approximately $163.6 million. See the discussion under the heading “Management’s Discussion and Analysis—Liquidity and Capital Resources—Mortgage Indebtedness” for further discussion regarding our mortgage indebtedness. As of December 31, 2016 and 2015, our mortgage notes payable consisted of the following (dollars in thousands):

	Principal Balance as of December 31, [1]		Weighted Average Effective Interest Rate at December 31, [2]		
Interest Rate Type	2016	2015	2016	2015	Maturity Date
Fixed Rate	$163,638	$177,850	3.87%	4.01%	December 2021 - August 2051

[1] Principal balance does not include deferred financing costs of $2.9 million and $3.0 million as of December 31, 2016 and 2015, respectively.

[1] Weighted average effective rate includes private mortgage insurance.

Corporate Office

We are headquartered and have our corporate office in Irvine, California. We lease our corporate office from an unaffiliated third party.

ITEM 3. LEGAL PROCEEDINGS

Neither we nor any of our subsidiaries is a party to, and none of our respective property is the subject of, any material legal proceeding, although we are from time to time party to legal proceedings that arise in the ordinary course of our business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Stockholder Information

Our common stock is listed on The NASDAQ Stock Market LLC and trades on the NASDAQ Global Select Market under the symbol “SBRA.” Set forth below for the fiscal quarters indicated are the reported high and low sales prices per share of our common stock on the NASDAQ Stock Market and the dividends paid per share of common stock.

	Sales Price		Dividends
	High	Low	Paid
2015			
First Quarter	$34.44	$30.35	$ 0.39
Second Quarter	$33.94	$25.14	$ 0.39
Third Quarter	$27.66	$22.23	$ 0.41
Fourth Quarter	$24.06	$18.16	$ 0.41
2016			
First Quarter	$21.71	$14.92	$ 0.41
Second Quarter	$23.55	$18.80	$ 0.42
Third Quarter	$26.40	$20.25	$ 0.42
Fourth Quarter	$25.17	$19.30	$ 0.42

At February 16, 2017, we had approximately 1,914 stockholders of record.

We did not repurchase any shares of our common stock during the quarter ended December 31, 2016.

On February 3, 2017, our board of directors declared a quarterly cash dividend of $0.42 per share of common stock. The dividend will be paid on February 28, 2017 to stockholders of record as of February 15, 2017.

To maintain REIT status, we are required each year to distribute to stockholders at least 90% of our annual REIT taxable income after certain adjustments. All distributions will be made by us at the discretion of our board of directors and will depend on our financial position, results of operations, cash flows, capital requirements, debt covenants (which include limits on distributions by us), applicable law, and other factors as our board of directors deems relevant. For example, while the Senior Notes Indentures and our Credit Facility permit us to declare and pay any dividend or make any distribution that is necessary to maintain our REIT status, those distributions are subject to certain financial tests under the Senior Notes Indentures, and therefore, the amount of cash distributions we can make to our stockholders may be limited.

Distributions with respect to our common stock and preferred stock can be characterized for federal income tax purposes as taxable ordinary dividends, which may be non-qualified, long-term capital gain, or qualified, non-dividend distributions (return of capital) or a combination thereof. Following is the characterization of our annual cash dividends on common stock and preferred stock per share:

	Year Ended December 31,		
Common Stock	2016	2015	2014
Non-qualified ordinary dividends	$0.7027	$0.9446	$0.5206
Long-term capital gains	—	0.0171	0.0854
Non-dividend distributions	0.9673	0.6383	0.9040
	$1.6700	$1.6000	$1.5100

	Year Ended December 31,		
Preferred Stock	2016	2015	2014
Non-qualified ordinary dividends	$1.7813	$1.7496	$1.5303
Long-term capital gains	—	0.0317	0.2510
	$1.7813	$1.7813	$1.7813

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Stock Price Performance Graph

The following graph compares the cumulative total stockholder return of our common stock for the period from December 30, 2011 through December 31, 2016. The graph assumes that $100 was invested at the close of market on December 30, 2011 in (i) our common stock, (ii) the NASDAQ Composite Index and (iii) the SNL US Healthcare REIT Index and assumes the reinvestment of all dividends. Stock price performances shown in the graph are not necessarily indicative of future price performances.

The above performance graph shall not be deemed to be soliciting material or to be filed with the SEC under the Securities Act of 1933 or the Securities Exchange Act of 1934 or incorporated by reference in any document as filed.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected financial data and other data for our company on a historical basis. The following data should be read in conjunction with our audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. Our historical operating results may not be comparable to our future operating results. The comparability of our selected financial data is significantly affected by our acquisitions and new investments from 2012 through 2016. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations":

	As of December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Balance sheet data:					
Total real estate investments, net	$2,009,939	$2,039,616	$1,645,805	$915,418	$827,135
Loans receivable and other investments, net	$96,036	$300,177	$251,583	$185,293	$12,017
Cash and cash equivalents	$25,663	$7,434	$61,793	$4,308	$17,101
Total assets	$2,265,919	$2,468,837	$2,046,165	$1,162,298	$883,234
Mortgage notes, net	$160,752	$174,846	$121,401	$139,103	$150,226
Revolving credit facility	$26,000	$255,000	$68,000	$135,500	$92,500
Term loans, net	$335,673	$264,229	$200,000	$—	$—
Senior unsecured notes, net	$688,246	$685,704	$683,167	$405,302	$323,327
Total liabilities	$1,250,310	$1,414,961	$1,104,342	$702,134	$577,746
Total Sabra Health Care REIT, Inc. stockholders' equity	$1,015,574	$1,053,770	$941,866	$460,164	$305,488

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands, except per share data)				
Operating data:					
Total revenues	$260,526	$238,864	$183,518	$134,780	$103,170
Net income attributable to common stockholders	$60,034	$69,171	$36,710	$25,749	$19,513
Net income attributable to common stockholders per share—basic	$0.92	$1.11	$0.79	$0.69	$0.53
Net income attributable to common stockholders per share—diluted	$0.92	$1.11	$0.78	$0.68	$0.52
Other data:					
Cash flows provided by operations	$176,739	$121,101	$85,337	$62,099	$56,252
Cash flows provided by (used) in investing activities	$142,363	$(489,226)	$(826,472)	$(297,509)	$(218,650)
Cash flows (used in) provided by financing activities	$(300,898)	$314,078	$798,620	$222,617	$137,249
Dividends declared and paid per common share	$1.67	$1.60	$1.51	$1.36	$1.32
Weighted-average number of common shares outstanding, basic	65,284,251	62,235,014	46,351,544	37,514,637	37,061,111
Weighted-average number of common shares outstanding, diluted—net income and FFO attributable to common stockholders	65,520,672	62,460,239	46,889,531	38,071,926	37,321,517
	65,904,435	62,659,935	47,147,722	38,364,727	37,829,421

Weighted-average number of common shares outstanding, diluted—AFFO attributable to common stockholders					
FFO attributable to commons stockholders [1]	$164,439	$132,411	$76,128	$59,030	$52,257
Diluted FFO attributable to common stockholders per common share[1]	$2.51	$2.12	$1.62	$1.55	$1.40
AFFO attributable to commons stockholders [1]	$161,465	$133,913	$77,223	$57,942	$60,287
Diluted AFFO attributable to common stockholders per common share [1]	$2.45	$2.14	$1.64	$1.51	$1.59

(1) We believe that net income attributable to common stockholders as defined by U.S. generally accepted accounting principles (“GAAP”) is the most appropriate earnings measure. We also believe that funds from operations attributable to common stockholders (“FFO”), as defined in accordance with the definition used by the National Association of Real Estate Investment Trusts (“NAREIT”), and adjusted funds from operations attributable to common stockholders (“AFFO”) (and related per share amounts) are important non-GAAP supplemental measures of our operating performance for a

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REIT. We consider FFO and AFFO to be useful measures for reviewing comparative operating and financial performance because, by excluding gains or losses from real estate dispositions, real estate depreciation and amortization, real estate impairment charges, and for AFFO, by excluding straight-line rental income adjustments, stock-based compensation expense, amortization of deferred financing costs, expensed acquisition pursuit costs, as well as other non-cash revenue and expense items (including provisions and write-offs related to straight-line rental income, provision for loan losses, changes in fair value of contingent consideration, amortization of debt premiums/discounts and non-cash interest income adjustments), FFO and AFFO can help investors compare our operating performance between periods or as compared to other companies. See further discussion of FFO and AFFO in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Funds from Operations and Adjusted Funds from Operations."

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

The discussion below contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those which are discussed in the section titled "Risk Factors." Also see "Statement Regarding Forward-Looking Statements" preceding Part I.

The following discussion and analysis should be read in conjunction with the "Selected Financial Data" above and our accompanying consolidated financial statements and the notes thereto.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is organized as follows:

- Overview
- Critical Accounting Policies
- Recently Issued Accounting Standards Update
- Results of Operations
- Liquidity and Capital Resources
- Concentration of Credit Risk
- Skilled Nursing Facility Reimbursement Rates
- Obligations and Commitments
- Impact of Inflation
- Off-Balance Sheet Arrangements
- Quarterly Financial Data

Overview

We operate as a self-administered, self-managed REIT that, through our subsidiaries, owns and invests in real estate serving the healthcare industry.

Our primary business consists of acquiring, financing and owning real estate property to be leased to third party tenants in the healthcare sector using triple-net operating leases. We primarily generate revenues by leasing properties to tenants and operators throughout the United States and Canada.

Our investment portfolio is primarily comprised of skilled nursing/transitional care facilities, senior housing facilities, and an acute care hospital leased to third-party operators; senior housing facilities operated under third-party management agreements; debt investments; and preferred equity investments.

Our objectives are to grow our investment portfolio while diversifying our portfolio by tenant, asset class and geography within the healthcare sector. We plan to achieve these objectives primarily through making investments directly or indirectly in healthcare real estate. We may also achieve our objective of diversifying our portfolio by tenant and asset class through select asset sales and other arrangements with Genesis and other tenants. We have entered into memoranda of understanding with Genesis to market for sale 35 skilled nursing facilities and make certain other lease and corporate guarantee amendments for the remaining 43 facilities leased to Genesis. Upon completion of the sales, these asset sales and amendments will have the benefit of reducing our revenue concentration in Genesis and skilled nursing facilities, as well as strengthening our remaining Genesis-operated portfolio through the lease term extensions and guarantee enhancements; provided, however that there can be no assurances that we will successfully complete these sales on the terms or timing contemplated by the memoranda of understanding, or at all, in which event we may not achieve the anticipated benefits from such sales. Marketing of these 35 facilities is ongoing and is expected to be completed over the next several quarters.

Acquisitions and Investments

We made investments of $165.7 million during the year ended December 31, 2016. These investments consisted of: (i) $153.6 million of real estate investments; (ii) $0.9 million in real estate additions; (ii) $7.4 million of preferred equity investments; and (iii) $3.8 million of investments in loans receivable. The $153.6 million of real estate acquisitions includes one skilled nursing/transitional care facility and six senior housing facilities. See Note 3, "Recent Real Estate Acquisitions," in the Notes to Consolidated Financial Statements for additional information regarding these acquisitions.

Dispositions

During the year ended December 31, 2016, we completed the sale of four skilled nursing/transitional care facilities, one acute care hospital, and one parcel of land for aggregate consideration of $98.0 million after selling expenses of $2.7 million. The net carrying value of the assets and liabilities of these facilities, after the impairment loss of $29.8 million recognized in relation to the acute care hospital, was $104.1 million, resulting in an aggregate $6.1 million loss on sale.

Loan Receivable Repayments

During the year ended December 31, 2016, we received $216.0 million in loan receivable repayments including full repayment of $170.8 on our Forest Park - Dallas mortgage loan and Forest Park - Fort Worth construction loan.

Mortgage Debt Prepayments

During the year ended December 31, 2016, we prepaid a $10.7 million fixed rate mortgage note having an interest rate of 5.60%.

Credit Facility

On January 14, 2016, the Sabra Health Care Limited Partnership, a Delaware limited partnership (the "Operating Partnership"), of which Sabra is the sole general partner, and Sabra Canadian Holdings, LLC, also a wholly owned subsidiary of the Company (together, the “Borrowers”), entered into a third amended and restated unsecured credit facility (the “Credit Facility”). The Credit Facility includes a revolving credit facility (the “Revolving Credit Facility”) and U.S. dollar and Canadian dollar term loans (collectively, the “Term Loans”). The Revolving Credit Facility provides for a borrowing capacity of $500.0 million and, in addition, increased our U.S. dollar and Canadian dollar term loans to $245.0 million and CAD $125.0 million, respectively. Further, up to $125.0 million of the Revolving Credit Facility may be used for borrowings in certain foreign currencies. The Credit Facility also contains an accordion feature that can increase the total available borrowings to $1.25 billion, subject to terms and conditions.

Borrowings under the Revolving Credit Facility bear interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Operating Partnership’s option, either (a) LIBOR or (b) a base rate determined as the greater of (i) the federal funds rate plus 0.5%, (ii) the prime rate, and (iii) one-month LIBOR plus 1.0% (the “Base Rate”). The applicable percentage for borrowings will vary based on the Consolidated Leverage Ratio, as defined in the credit agreement, and will range from 1.80% to 2.40% per annum for LIBOR based borrowings and 0.80% to 1.40% per annum for borrowings at the Base Rate. In addition, the Operating Partnership is required to pay an unused fee to the lenders equal to 0.25% or 0.30% per annum, which is determined by usage under the Revolving Credit Facility.

The U.S. dollar term loan bears interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Operating Partnership’s option, either (a) LIBOR or (b) the Base Rate. The applicable percentage for borrowings will vary based on the Consolidated Leverage Ratio, as defined in the credit agreement, and will range from 1.75% to 2.35% per annum for LIBOR based borrowings and 0.75% to 1.35% per annum for borrowings at the Base Rate. The Canadian dollar term loan bears interest on the outstanding principal amount at a rate equal to the Canadian Dollar Offer Rate (“CDOR”) plus 1.75% to 2.35% depending on the Consolidated Leverage Ratio. See "—Liquidity and Capital Resources" for further information.

On August 10, 2016, we entered into three interest rate swap agreements to fix the LIBOR portion of the interest rate for our $245.0 million U.S. dollar term loan at 0.90% and to fix the CDOR portion on CAD $35.0 million of our Canadian dollar term loan at 0.93%.

Critical Accounting Policies

Below is a discussion of the accounting policies that management considers critical in that they involve significant management judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

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Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Sabra and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements are prepared in accordance with GAAP.

GAAP requires us to identify entities for which control is achieved through voting rights or other means and to determine which business enterprise is the primary beneficiary of variable interest entities (“VIEs”). A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity's activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. If we were determined to be the primary beneficiary of the VIE, we would consolidate investments in the VIE. We may change our original assessment of a VIE due to events such as modifications of contractual arrangements that affect the characteristics or adequacy of the entity's equity investments at risk and the disposal of all or a portion of an interest held by the primary beneficiary.

We identify the primary beneficiary of a VIE as the enterprise that has both: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could be significant to the entity. We perform this analysis on an ongoing basis.

As of December 31, 2016, we determined that we were the primary beneficiary of two variable interest entities–a senior housing facility and an exchange accommodation titleholder variable interest entity–and we have consolidated the operations of these entities in the accompanying consolidated financial statements. As of December 31, 2016, we determined that the operations of these entities were not material to our results of operations, financial condition or cash flows.

As it relates to investments in loans, in addition to our assessment of VIEs and whether we are the primary beneficiary of those VIEs, we evaluate the loan terms and other pertinent facts to determine if the loan investment should be accounted for as a loan or as a real estate joint venture. If an investment has the characteristics of a real estate joint venture, including if we participate in the majority of the borrower's expected residual profit, we would account for the investment as an investment in a real estate joint venture and not as a loan investment. Expected residual profit is defined as the amount of profit, whether called interest or another name, such as an equity kicker, above a reasonable amount of interest and fees expected to be earned by a lender. At December 31, 2016, none of our investments in loans are accounted for as real estate joint ventures.

As it relates to investments in joint ventures, we assess any limited partners' rights and their impact on the presumption of control of the limited partnership by any single partner. We reassess our determination of which entity controls the joint venture if: there is a change to the terms or in the exercisability of the rights of any partners, the sole general partner increases or decreases its ownership of limited partnership interests, or there is an increase or decrease in the number of outstanding limited partnership interests. We also apply this guidance to managing member interests in limited liability companies.

Real Estate Investments and Rental Revenue Recognition

Real Estate Acquisition Valuation

All assets acquired and liabilities assumed in an acquisition of real estate are measured at their acquisition date fair values. The acquisition value of land, building and improvements are included in real estate investments on the consolidated balance sheets. The acquisition value of tenant relationship and origination and absorption intangible assets are included in prepaid expenses, deferred financing costs and other assets in the consolidated balance sheets. Acquisition pursuit costs associated with business combinations are expensed as incurred and costs associated with asset acquisitions are capitalized. On October 1, 2016, we early adopted Accounting Standards Update 2017-01, Business Combinations (Topic 805) ("ASU 2017-01"), which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as business acquisitions. (See Note 2, “Summary of Significant Accounting Policies,” in the Notes to Consolidated Financial Statements for further information). As a result of early adopting ASU 2017-01, real estate acquisitions completed subsequent to October 1, 2016 did not meet the definition of a business combination and were deemed asset acquisitions; therefore we capitalized $0.3 million of acquisition pursuit costs associated with these acquisitions. Real estate acquisitions completed prior to October 1, 2016 were deemed to be business combinations and the related acquisition pursuit costs were expensed as incurred. Restructuring costs that do not meet the definition of a liability at the acquisition date are expensed in periods subsequent to the acquisition date. During the years ended December 31, 2016, 2015 and 2014, we acquired seven, 24, and 42 real estate properties, respectively, and expensed $1.2 million, $7.0 million and $3.1 million of acquisition pursuit costs, respectively, which amounts are included in general and administrative expense on the accompanying consolidated statements of income.

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities require us to make significant assumptions to estimate market lease rates, property operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property will be held for investment. We make our best estimate based on our evaluation of the specific characteristics of each tenant's lease. The use of inappropriate assumptions would result in an incorrect valuation of our acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of our net income.

Impairment of Real Estate Investments

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate investments may not be recoverable or realized. When indicators of potential impairment suggest that the carrying value of real estate investments may not be recoverable, we assess the recoverability by estimating whether we will recover the carrying value of our real estate investments through its undiscounted future cash flows and the eventual disposition of the investment. In some instances, there may be various potential outcomes for an investment and its potential future cash flows. In these instances, the undiscounted future cash flows used to assess recoverability are probability-weighted based on our best estimates as of the date of evaluation. If, based on this analysis, we do not believe that we will be able to recover the carrying value of our real estate investments, we would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of our real estate investments. During the year ended December 31, 2016, we recorded an impairment loss of $29.8 million related to our Forest Park - Frisco real estate investment. This facility was subsequently disposed of during the year ended December 31, 2016. We did not record any impairment losses on our real estate investments during the years ended December 31, 2015 or 2014.

Rental Revenue Recognition

We recognize rental revenue from tenants, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured.

We make estimates of the collectability of our tenant receivables related to base rents, straight-line rent and other revenues. When we analyze accounts receivable and evaluate the adequacy of the allowance for doubtful accounts, we consider such things as historical bad debts, tenant creditworthiness, current economic trends, facility operating performance, lease structure, credit enhancements (including guarantees), current developments relevant to a tenant's business specifically and to its business category generally, and changes in tenants' payment patterns. Specifically for straight-line rent receivables, our assessment includes an estimation of the tenant's ability to fulfill its rental obligations over the remaining lease term. Our collectability estimates for straight-line rent receivables include an assessment at the individual or master lease level as well as at an overall portfolio level.

Loans Receivable and Interest Income

Loans Receivable

Loans receivable are recorded at amortized cost on our consolidated balance sheets. The amortized cost of a real estate loan receivable is the outstanding unpaid principal balance, net of unamortized costs and fees directly associated with the origination of the loan.

On a quarterly basis we evaluate the collectability of our loan portfolio, including related interest income receivable, and establish a reserve for loan losses. Our evaluation includes reviewing credit quality indicators such as payment status, changes affecting the underlying real estate collateral (for collateral dependent loans), changes affecting the operations of the facilities securing the loans, and national and regional economic factors. The reserve for loan losses is a valuation allowance that reflects management's estimate of loan losses inherent in the loan portfolio as of the balance sheet date. The reserve is adjusted through "Provision for doubtful accounts and loan losses" on our consolidated statements of income and is decreased by charge-offs to specific loans when losses are confirmed. The reserve for loan losses includes an asset-specific component and a portfolio-based component.

An asset-specific reserve relates to reserves for losses on loans considered impaired and interest income receivable that is deemed uncollectible. We consider a loan to be impaired when, based upon current information and events, we believe that it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement resulting from the borrower's failure to repay contractual amounts due, the granting of a concession by us or our expectation that we will receive assets with fair values less than the carrying value of the loan in satisfaction of the loan. If a loan is considered to be impaired, a reserve is established when the carrying value of that loan is greater than the present value of payments expected to be received, the observable market prices for similar instruments, the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) or other amounts expected to be received in satisfaction of the loan. As of December 31, 2016, we considered three loan receivable investments with a principal balance of $17.4 million to be impaired and recorded a provision for loan losses of $3.1 million related to four loan receivable investments, one of which was partially repaid prior to December 31, 2016 through the foreclosure of the real estate asset.

A portfolio-based reserve covers the pool of loans that do not have asset-specific reserves. A provision for loan losses is recorded when available information as of each balance sheet date indicates that it is probable that a loss occurred in the pool of loans and the amount of the loss can be reasonably estimated, but we do not know which specific loans within the pool will ultimately result in losses. The required reserve balances for this pool of loans is derived based on estimated probabilities of default and estimated loss severities assuming a default occurs. As of December 31, 2016, our portfolio-based loan loss reserve totaled $0.4 million.

Interest Income

Interest income on our loans receivable is recognized on an accrual basis over the life of the investment using the interest method. Direct loan origination costs are amortized over the term of the loan as an adjustment to interest income. When concerns exist as to the ultimate collection of principal or interest due under a loan, the loan is placed on nonaccrual status and we will not recognize interest income until the cash is received, or the loan returns to accrual status. If we determine the collection of interest according to the contractual terms of the loan is probable, we will resume the accrual of interest. In instances where borrowers are in default under the terms of their loans, we may continue recognizing interest income provided that all amounts owed under the contractual terms of the loan, including accrued and unpaid interest, do not exceed the estimated fair value of the collateral, less costs to sell. As of December 31, 2016, four investments in loans receivable totaling $31.2 million were on nonaccrual status.

Preferred Equity Investments and Preferred Return

Preferred equity investments are accounted for at unreturned capital contributions, plus accrued and unpaid preferred returns. We recognize preferred return income on a monthly basis based on the outstanding investment including any previously accrued and unpaid return. As a preferred member of the joint venture, we are not entitled to share in the joint venture’s earnings or losses. Rather, we are entitled to receive a preferred return, which is deferred if the cash flow of the joint venture is insufficient to currently pay the accrued preferred return.

Income Taxes

We elected to be treated as a REIT with the filing of our U.S. federal income tax return for the taxable year beginning January 1, 2011. We believe that we have been organized and have operated, and we intend to continue to operate, in a manner to qualify as a REIT. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to stockholders (which is computed without regard to the dividends-paid deduction or net capital gains and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, we generally will not be subject to U.S. federal income tax on income that we distribute as dividends to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the IRS grants us relief under certain statutory provisions. Such an event could materially and adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT.

We evaluate our tax positions using a two-step approach: step one (recognition) occurs when a company concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination and step two (measurement) is only addressed if step one has been satisfied (i.e., the position is more likely than not to be sustained). Under step two, the tax benefit is measured as the largest amount of benefit (determined on a cumulative probability basis) that is more likely than not to be realized upon ultimate settlement. We will recognize tax penalties relating to unrecognized tax benefits as additional tax expense.

Fair Value Measurements

Under GAAP, we are required to measure certain financial instruments at fair value on a recurring basis. In addition, we are required to measure other financial instruments and balances at fair value on a non-recurring basis (e.g., carrying value of impaired real estate loans receivable and long-lived assets). Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

When available, we utilize quoted market prices from an independent third-party source to determine fair value and classify such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require us to make a significant adjustment to derive a fair value measurement. Additionally, in an inactive market, a market price quoted from an independent third party may rely more on models with inputs based on information available only to that independent third party. When we determine the market for a financial instrument owned by us to be illiquid or when market transactions for similar instruments do not appear orderly, we may use several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) to establish a fair value. If more than one valuation source is used, we will assign weights to the various valuation sources. Additionally, when determining the fair value of liabilities in circumstances in which a quoted price in an active market for an identical liability is not available, we measure fair value using (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach.

Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

We consider the following factors to be indicators of an inactive market: (i) there are few recent transactions, (ii) price quotations are not based on current information, (iii) price quotations vary substantially either over time or among market makers (for example, some brokered markets), (iv) indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability, (v) there is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with our estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability, (vi) there is a wide bid-ask spread or significant increase in the bid-ask spread, (vii) there is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities, and (viii) little information is released publicly (for example, a principal-to-principal market).

We consider the following factors to be indicators of non-orderly transactions: (i) there was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions, (ii) there was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant, (iii) the seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced), and (iv) the transaction price is an outlier when compared with other recent transactions for the same or similar assets or liabilities.

Recently Issued Accounting Standards Update

See Note 2, “Summary of Significant Accounting Policies,” in the Notes to the Consolidated Financial Statements for information concerning recently issued accounting standards updates.

Results of Operations

As of December 31, 2016, our investment portfolio consisted of 183 real estate properties held for investment (including two Managed Properties), 10 investments in loans receivable and 12 preferred equity investments. As of December 31, 2015, our investment portfolio consisted of 180 real estate properties held for investment (including two Managed Properties), 17 investments in loans receivable and 10 preferred equity investments. As of December 31, 2014, our investment portfolio consisted of 160 real estate properties held for investment (including one Managed Property), 14 investments in loans receivable and six preferred equity investments. In general, we expect that our income and expenses related to our portfolio will increase in future periods as a result of owning acquired investments for an entire period and the anticipated future acquisition of additional investments. The results of operations presented are not directly comparable due to ongoing acquisition activity.

Comparison of results of operations for the years ended December 31, 2016 and 2015 (dollars in thousands):

	For the Year Ended December 31,					
	2016	2015	Increase / (Decrease)	Percentage Difference	Variance due to Acquisitions, Originations and Dispositions (1)	Remaining Variance (2)
Revenues:						
Rental income	$225,275	$209,851	$ 15,424	7 %	$ 16,859	$ (1,435)
Interest and other income	27,463	25,505	1,958	8 %	2,968	(1,010)
Resident fees and services	7,788	3,508	4,280	122 %	4,660	(380)
Expenses:						
Depreciation and amortization	68,472	63,079	5,393	9 %	5,046	347
Interest	64,873	59,218	5,655	10 %	—	5,655
Operating expenses	5,703	2,576	3,127	121 %	3,312	(185)
General and administrative	19,918	23,865	(3,947)	(17)%	(5,826)	1,879
Provision for doubtful accounts and loan losses	5,543	12,842	(7,299)	(57)%	—	(7,299)
Impairment of real estate	29,811	—	29,811	NM	29,811	—
Other (expense) income:						
Loss on extinguishment of debt	(556)	—	(556)	NM	—	(556)
Other income	10,677	2,260	8,417	NM	—	8,417
Net (loss) gain on sales of real estate	(6,122)	(161)	(5,961)	NM	(5,961)	—

(1) Represents the dollar amount increase (decrease) for the year ended December 31, 2016 compared to the year ended December 31, 2015 as a result of investments/dispositions made after January 1, 2015.

(2) Represents the dollar amount increase (decrease) for the year ended December 31, 2016 compared to the year ended December 31, 2015 that is not a direct result of investments/dispositions made after January 1, 2015.

Rental Income

During the year ended December 31, 2016, we recognized $225.3 million of rental income compared to $209.9 million for the year ended December 31, 2015. The $15.4 million increase in rental income is primarily due to an increase of $28.3 million from properties acquired after January 1, 2015, offset by a decrease of $11.4 million from properties disposed of after January 1, 2015. The remaining decrease of $1.5 million is primarily due to the transitioning of one senior housing facility to a new operator and the resulting modification of the lease. Amounts due under the terms of all of our lease agreements are subject to contractual increases, and contingent rental income may be derived from certain lease agreements. No material contingent rental income was derived during the years ended December 31, 2016 and 2015.

Interest and Other Income

Interest and other income primarily consists of income earned on our loans receivable investments and preferred returns earned on our preferred equity investments. During the year ended December 31, 2016, we recognized $27.5 million of interest and other income compared to $25.5 million for the year ended December 31, 2015. The $2.0 million increase is primarily due to interest income recognized at the default rate and late fees related to our investments in the Forest Park - Fort Worth construction loan and the Forest Park - Dallas mortgage loan during the year ended December 31, 2016. Both loans were repaid during the year ended December 31, 2016.

Resident Fees and Services

During the year ended December 31, 2016, we recognized $7.8 million of resident fees and services compared to $3.5 million for the year ended December 31, 2015. The increase of $4.3 million is due to the investment in one additional Managed Property in November 2015.

Depreciation and Amortization

During the year ended December 31, 2016, we incurred $68.5 million of depreciation and amortization expense compared to $63.1 million for the year ended December 31, 2015. The $5.4 million net increase in depreciation and amortization was primarily due to an increase of $9.7 million from properties acquired after January 1, 2015, partially offset by a decrease of $4.6 million from properties disposed of after January 1, 2015.

Interest Expense

We incur interest expense comprised of costs of borrowings plus the amortization of deferred financing costs related to our indebtedness. During the year ended December 31, 2016, we incurred $64.9 million of interest expense compared to $59.2 million for the year ended December 31, 2015. The $5.7 million net increase is primarily related to (i) a $3.0 million increase in interest expense related to our U.S. term loan as a result of increasing U.S. term loan borrowings from $200.0 million to $245.0 million, partially offset by a reduction in the interest rate from 3.03% to 2.85%, (ii) a $2.1 million increase in interest expense related to the Canadian term loan as a result of increasing Canadian term loan borrowings from CAD $90.0 million to CAD $125.0 million, partially offset by a reduction in the interest rate from 4.19% to 3.35%, and (iii) a $1.4 million increase in interest expense primarily due to the increased average balance outstanding on mortgage note borrowings. The increases are offset by a $0.8 million decrease in interest expense related to the borrowings outstanding on the Revolving Credit Facility. See Note 8, “Debt,” in the Notes to Consolidated Financial Statements for additional information regarding the Revolving Credit Facility and the Term Loans.

Operating Expenses

During the year ended December 31, 2016, we recognized $5.7 million of operating expenses compared to $2.6 million for the year ended December 31, 2015. The increase of $3.1 million is due to the investment in a Managed Property in November 2015.

General and Administrative Expenses

General and administrative expenses include compensation-related expenses as well as professional services, office costs and other costs associated with acquisition pursuit activities and asset management. During the year ended December 31, 2016, general and administrative expenses were $19.9 million compared to $23.9 million for the year ended December 31, 2015. The $3.9 million decrease is primarily related to a (i) a $5.8 million decrease in expensed acquisition pursuit costs from $7.0 million during the year ended December 31, 2015, which was primarily related to the acquisitions of the Canadian Portfolio and the NMS portfolio, to $1.2 million during the year ended December 31, 2016, and (ii) a $0.4 million decrease of facility operating expenses associated with transitioning two assets to new operators. The decreases are offset by a (x) $1.4 million increase in stock-based compensation, (y) $0.7 million increase in legal and professional fees due to the increased number of investments and a (z) $0.1 million increase in payroll related expenses due to the increased number of employees. The increase in stock-based compensation expense, from $6.1 million during the year ended December 31, 2015 to $7.5 million during the year ended December 31, 2016, is primarily related to the change in our stock price during the year ended December 31, 2016 (an increase of $4.19 per share) compared to the year ended December 31, 2015 (a decrease of $10.14 per share). We issued stock to employees who elected to receive annual bonuses in stock rather than in cash and therefore changes in our stock price will result in changes to our bonus expense.

On October 1, 2016, we early-adopted ASU 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as business acquisitions. Acquisition costs associated with asset acquisitions will be capitalized on a prospective basis and costs associated with business combinations will continue to be expensed. We expect expensed acquisition pursuit costs will fluctuate from period to period depending on acquisition activity and whether these acquisitions are considered business combinations. We also expect stock-based compensation expense to fluctuate from period to period depending upon changes in our stock price and estimates associated with performance-based compensation.

Provision for Doubtful Accounts and Loan Losses

During the year ended December 31, 2016, we recognized $5.5 million in provision for doubtful accounts. The $5.5 million provision is primarily due to a $3.5 million increase in reserves on straight-line rental income, $1.8 million related to an increase in loan loss reserves and $0.5 million reserve for other tenant-related receivables, offset by a $0.3 million recovery on previously reserved cash rents. During the year ended December 31, 2015, we recognized $12.8 million in provision for doubtful accounts. Of the $12.8 million provision, $8.2 million was due to reserves on rental income primarily related to our Forest Park - Frisco tenant. The remaining balance of $4.6 million related to loan loss reserves.

Impairment of Real Estate

During the year ended December 31, 2016, we recognized $29.8 million of impairment of real estate related to the sale of the Forest Park - Frisco hospital. See Note 5, "Dispositions," in the Notes to Consolidated Financial Statements for additional information. No impairment of real estate was recognized during the year ended December 31, 2015.

Loss on Extinguishment of Debt

During the year ended December 31, 2016, we recognized $0.6 million of loss on extinguishment of debt related to write-offs of deferred financing costs in connection with amending the Prior Revolving Credit Facility and Prior Canadian Term Loan (each as defined below). We did not recognize any loss on extinguishment of debt during the year ended December 31, 2015.

Other Income

During the year ended December 31, 2016, we recognized $10.7 million in other income. Of the $10.7 million of other income, $7.4 million relates to the lease termination fee related to a memorandum of understanding we entered into with Genesis regarding five Genesis facilities (of which three were owned as of December 31, 2016), $1.5 million of other income as a result of the net impact of adjusting the value of our contingent consideration arrangements related to the acquisition of a portfolio of real estate properties and two senior housing facilities, $0.8 million relates to an ineffectiveness gain related to our LIBOR interest rate swaps, $0.4 million relates to the lease termination fee related to the sale of one skilled nursing/transitional care facility and $0.3 million relates to gain on the sale of 48 skilled nursing beds. During the year ended December 31, 2015, we recognized $2.3 million in other income due to a $1.6 million adjustment to the fair value of our contingent consideration liability primarily related to one acquisition of real estate properties (see Note 4, “Real Estate Properties Held for Investment,” in the Notes to Consolidated Financial Statements for further details) and a $0.7 million gain upon consolidation of a variable interest entity.

Net Loss on Sales of Real Estate

During the year ended December 31, 2016, we recognized a net loss on the sales of real estate of $6.1 million, which consisted of a $9.0 million loss related to the disposition of two skilled nursing/transitional care facilities and the Forest Park - Frisco hospital, offset by a gain of $2.9 million due to the sale of two skilled nursing/transitional care facilities. During the year ended December 31, 2015, we recognized a net loss on the sales of real estate of $0.2 million made up of a $3.9 million loss related to the disposition of one skilled nursing facility, offset by a gain of $3.7 million related to the disposition of four skilled nursing facilities.

Comparison of results of operations for the years ended December 31, 2015 and 2014 (dollars in thousands):

	For the Year Ended December 31,					
	2015	2014	Increase / (Decrease)	Percentage Difference	Variance due to Acquisitions, Originations and Dispositions [(1)]	Remaining Variance [(2)]
Revenues:						
Rental income	$209,851	$161,483	$48,368	30 %	$53,235	$(4,867)
Interest and other income	25,505	19,367	6,138	32 %	2,948	3,190
Resident fees and services	3,508	2,668	840	31 %	1,008	(168)
Expenses:						
Depreciation and amortization	63,079	43,332	19,747	46 %	19,363	384
Interest	59,218	46,958	12,260	26 %	—	12,260
Operating expenses	2,576	1,930	646	33 %	692	(46)
General and administrative	23,865	23,815	50	— %	3,928	(3,878)
Provision for doubtful accounts and loan losses	12,842	3,594	9,248	257 %	—	9,248
Other (expense) income:						
Loss on extinguishment of debt	—	(22,454)	22,454	100 %	—	22,454
Other income	2,260	1,560	700	45 %	—	700
Net (loss) gain on sales of real estate	(161)	3,914	(4,075)	(104)%	(4,075)	—

(1) Represents the dollar amount increase (decrease) for the year ended December 31, 2015 compared to the year ended December 31, 2014 as a result of investments/dispositions made after January 1, 2014.

(2) Represents the dollar amount increase (decrease) for the year ended December 31, 2015 compared to the year ended December 31, 2014 that is not a direct result of investments/dispositions made after January 1, 2014.

Rental Income

During the year ended December 31, 2015, we recognized $209.9 million of rental income compared to $161.5 million for the year ended December 31, 2014. The $48.4 million increase in rental income is primarily due to an increase of $56.9 million from properties acquired after January 1, 2014, offset by a decrease of $3.7 million from properties disposed of after January 1, 2014. The increase is further offset by a $4.8 million decrease in rental income primarily related to recognizing revenue related to Forest Park - Frisco on a cash basis during the year ended December 31, 2015. Amounts due under the terms of all of our lease agreements are subject to contractual increases, and contingent rental income may be derived from certain lease agreements. No contingent rental income was derived during the years ended December 31, 2015 and 2014.

Interest and Other Income

During the year ended December 31, 2015, we recognized $25.5 million of interest and other income compared to $19.4 million for the year ended December 31, 2014. Interest and other income during the year ended December 31, 2015 primarily consisted of income earned on our 17 investments in loans receivable and preferred returns earned on ten preferred equity investments. Our investments in loans receivable and preferred equity investments had a combined book value of $300.2 million as of December 31, 2015. Interest and other income during the year ended December 31, 2014 primarily consisted of income earned on 14 investments in loans receivable, one of which was repaid in October 2014 when we exercised our option to acquire the property securing the loan, and preferred returns earned on our six preferred equity investments, two of which were repaid in August 2014. In addition, we recognized $3.9 million of interest income (at the default rate) and late fees related to our investment in Forest Park - Fort Worth. Our investments in loans receivable and preferred equity investments had a combined book value of $251.6 million as

of December 31, 2014.
Resident Fees and Services
During the year ended December 31, 2015, we recognized $3.5 million of resident fees and services compared to $2.7 million for the year ended December 31, 2014. The increase of $0.8 million is due to the investment in a Managed Property in November 2015.
Depreciation and Amortization
During the year ended December 31, 2015, we incurred $63.1 million of depreciation and amortization expense compared to $43.3 million for the year ended December 31, 2014. The $19.7 million net increase in depreciation and amortization was

primarily due to an increase of $20.2 million from properties acquired after January 1, 2014, partially offset by a decrease of $0.8 million from properties disposed of after January 1, 2014.

Interest Expense

We incur interest expense comprised of costs of borrowings plus the amortization of deferred financing costs related to our indebtedness. During the year ended December 31, 2015, we incurred $59.2 million of interest expense compared to $47.0 million for the year ended December 31, 2014. The $12.3 million net increase is primarily related to (i) a $8.3 million increase in interest expense and amortization of deferred financing costs related to the issuance of $350.0 million and $150.0 million aggregate principal amounts of the 2021 Notes in January 2014 and October 2014, respectively, (ii) a $3.7 million increase in interest expense related to our prior U.S. term loan, (iii) a $1.4 million increase in interest expense related to the Prior Canadian Term Loan and (iv) a $0.2 million increase in interest expense primarily due to the increased balance outstanding on mortgage note borrowings, partially offset by (x) a $0.2 million decrease in interest expense related to the borrowings outstanding on the Prior Revolving Credit Facility during the year ended December 31, 2015 and (y) a $1.1 million net decrease in interest expense, amortization of deferred financing costs and premium related to the redemption of the then-outstanding 8.125% senior unsecured notes due 2018 (the "2018 Notes") completed in February 2014. See Note 8, “Debt,” in the Notes to Consolidated Financial Statements for additional information concerning the 2021 Notes, the Prior Revolving Credit Facility, our U.S. term loan and the Prior Canadian Term Loan.

Operating Expenses

During the year ended December 31, 2015, we recognized $2.6 million of operating expenses compared to $1.9 million for the year ended December 31, 2014. The increase of $0.7 million is due to the investment in a Managed Property in November 2015.

General and Administrative Expenses

General and administrative expenses include compensation-related expenses as well as professional services, office costs and other costs associated with acquisition pursuit activities and asset management. During the year ended December 31, 2015, general and administrative expenses were $23.9 million compared to $23.8 million for the year ended December 31, 2014. The change in general and administrative expenses includes (i) a $3.9 million increase in expensed acquisition pursuit costs from $3.1 million during the year ended December 31, 2014, which was primarily related to our acquisition of the Holiday Portfolio, to $7.0 million during the year ended December 31, 2015, which was primarily related to the acquisitions of the Canadian Portfolio and the four facilities located in Maryland described in Note 3, "Recent Real Estate Acquisitions," in the Notes to Consolidated Financial Statements, (ii) a $0.6 million increase in legal and professional fees due to the increased number of investments and (iii) a $0.4 million increase in payroll related expenses due to the increased number of employees. The increases are offset by (x) a $3.8 million decrease in stock-based compensation and (y) a $1.3 million decrease of facility operating expenses associated with transitioning two assets to new operators. The decrease in stock-based compensation expense, from $9.9 million during the year ended December 31, 2014 to $6.1 million during the year ended December 31, 2015, is primarily related to the change in our stock price during the year ended December 31, 2015 (a decrease of $10.14 per share) compared to the year ended December 31, 2014 (an increase of $4.23 per share). We issued stock to employees who elected to receive annual bonuses in stock rather than in cash and therefore changes in our stock price will result in changes to our bonus expense.

Provision for Doubtful Accounts and Loan Losses

During the year ended December 31, 2015, we recognized $12.8 million in provision for doubtful accounts. Of the $12.8 million provision, $8.2 million is due to reserves on rental income primarily related to our Forest Park - Frisco tenant. The remaining balance of $4.6 million relates to loan loss reserves. During the year ended December 31, 2014, we recognized $3.6 million of straight-line rental income write-offs primarily related to a change in ownership of one of our tenants and the resulting modification of the terms of a lease between us and the new tenant entity.

Loss on Extinguishment of Debt

We did not recognize any loss on extinguishment of debt during the year ended December 31, 2015. During the year ended December 31, 2014, we recognized $22.5 million of loss on extinguishment of debt. Of this amount, (i) $21.7 million related to the redemption fee paid, the write-offs of deferred financing costs and issuance premium and legal fees paid in connection with the redemption of the then-outstanding 2018 Notes, (ii) $0.6 million related to the write-offs of deferred financing costs in connection with our mortgage debt refinancing and repayment and (iii) $0.2 million related to the write-offs of deferred financing costs in connection with amending our Prior Revolving Credit Facility.

Other Income (Expense)

During the year ended December 31, 2015, we recognized $2.3 million in other income. The $2.3 million of other income is due to a $1.6 million adjustment to the fair value of our contingent consideration liability primarily related to one acquisition of real estate properties (See Note 4, "Real Estate Properties Held for Investment," in the Notes to Consolidated Financial Statements for further details) and a $0.7 million gain upon consolidation of a variable interest entity. During the year ended December 31, 2014, we recognized $1.6 million in other income as a result of adjusting the fair value of our contingent consideration liability related to two acquisitions of real estate properties.

Net (Loss) Gain on Sales of Real Estate

During the year ended December 31, 2015, we recognized a net loss on the sale of real estate of $0.2 million. The $0.2 million net loss is due to a $3.9 million loss related to the disposition of one skilled nursing facility, offset by a gain of $3.7 million related to the disposition of four skilled nursing facilities. During the year ended December 31, 2014, we recognized a gain on the sale of real estate of $3.9 million related to the disposition of three skilled nursing facilities.

Funds from Operations and Adjusted Funds from Operations

We believe that net income attributable to common stockholders as defined by GAAP is the most appropriate earnings measure. We also believe that funds from operations attributable to common stockholders (“FFO”), as defined in accordance with the definition used by the National Association of Real Estate Investment Trusts (“NAREIT”), and adjusted funds from operations attributable to common stockholders (“AFFO”) (and related per share amounts) are important non-GAAP supplemental measures of our operating performance. Because the historical cost accounting convention used for real estate assets requires straight-line depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. However, since real estate values have historically risen or fallen with market and other conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative. Thus, NAREIT created FFO as a supplemental measure of operating performance for REITs that excludes historical cost depreciation and amortization, among other items, from net income attributable to common stockholders, as defined by GAAP. FFO is defined as net income attributable to common stockholders, computed in accordance with GAAP, excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization and real estate impairment charges. AFFO is defined as FFO excluding straight-line rental income adjustments, stock-based compensation expense, amortization of deferred financing costs and expensed acquisition pursuit costs, as well as other non-cash revenue and expense items (including provisions and write-offs related to straight-line rental income, provision for loan losses, changes in fair value of contingent consideration, amortization of debt premiums/discounts and non-cash interest income adjustments). We believe that the use of FFO and AFFO (and the related per share amounts), combined with the required GAAP presentations, improves the understanding of our operating results among investors and makes comparisons of operating results among REITs more meaningful. We consider FFO and AFFO to be useful measures for reviewing comparative operating and financial performance because, by excluding the applicable items listed above, FFO and AFFO can help investors compare our operating performance between periods or as compared to other companies. While FFO and AFFO are relevant and widely used measures of operating performance of REITs, they do not represent cash flows from operations or net income attributable to common stockholders as defined by GAAP and should not be considered an alternative to those measures in evaluating our liquidity or operating performance. FFO and AFFO also do not consider the costs associated with capital expenditures related to our real estate assets nor do they purport to be indicative of cash available to fund our future cash requirements. Further, our computation of FFO and AFFO may not be comparable to FFO and AFFO reported by other REITs that do not define FFO in accordance with the current NAREIT definition or that interpret the current NAREIT definition or define AFFO differently than we do.

The following table reconciles our calculations of FFO and AFFO for the years ended December 31, 2016, 2015 and 2014, to net income attributable to common stockholders, the most directly comparable GAAP financial measure, for the same periods (in thousands, except share and per share amounts):

	Year Ended December 31,		
	2016	2015	2014
Net income attributable to common stockholders	$60,034	$69,171	$36,710
Depreciation and amortization of real estate assets	68,472	63,079	43,332
Net loss (gain) on sales of real estate	6,122	161	(3,914)
Impairment of real estate	29,811	—	—
FFO attributable to common stockholders	164,439	132,411	76,128
Expensed acquisition pursuit costs [1]	1,197	7,023	3,095
Stock-based compensation expense	7,496	6,123	9,851
Straight-line rental income adjustments	(21,984)	(24,320)	(19,821)
Amortization of deferred financing costs	5,040	5,143	4,045
Non-cash portion of loss on extinguishment of debt	556	—	1,576
Change in fair value of contingent consideration	(1,526)	(1,550)	(1,560)
Provision for doubtful straight-line rental income, loan losses and other reserves	5,833	9,031	3,594
Other non-cash adjustments [2]	414	52	315
AFFO attributable to common stockholders	$161,465	$133,913	$77,223
FFO attributable to common stockholders per diluted common share	$2.51	$2.12	$1.62
AFFO attributable to common stockholders per diluted common share	$2.45	$2.14	$1.64
Weighted average number of common shares outstanding, diluted:			
FFO attributable to common stockholders	65,520,672	62,460,239	46,889,531
AFFO attributable to common stockholders	65,904,435	62,659,935	47,147,722

[1] On October 1, 2016, we early-adopted ASU 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as business acquisitions. All real estate acquisitions completed subsequent to October 1, 2016 were considered asset acquisitions and we have capitalized acquisition pursuit costs associated with these acquisitions, including those costs incurred prior to October 1, 2016. Acquisitions completed prior to October 1, 2016 were deemed business combinations and the related acquisition pursuit costs were expensed as incurred.

[2] Other non-cash adjustments include amortization of debt premiums/discounts, non-cash interest income adjustments and amortization expense related to our interest rate hedges.

Set forth below is additional information related to certain other items included in net income attributable to common stockholders above, which may be helpful in assessing our operating results. Please see the accompanying consolidated statement of cash flows for details of our operating, investing, and financing cash activities.

Significant Items Included in Net Income Attributable to Common Stockholders:

- During the year ended December 31, 2016, we incurred $0.6 million of loss on extinguishment of debt related to write-offs of deferred financing costs in connection with amending the Prior Revolving Credit Facility and the Prior Canadian Term Loan. This entire amount is included in FFO for the year ended December 31, 2016.
- During the year ended December 31, 2016, we recognized $5.5 million in provision for doubtful accounts. During the year ended December 31, 2016, reserves on cash rents decreased by $0.3 million, reserves for other tenant-related

receivables increased $0.5 million, reserves on straight-line rental income increased by $3.5 million, and reserves on loan losses increased by $1.8 million. These amounts in their entirety are included in FFO for the year ended December 31, 2016, and $0.3 million is included in AFFO for the year ended December 31, 2016.

- During the year ended December 31, 2016, we recognized $10.7 million of other income. Of the $10.7 million, $7.7 million is due to lease termination payments related to two tenants, $1.5 million is due to adjusting the value of our contingent consideration related to three acquisitions of real estate properties, $0.8 million relates to an ineffectiveness gain related to our LIBOR interest rate swaps and $0.3 million is due to the gain on sale of 48 skilled nursing beds. This entire amount is included in FFO for the year ended December 31, 2016, and $8.3 million is included in AFFO for the year ended December 31, 2016.

- During the year ended December 31, 2016, we incurred $0.6 million of acquisition pursuit costs not typically incurred related to the acquisition of one skilled nursing/transitional care facility. This entire amount is included in FFO for the year ended December 31, 2016.
- During the year ended December 31, 2015, we incurred $4.8 million of acquisition pursuit costs not typically incurred related to the acquisitions of the Canadian Portfolio and the four facilities located in Maryland described in Note 3, "Recent Real Estate Acquisitions," in the Notes to Consolidated Financial Statements. This entire amount is included in FFO for the year ended December 31, 2015.
- During the year ended December 31, 2015, we recognized $12.8 million in provision for doubtful accounts. Of the $12.8 million provision, $8.2 million is due to reserves on rental income primarily related to our Forest Park - Frisco tenant. The remaining balance of $4.6 million relates to loan loss reserves. This entire amount is included in FFO for the year ended December 31, 2015, and $3.8 million is included in AFFO for the year ended December 31, 2015.
- During the year ended December 31, 2015, we recognized $1.6 million of other income primarily as a result of adjusting the fair value of our contingent consideration liability related to two acquisitions of real estate properties. See Note 4, "Real Estate Properties Held for Investment," in the Notes to Consolidated Financial Statements for further details. This entire amount is included in FFO for the year ended December 31, 2015.
- During the year ended December 31, 2015, we recognized $0.4 million of facility operating expenses associated with transitioning two assets to new operators. This entire amount is included in FFO and AFFO for the year ended December 31, 2015.
- During the year ended December 31, 2014, we incurred $22.5 million of loss on extinguishment of debt. This amount includes (i) $20.9 million in payments made to noteholders and legal fees for early redemption of the then-outstanding 2018 Notes and legal fees paid, (ii) $0.8 million of write-offs associated with unamortized deferred financing and premium costs, (iii) $0.6 million in write-offs of deferred financing costs in connection with our mortgage debt refinancing and (iv) $0.2 million related to the write-offs of deferred financing costs in connection with amending our Prior Revolving Credit Facility. The entire $22.5 million of loss on extinguishment of debt is included in FFO for the year ended December 31, 2014 and the $20.9 million early redemption premium and legal fees is included in AFFO for the year ended December 31, 2014.
- During the year ended December 31, 2014, we recognized $1.6 million of other income as a result of adjusting the fair value of our contingent consideration liability related to two acquisitions of real estate properties. This entire amount is included in FFO for the year ended December 31, 2014.
- During the year ended December 31, 2014, we recognized $3.0 million of straight-line rental income write-offs, which is primarily due to a write-off related to a change in ownership of one of our tenants and the resulting modification of the terms of a lease between us and the new tenant entity. This entire amount is included in FFO for the year ended December 31, 2014.
- During the year ended December 31, 2014, we recognized $1.7 million of facility operating expenses associated with transitioning two assets to new operators. This entire amount is included in FFO and AFFO for the year ended December 31, 2014.

Liquidity and Capital Resources

As of December 31, 2016, we had approximately $499.5 million in liquidity, consisting of unrestricted cash and cash equivalents of $25.5 million (excluding joint venture cash and cash equivalents), and available borrowings under our Revolving Credit Facility of $474.0 million. The Credit Facility also contains an accordion feature that can increase the total available borrowings to $1.25 billion (from U.S. $745.0 million plus CAD $125.0 million), subject to terms and conditions.

We have filed a shelf registration statement with the SEC that expires in January 2020, which will allow us to offer and sell shares of common stock, preferred stock, warrants, rights, units, and certain of our subsidiaries to offer and sell debt securities, through underwriters, dealers or agents or directly to purchasers, on a continuous or delayed basis, in amounts, at prices and on terms we determine at the time of the offering, subject to market conditions.

We believe that our available cash, operating cash flows and borrowings available to us under the Revolving Credit Facility provide sufficient funds for our operations, scheduled debt service payments with respect to our Senior Notes (defined below), mortgage indebtedness on our properties, and dividend requirements for the next twelve months. In addition, we do not believe that the restrictions under our Senior Notes Indentures (defined below) significantly limit our ability to use our available liquidity for these purposes.

We intend to invest in additional healthcare properties as suitable opportunities arise and adequate sources of financing are available. We expect that future investments in properties, including any improvements or renovations of current or newly-acquired properties, will depend on and will be financed, in whole or in part, by our existing cash, borrowings available to us under our Revolving Credit Facility, future borrowings or the proceeds from issuances of common stock, preferred stock, debt or other securities. In addition, we may seek financing from U.S. government agencies, including through Fannie Mae and HUD, in appropriate circumstances in connection with acquisitions.

Cash Flows from Operating Activities

Net cash provided by operating activities was $176.7 million for the year ended December 31, 2016. Operating cash inflows were derived primarily from the rental payments received under our lease agreements and interest payments from borrowers under our loan investments. Operating cash outflows consisted primarily of interest payments on borrowings and payment of general and administrative expenses, including expensed acquisition pursuit costs. Operating cash inflows for the year ended December 31, 2016 included $9.6 million of default interest income related to four loan receivable investments and a $10.0 million lease termination payment. Excluding these amounts, we expect our annualized cash flows provided by operating activities to increase as a result of completed and anticipated future real estate investments.

Cash Flows from Investing Activities

During the year ended December 31, 2016, net cash provided by investing activities was $142.4 million and consisted of $216.0 million in repayments of loans receivable and $98.0 million in net proceeds from the sale of four skilled nursing/transitional care facilities and one acute care hospital, partially offset by $153.6 million used in the acquisition of one skilled nursing/transitional care facility and six senior housing facilities, $9.7 million used to provide additional funding for existing loans receivable, $7.3 million used to fund new and existing preferred equity investments and $1.0 million used for tenant improvements.

We expect to continue using available liquidity in connection with anticipated future real estate investments, loan originations and preferred equity investments.

Cash Flows from Financing Activities

During the year ended December 31, 2016, net cash used in financing activities was $300.9 million and included $69.4 million in proceeds from the Term Loans. The proceeds were partially offset by $119.3 million of dividends paid to stockholders, $14.8 million of principal repayments of mortgage notes payable, $5.9 million of payments for deferred financing costs primarily associated with the Credit Facility and $1.3 million of payroll tax payments related to the issuance of common stock pursuant to equity compensation arrangements. In addition, during the year ended December 31, 2016, we repaid a net amount of $229.0 million on our Revolving Credit Facility.

Loan Agreements

2021 Notes. On January 23, 2014, the Operating Partnership and Sabra Capital Corporation, wholly owned subsidiaries of the Company (the “Issuers”), issued $350.0 million aggregate principal amount of 5.5% senior unsecured notes due 2021 (the “Existing 2021 Notes”), providing net proceeds of approximately $340.8 million after deducting underwriting discounts and other offering expenses. On October 10, 2014, the Issuers issued an additional $150.0 million aggregate principal amount of 5.5% senior unsecured notes due 2021 (together with the Existing 2021 Notes, the “2021 Notes”), providing net proceeds of approximately $145.6 million (not including pre-issuance accrued interest), after deducting underwriting discounts and other offering expenses and a yield-to-maturity of 5.593%.

2023 Notes. On May 23, 2013, the Issuers issued $200.0 million aggregate principal amount of 5.375% senior notes due 2023 (the “2023 Notes” and, together with the 2021 Notes, the “Senior Notes”), providing net proceeds of approximately $194.6 million after deducting underwriting discounts and other offering expenses.

See Note 8, “Debt,” in the Notes to Consolidated Financial Statements for additional information concerning the 2021 Notes and the 2023 Notes, including information regarding the indentures governing the Senior Notes (the “Senior Notes Indentures”). As of December 31, 2016, we were in compliance with all applicable covenants under the Senior Notes Indentures.

Revolving Credit Facility and Term Loans. On September 10, 2014, the Operating Partnership entered into a second amended and restated unsecured revolving credit facility (the “Prior Revolving Credit Facility”) with certain lenders as set forth in the related credit agreement and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (each as defined in such credit agreement).

The Prior Revolving Credit Facility provided for a borrowing capacity of $650.0 million and provided an accordion feature allowing for an additional $100.0 million of capacity, subject to terms and conditions, resulting in a maximum borrowing capacity of $750.0 million. The Operating Partnership also had an option to convert up to $200.0 million of the Prior

Revolving Credit Facility to a term loan subject to terms and conditions. On October 10, 2014, the Operating Partnership converted $200.0 million of the outstanding borrowings under the Prior Revolving Credit Facility to a term loan.
On June 10, 2015, Sabra Canadian Holdings, LLC, a wholly-owned subsidiary of the Company, entered into a new Canadian dollar denominated term loan of CAD $90.0 million (the "Prior Canadian Term Loan").
On January 14, 2016, the Borrowers entered into a third amended and restated Credit Facility. The Credit Facility amends and restates the a Prior Revolving Credit Facility and replaces the Prior Canadian Term Loan.
The Credit Facility includes a Revolving Credit Facility and U.S. dollar and Canadian dollar term loans (collectively, the “Term Loans”). The Revolving Credit Facility provides for a borrowing capacity of $500.0 million and, in addition, increases our U.S. dollar and Canadian dollar term loans to $245.0 million and CAD $125.0 million, respectively. Further, up to $125.0 million of the Revolving Credit Facility may be used for borrowings in certain foreign currencies. The Credit Facility also contains an accordion feature that can increase the total available borrowings to $1.25 billion, subject to terms and conditions.
The obligations of the Borrowers under the Credit Facility are guaranteed by us and certain of our subsidiaries.
See Note 8, “Debt,” in the Notes to Consolidated Financial Statements for additional information concerning the Credit Facility. As of December 31, 2016, we were in compliance with all applicable covenants under the Credit Facility.
Mortgage Indebtedness
Of our 183 properties held for investment, 20 are subject to mortgage indebtedness to third parties that, as of December 31, 2016, totaled approximately $163.6 million. As of December 31, 2016 and December 31, 2015, our mortgage notes payable consisted of the following (dollars in thousands):

Interest Rate Type	Principal as of December 31, 2016 (1)	Principal as of December 31, 2015 (1)	Weighted Average Effective Interest Rate at December 31, 2016 (2)	Maturity Date
Fixed Rate	$ 163,638	$ 177,850	3.87 %	December 2021 - August 2051

(1) Principal balance does not include deferred financing costs of $2.9 million and $3.0 million as of December 31, 2016 and 2015, respectively.
(2) Weighted average effective rate includes private mortgage insurance.

Capital Expenditures
For the years ended December 31, 2016, 2015 and 2014, our aggregate capital expenditures were $1.0 million, $3.7 million, and $1.5 million, respectively. The capital expenditures for the years ended December 31, 2016 and 2015 include $0.1 million and $35,000, respectively, of capital expenditures for corporate office needs. There are no present plans for the improvement or development of any unimproved or undeveloped property; however, from time to time we may agree to fund improvements our tenants make at our facilities. Accordingly, we anticipate that our aggregate capital expenditure requirements for the next 12 months will not exceed $8.0 million, and that such expenditures will principally be for improvements to our facilities and result in incremental rental income.
Dividends
We paid dividends of $119.3 million on our common and preferred stock during the year ended December 31, 2016. On February 3, 2017, our board of directors declared a quarterly cash dividend of $0.42 per share of common stock. The dividend will be paid on February 28, 2017 to stockholders of record as of February 15, 2017. Also, on February 3, 2017, our board of directors declared a quarterly cash dividend of $0.4453125 per share of Series A Preferred Stock. The dividend will be paid on February 28, 2017 to stockholders of record as of the close of business on

February 15, 2017.

Concentration of Credit Risk

Concentrations of credit risks arise when a number of operators, tenants or obligors related to our investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to us, to be similarly affected by changes in economic conditions. We regularly monitor our portfolio to assess potential concentrations of risks.

Management believes our current portfolio is reasonably diversified across healthcare related real estate and geographical location and does not contain any other significant concentration of credit risks. Our portfolio of 183 real estate properties held for investment as of December 31, 2016 is diversified by location across the United States and Canada.

As of December 31, 2016, our three largest tenants, Genesis, Holiday and NMS represented 32.3%, 16.2% and 12.4%, respectively, of our annualized revenues. Other than these three tenants, none of the Company's tenants individually represented 10% or more of the Company's annualized revenues as of December 31, 2016. The obligations under all three master leases are guaranteed by their respective parent entities.

Skilled Nursing Facility Reimbursement Rates

As of December 31, 2016, 56.6% of our annualized revenues was derived directly or indirectly from skilled nursing/transitional care facilities. Medicare reimburses skilled nursing facilities for Medicare Part A services under the Prospective Payment System ("PPS"), as implemented pursuant to the Balanced Budget Act of 1997 and modified pursuant to subsequent laws, most recently the Patient Protection and Affordable Care Act of 2010 (the "Affordable Care Act"). PPS regulations predetermine a payment amount per patient, per day, based on a market basket index calculated for all covered costs. The amount to be paid is determined by classifying each patient into one of 66 Resource Utilization Group ("RUG") categories that represent the level of services required to treat different conditions and levels of acuity.

The current system of 66 RUG categories, or Resource Utilization Group version IV ("RUG IV"), became effective as of October 1, 2010. RUG IV resulted from research performed by CMS and was part of CMS's continuing effort to increase the correlation of the cost of services to the condition of individual patients.

On July 31, 2015, CMS released final fiscal year 2016 Medicare rates for skilled nursing facilities providing a net increase of 1.2% over fiscal year 2015 payments (comprised of a market basket increase of 2.3% less 0.6% for a forecast error adjustment and less the productivity adjustment of 0.5%).

On July 29, 2016, CMS released final fiscal year 2017 Medicare rates for skilled nursing facilities providing a net increase of 2.4% over fiscal year 2016 payments (comprised of a market basket increase of 2.7% less the productivity adjustment of 0.3%). The new payment rates became effective on October 1, 2016.

On November 16, 2015, CMS finalized the Comprehensive Care for Joint Replacement ("CJR") model, which began on April 1, 2016, which holds hospitals accountable for the quality of care they deliver to Medicare fee-for-service beneficiaries for hip and knee replacements and/or other major leg procedures from surgery through recovery. Through this payment model, hospitals in 67 geographic areas receive additional payments if quality and spending performance are strong or, if not, potentially have to repay Medicare for a portion of the spending for care surrounding a lower extremity joint replacement (LEJR) procedure. As a result, Medicare revenues derived at skilled nursing facilities related to lower extremity joint replacement hospital discharges could be positively or negatively impacted in those geographic areas identified by CMS for mandatory participation in the bundled payment program.

Obligations and Commitments

The following table summarizes our contractual obligations and commitments in future years, including our Senior Notes, Revolving Credit Facility and our mortgage indebtedness to third parties on certain of our properties. The following table is presented as of December 31, 2016 (in thousands):

		Payments Due During the Years Ending December 31,					
	Total	2017	2018	2019	2020	2021	After 2021
Mortgage indebtedness[1]	$246,154	$9,697	$9,697	$9,697	$9,697	$24,391	$182,975
Revolving Credit Facility [2]	32,600	2,172	2,172	2,172	26,084	—	—
Term loans [3]	379,351	10,233	10,233	10,233	10,260	338,392	—
Senior Notes[4]	893,625	38,250	38,250	38,250	38,250	524,500	216,125
Contingent consideration	818	818	—	—	—	—	—
Operating lease	1,267	191	200	209	219	229	219
Total	$1,553,815	$61,361	$60,552	$60,561	$84,510	$887,512	$399,319

(1) Mortgage indebtedness includes principal payments and interest payments through the maturity dates. Total interest on mortgage indebtedness, based on contractual rates, is $82.5 million.

(2) Revolving Credit Facility includes payments related to the unused facility fee due to the lenders based on the amount of unused borrowings under the Revolving Credit Facility and also includes interest payments through the

maturity date (assuming no exercise of its two six-month extension options).

(3) Term loan includes interest payments through the maturity date.

(4) Senior Notes includes interest payments through the maturity dates. Total interest on the Senior Notes is $193.6 million

In addition to the above, as of December 31, 2016, we have committed to provide up to $2.5 million of future funding related to one loan receivable investment. The loan receivable investment has a maturity date in March 2021.

Impact of Inflation

Our rental income in future years will be impacted by changes in inflation. Several of our lease agreements provide for an annual rent escalator based on the percentage change in the Consumer Price Index (but not less than zero), subject to minimum or maximum fixed percentages that range from 1.0% to 3.0%. Our lease agreements with subsidiaries of Genesis provide for a fixed 2.5% annual rent escalator. Our lease agreements with subsidiaries of Holiday provide for a fixed 4.0% annual rent escalator in years 2 and 3 of the master lease and the greater of the Consumer Price Index and 3.5% thereafter. Our lease agreement with subsidiaries of NMS Healthcare provide for a fixed 2.5% annual rent escalator.

Off-Balance Sheet Arrangements

None.

Quarterly Financial Data

The following table presents our quarterly financial data. This information has been prepared on a basis consistent with that of our audited consolidated financial statements. Our quarterly results of operations for the periods presented are not necessarily indicative of future results of operations. This unaudited quarterly data should be read together with the accompanying consolidated financial statements and related notes thereto (in thousands, except share and per share amounts).

	For the Year Ended December 31, 2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating data				
Total revenues	$ 62,559	$ 74,249	$ 61,927	$ 61,791
Net (loss) income attributable to common stockholders	(18,272)	34,915	22,776	20,615
Net (loss) income per common share-basic	(0.28)	0.53	0.35	0.32
Net (loss) income per common share-diluted	(0.28)	0.53	0.35	0.31
Other data				
Cash flows provided by operations	$ 24,726	$ 69,768	$ 39,322	$ 42,923
Cash flows provided by (used in) investing activities	1,964	254,056	(82,467)	(31,190)
Cash flows used in financing activities	(25,122)	(229,086)	(41,693)	(4,997)
Weighted-average number of common shares outstanding, basic	65,248,203	65,303,057	65,312,288	65,286,722
Weighted-average number of common shares outstanding, diluted:				
Net (loss) income	65,248,203	65,503,383	65,591,428	65,671,345
FFO	65,414,703	65,503,383	65,591,428	65,671,345
AFFO	65,825,187	65,784,776	65,872,688	65,923,624
FFO attributable to common stockholders (1)	$ 33,907	$ 51,372	$ 38,427	$ 40,733
FFO attributable to common stockholders per diluted common share (1)	0.52	0.78	0.59	0.62
AFFO attributable to common stockholders (1)	34,825	49,423	38,449	38,768
AFFO attributable to common stockholders per diluted common share(1)	0.53	0.75	0.58	0.59
Reconciliation of FFO and AFFO				
Net (loss) income attributable to common stockholders	$ (18,272)	$ 34,915	$ 22,776	$ 20,615
Add:				
Depreciation of real estate assets	17,766	16,405	17,102	17,199
Net loss (gain) on sales of real estate	4,602	52	(1,451)	2,919
Impairment of real estate	29,811	—	—	—
FFO attributable to common stockholders	33,907	51,372	38,427	40,733
Expensed acquisition pursuit costs (2)	89	82	1,051	(25)
Stock-based compensation	1,818	1,834	2,485	1,359
Straight-line rental income adjustments	(5,593)	(5,524)	(5,593)	(5,274)
Amortization of deferred financing costs	1,221	1,273	1,273	1,273
Non-cash portion of loss on extinguishment of debt	556	—	—	—
Change in fair value of contingent consolidation	—	(50)	100	(1,576)
Provision for doubtful straight-line rental income and loan losses	2,523	92	830	2,388

Other non-cash adjustments [3]	304	344	(124)	(110)
AFFO attributable to common stockholders	$ 34,825	$ 49,423	$ 38,449	$ 38,768

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	For the Year Ended December 31, 2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating data				
Total revenues	$55,572	$56,586	$59,934	$66,772
Net income attributable to common stockholders	16,889	14,275	15,500	22,507
Net income per common share-basic	0.29	0.24	0.24	0.35
Net income per common share-diluted	0.28	0.24	0.24	0.34
Other data				
Cash flows provided by operations	$24,701	$26,606	$27,808	$41,986
Cash flows used in investing activities	(6,237)	(314,423)	(82,021)	(86,545)
Cash flows (used in) provided by financing activities	(76,086)	289,873	79,690	20,601
Weighted-average number of common shares outstanding, basic	59,185,225	59,323,799	65,160,290	65,172,799
Weighted-average number of common shares outstanding, diluted:				
Net income and FFO	59,559,253	59,543,781	65,398,175	65,424,854
AFFO	59,893,055	59,742,209	65,528,033	65,570,914
FFO attributable to common stockholders [1]	$31,039	$27,049	$35,644	$38,679
FFO attributable to common stockholders per diluted common share [1]	0.52	0.45	0.55	0.59
AFFO attributable to common stockholders [1]	30,531	30,708	34,490	38,183
AFFO attributable to common stockholders per diluted common share [1]	0.51	0.51	0.53	0.58
Reconciliation of FFO and AFFO				
Net income attributable to common stockholders	$16,889	$14,275	$15,500	$22,507
Add:				
Depreciation of real estate assets	14,150	14,497	16,306	18,126
Net (gain) loss on sales of real estate	—	(1,723)	3,838	(1,954)
FFO attributable to common stockholders	31,039	27,049	35,644	38,679
Expensed acquisition pursuit costs [2]	310	5,131	540	1,042
Stock-based compensation	2,918	1,754	717	734
Straight-line rental income adjustments	(5,656)	(6,178)	(6,438)	(6,048)
Amortization of deferred financing costs	1,261	1,268	1,300	1,314
Change in fair value of contingent consolidation	100	100	100	(1,850)
Provision for doubtful straight-line rental income and loan losses	421	1,434	2,488	4,688
Other non-cash adjustments [3]	138	150	139	(376)
AFFO attributable to common stockholders	$30,531	$30,708	$34,490	$38,183

(1) We believe that net income attributable to common stockholders as defined by GAAP is the most appropriate earnings measure. We also believe that funds from operations attributable to common stockholders (“FFO”), as defined in accordance with the definition used by the National Association of Real Estate Investment Trusts (“NAREIT”), and adjusted funds from operations attributable to common stockholders (“AFFO”) (and related per share amounts) are important non-GAAP supplemental measures of operating performance. We consider FFO and AFFO to be useful measures for reviewing comparative operating and financial performance because, by excluding gains or losses from real estate dispositions, real estate depreciation and amortization, real estate impairment charges,

and for AFFO, by excluding straight-line rental income adjustments, stock-based compensation expense, amortization of deferred financing costs, acquisition pursuit costs, as well as other non-cash revenue and expense items (including provisions and write-offs related to straight-line rental income, provision for loan losses, changes in fair value of contingent consideration, amortization of debt premiums/discounts and non-cash interest income adjustments), FFO and AFFO can help investors compare our operating performance between periods or as compared to other companies. See “—Results of Operations—Funds from Operations and Adjusted Funds from Operations” for further discussion of FFO and AFFO.

(2) On October 1, 2016, we early-adopted ASU 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as business acquisitions. All real estate acquisitions completed subsequent to October 1, 2016 were considered asset acquisitions and we have capitalized acquisition pursuit costs associated with these acquisitions, including those costs incurred prior to October 1, 2016. Acquisitions completed prior to October 1, 2016 were deemed business combinations and the related acquisition pursuit costs were expensed as incurred.

(3) Other non-cash adjustments include amortization of debt premiums/discounts, non-cash interest income adjustments and amortization expense related to our interest rate hedges.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, primarily related to adverse changes in interest rates and the exchange rate for Canadian dollars. We use derivative instruments in the normal course of business to mitigate interest rate and foreign currency risk. We do not use derivative financial instruments for speculative or trading purposes. See Note 9, “Derivative and Hedging Instruments,” in the Notes to the Consolidated Financial Statements for further discussion on our derivative instruments.

Interest rate risk. As of December 31, 2016, our indebtedness included $700.0 million aggregate principal amount of Senior Notes outstanding, $163.6 million of mortgage indebtedness to third parties on certain of the properties that our subsidiaries own, $338.0 million in term loans and $26.0 million outstanding under the Revolving Credit Facility. As of December 31, 2016, we had $364.0 million of outstanding variable rate indebtedness. In addition, as of December 31, 2016, we had $474.0 million available for borrowing under our Revolving Credit Facility.

We expect to manage our exposure to interest rate risk by maintaining a mix of fixed and variable rates for our indebtedness. We also may manage, or hedge, interest rate risks related to our borrowings by means of interest rate swap agreements. As of December 31, 2016, we had two interest rate swaps that fix the LIBOR portion of the interest rate for the LIBOR-based borrowings under our $245.0 million U.S. dollar term loan at 0.90% and two interest rate swaps that fix the CDOR portion of the interest rate for our CAD $90.0 million and CAD $35.0 million of CDOR-based borrowings at 1.59% and 0.93%, respectively.

From time to time, we may borrow under the Revolving Credit Facility to finance future investments in properties, including any improvements or renovations of current or newly acquired properties, or for other purposes. Because borrowings under the Revolving Credit Facility bear interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at our option, either (a) LIBOR or (b) a base rate determined as the greater of (i) the federal funds rate plus 0.5%, (ii) the prime rate, and (iii) one-month LIBOR plus 1.0%, the interest rate we will be required to pay on any such borrowings will depend on then applicable rates and may vary. An increase in interest rates could make the financing of any investment by us more costly. Rising interest rates could also limit our ability to refinance our debt when it matures or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness.

Assuming a 100 basis point increase in the interest rate related to our variable rate debt and after giving effect to the impact of interest rate swap derivative instruments, interest expense would increase by $0.3 million for the twelve months following December 31, 2016. As of December 31, 2016, the index underlying our variable rate debt was below 100 basis points and if this index was reduced to zero during the twelve months following December 31, 2016, interest expense on our variable rate debt would decrease by $0.2 million.

Foreign currency risk. We are exposed to changes in foreign exchange rates as a result of our investments in Canadian real estate. Our foreign currency exposure is partially mitigated through the use of Canadian dollar denominated debt totaling CAD $148.2 million and cross currency swap instruments. Based on our operating results for the three months ended December 31, 2016, if the value of the Canadian dollar relative to the U.S. dollar were to increase or decrease by 10% compared to the average exchange rate during the three months ended December 31, 2016, our cash flows would have decreased or increased, as applicable by $0.1 million.

The table below summarizes the book values and the weighted-average interest rates of our indebtedness by type as of December 31, 2016, based on the maturity dates (dollars in thousands):

	Maturity							
	2017	2018	2019	2020	2021	Thereafter	Total Book Value [1]	Total Fair Value
Mortgage Indebtedness	$4,128	$4,265	$4,408	$4,555	$19,402	$126,880	$163,638	$150,091
Weighted average effective interest rate	3.86 %	3.87 %	3.88 %	3.88 %	3.89 %	4.08 %	3.87 %	
Revolving Credit Facility	$—	$—	$—	$26,000	$—	$—	$26,000	$26,000
Weighted average effective interest rate	— %	— %	— %	2.77 %	— %	— %	2.77 %	
Term loans	$—	$—	$—	$—	$338,000	$—	$338,000	$338,000
Weighted average effective interest rate	— %	— %	— %	— %	2.99 %	— %	2.99 %	
Senior Unsecured Notes	$—	$—	$—	$—	$500,000	$200,000	$700,000	$709,500
Weighted average effective interest rate	— %	— %	— %	— %	5.50 %	5.38 %	5.46 %	

[1] Total book value for mortgage indebtedness and Term Loans does not include deferred financing costs of $2.9 million and $2.3 million, respectively, as of December 31, 2016. Total book value for Senior Notes does not include discount of $0.5 million as of December 31, 2016 and also excludes deferred financing costs of $11.2 million as of December 31, 2016.

For a discussion of the interest rate risks related to the current capital and credit markets, see Part I, Item 1A, "Risk Factors."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Index to Financial Statements at page F-1 of this 10-K. See also "Item 7. Management's Discussion and Analysis—Quarterly Financial Data."

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of the evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2016 to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a–15(f) and 15d–15(f). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria described in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our evaluation using the criteria described in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2016 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Except as provided below, the information required under Item 10 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2016 in connection with our 2017 Annual Meeting of Stockholders.

Code of Conduct and Ethics

We have adopted a Code of Conduct and Ethics that applies to all of our directors and employees, including our principal executive officer and principal financial officer. Our Code of Conduct and Ethics can be found in the About Sabra—Governance Documents section of our website at www.sabrahealth.com. Waivers from, and amendments to, our Code of Conduct and Ethics that apply to our directors, executive officers or persons performing similar functions will be timely posted in the About Sabra—Governance Documents section of our website at www.sabrahealth.com.

ITEM 11. EXECUTIVE COMPENSATION

The information required under Item 11 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2016 in connection with our 2017 Annual Meeting of Stockholders.

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

The information required under Item 12 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2016 in connection with our 2017 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required under Item 13 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2016 in connection with our 2017 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required under Item 14 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2016 in connection with our 2017 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
(a) Documents filed as part of this 10-K:
(1) Financial Statements
See the Index to Financial Statements at page F-1 of this report.
(2) Financial Statement Schedules
The following financial statement schedules are included herein at pages F-47 through F-56 of this report:

Schedule II - Valuation and Qualifying Accounts
Schedule III - Real Estate Assets and Accumulated Depreciation
Schedule IV - Mortgage Loans on Real Estate
(3) Exhibits
The following exhibits are filed herewith or are incorporated by reference, as specified below, to exhibits previously filed with the SEC.

EXHIBIT LIST

Ex.	Description
2.1	Purchase Agreement, dated September 25, 2014, between Sabra Health Care REIT, Inc. and certain affiliates of Holiday Acquisition Holdings LLC (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on September 29, 2014).†
2.2	Purchase and Sale Agreement and Joint Escrow Instructions, dated June 22, 2015, between Van Buren Street LLC, Randolph Road, LLC and St. Thomas More, LLC and Sabra Health Care Northeast, LLC (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on June 24, 2015).†
2.3	Purchase Agreement, dated June 26, 2015, between Sabra Hagerstown, LLC and Marsh Pike, LLC (incorporated by reference to Exhibit 2.2 of the Current Report on Form 8-K/A filed by Sabra Health Care REIT, Inc. on February 26, 2016). †
3.1	Articles of Amendment and Restatement of Sabra Health Care REIT, Inc., dated October 20, 2010, filed with the State Department of Assessments and Taxation of the State of Maryland on October 21, 2010 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on October 26, 2010).
3.1.1	Articles Supplementary designating Sabra Health Care REIT, Inc.'s 7.125% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on March 21, 2013).
3.2	Amended and Restated Bylaws of Sabra Health Care REIT, Inc. (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on October 26, 2010).
4.1	Form of Specimen Certificate for Sabra Health Care REIT, Inc.'s 7.125% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on March 21, 2013).
4.2	Indenture, dated as of May 23, 2013, among Sabra Health Care Limited Partnership, Sabra Capital Corporation, Sabra Health Care REIT, Inc., and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on May 23, 2013).
4.2.1	First Supplemental Indenture, dated May 23, 2013, among Sabra Health Care Limited Partnership, Sabra Capital Corporation, Sabra Health Care REIT, Inc., the other guarantors named therein, and Wells Fargo National Bank Association, as Trustee (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on May 23, 2013).
4.2.2	Second Supplemental Indenture, dated January 8, 2014, among Sabra Health Care Limited Partnership, Sabra Capital Corporation, Sabra Health Care REIT, Inc., the other guarantors named therein, and Wells Fargo Bank,

	National Association, as Trustee (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on January 23, 2014).
4.2.3	Third Supplemental Indenture, dated January 23, 2014, among Sabra Health Care Limited Partnership, Sabra Capital Corporation, Sabra Health Care REIT, Inc., the other guarantors named therein, and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on January 23, 2014).
4.2.4	Fourth Supplemental Indenture, dated April 30, 2014, among Sabra Health Care Limited Partnership, Sabra Capital Corporation, Sabra Health Care REIT, Inc., the other guarantors named therein, and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed by Sabra Health Care REIT, Inc. on May 5, 2014).
4.2.5	Fifth Supplemental Indenture, dated September 29, 2014, among Sabra Health Care Limited Partnership, Sabra Capital Corporation, Sabra Health Care REIT, Inc., the other guarantors named therein, and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.7.5 of the Post-Effective Amendment No. 2 to Form S-3 Registration Statement filed by Sabra Health Care REIT, Inc. and the Co-Registrants on September 30, 2014).
4.2.6	Sixth Supplemental Indenture, dated January 13, 2017, among Sabra Health Care Limited Partnership, Sabra Capital Corporation, Sabra Health Care REIT, Inc., the other guarantors named therein, and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.6.6 of the Form S-3 Registration Statement filed by Sabra Health Care REIT, Inc. and the Co-Registrants on January 17, 2017).
4.3	Form of 5.375% senior note due 2023 (included in Exhibit 4.2.1).

4.4	Form of 5.5% senior note due 2021 (included in Exhibit 4.2.3).
10.1	Tax Allocation Agreement, dated as of September 23, 2010, by and among Sun Healthcare Group, Inc., Sabra Health Care REIT, Inc. and SHG Services, Inc. (which has been renamed Sun Healthcare Group, Inc.) (incorporated by reference to Exhibit 10.2 of Amendment No. 3 to the Registration Statement on Form S-4 (File No. 333-167040) filed by Sabra Health Care REIT, Inc. on September 24, 2010).
10.2	Form of Master Lease Agreement entered into between subsidiaries of SHG Services, Inc. (which was renamed Sun Healthcare Group, Inc.) and subsidiaries of Sabra Health Care REIT, Inc. that, with certain exceptions, became effective as of the Company’s separation from Sun Healthcare Group, Inc. with respect to the 86 properties owned by subsidiaries of Sabra Health Care REIT, Inc. following the Company’s separation from Sun Healthcare Group, Inc. (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on November 5, 2010).
10.2.1	Form of Amendment to Master Lease Agreement entered into between subsidiaries of Sun Healthcare Group, Inc., subsidiaries of Sabra Health Care REIT, Inc., and Genesis HealthCare LLC, dated December 1, 2012 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on December 6, 2012).
10.2.2	Form of Amendment to Lease Agreement, dated February 2, 2015, by and among subsidiaries of Sabra Health Care REIT, Inc., subsidiaries of Genesis Healthcare, Inc., Genesis Healthcare, Inc., FC-Gen Operations Investment, LLC, and Genesis HealthCare LLC (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed by Sabra Health Care REIT, Inc. on May 6, 2015).
10.2.3	Form of Amendment to Master Lease, dated July 29, 2016, by and among subsidiaries of Sabra Health Care REIT, Inc., subsidiaries of Genesis Healthcare, Inc. and Genesis Healthcare, Inc. (incorporated by reference to Exhibit 10.6 of the Quarterly Report on Form 10-Q filed by Sabra Health Care REIT, Inc. on August 1, 2016).
10.3	Form of Second Amended and Restated Guaranty of Lease, dated July 29, 2016, by Genesis Healthcare, Inc. in favor of subsidiaries of Sabra Health Care REIT, Inc., as landlords under the Lease Agreements, dated December 1, 2012, as amended (incorporated by reference to Exhibit 10.5 of the Quarterly Report on Form 10-Q filed by Sabra Health Care REIT, Inc. on August 1, 2016).
10.4	Agreement, between Sabra Health Care REIT, Inc. and Genesis Healthcare, Inc., Regarding Disposition of Assets and Lease Amendments, dated July 29, 2016 (incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q filed by Sabra Health Care REIT, Inc. on August 1, 2016).
10.5	Amended and Restated Memorandum of Understanding (Buy-Out Facilities), between Sabra Health Care REIT, Inc. and Genesis Healthcare, Inc., dated July 29, 2016 (incorporated by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q filed by Sabra Health Care REIT, Inc. on August 1, 2016).

10.6	Amended and Restated Memorandum of Understanding (Sale Facilities), between Sabra Health Care REIT, Inc. and Genesis Healthcare, Inc., dated July 29, 2016 (incorporated by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q filed by Sabra Health Care REIT, Inc. on August 1, 2016).
10.7	Master Lease, dated September 25, 2014, between Sabra Health Care Holdings III, LLC, Sabra Texas Holdings, L.P., Sabra Health Care Virginia II, LLC and Sabra Health Care Northeast, LLC, as landlords, and the tenants listed on the signature pages thereto (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on September 29, 2014).
10.8	Guaranty of Master Lease, dated September 25, 2014, by Holiday AL Holdings LP in favor of Sabra Health Care Holdings III, LLC, Sabra Texas Holdings, L.P., Sabra Health Care Virginia II, LLC and Sabra Health Care Northeast, LLC (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on September 29, 2014).
10.9	Limited Partnership Agreement of Sabra Health Care Limited Partnership, dated as of November 15, 2010 (incorporated by reference to Exhibit 3.4 of the Registration Statement on Form S-4 (File No. 333-171820) filed by the issuers and guarantors on January 21, 2011).
10.9.1	First Amendment to the Limited Partnership Agreement by Sabra Health Care REIT, Inc. and Sabra Health Care, LLC, dated March 21, 2013 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on March 21, 2013).

10.10	Third Amended and Restated Credit Agreement, dated January 14, 2016, among Sabra Health Care Limited Partnership and Sabra Canadian Holdings, LLC, as Borrowers; Sabra Health Care REIT, Inc., as REIT Guarantor; the other guarantors party thereto; the lenders party thereto; Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer; Citizens Bank, National Association and Credit Agricole Corporate and Investment Bank, as Co-Syndication Agents; BMO Harris Bank, N.A., Barclays Bank, PLC, Compass Bank, Citibank, N.A., J.P. Morgan Chase Bank, N.A., Suntrust Bank and Wells Fargo Bank, N.A., as Co-Documentation Agents; and Merrill Lynch, Pierce, Fenner & Smith, as Joint Lead Arranger and Sole Book Runner; and Citizens Bank, National Association and Credit Agricole Corporate and Investment Bank, as Joint Lead Arrangers (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on January 19, 2016).
10.11	Form of Indemnification Agreement entered into with each of the directors and officers of Sabra Health Care REIT, Inc. (incorporated by reference to Exhibit 10.5 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on November 5, 2010).
10.12+	Employment Agreement, dated November 22, 2010, by and between Richard K. Matros and Sabra Health Care REIT, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on November 24, 2010).
10.13+	Employment Agreement, dated November 22, 2010, by and between Harold W. Andrews, Jr. and Sabra Health Care REIT, Inc. (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on November 24, 2010).
10.14+	Employment Agreement, dated November 22, 2010, by and between Talya Nevo-Hacohen and Sabra Health Care REIT, Inc. (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on November 24, 2010).
10.15+	Sabra Health Care REIT, Inc. 2009 Performance Incentive Plan, effective April 2, 2014 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on June 25, 2014).
10.16.1+*	Form of Notice and Terms and Conditions of Stock Unit Award (Time-Based Stock Units) (for Executive Officers).
10.16.2+*	Form of Notice and Terms and Conditions of Stock Unit Award (FFO Units) (for Executive Officers).
10.16.3+*	Form of Notice and Terms and Conditions of Stock Unit Award (TSR Units) (for Executive Officers).
10.16.4+*	Form of Notice and Terms and Conditions of Stock Unit Award (Performance Stock Units for 2016 Annual Bonus).
10.16.5+	Form of Notice and Terms and Conditions of Stock Unit Award (for Non-Employee Directors) (incorporated by reference to Exhibit 10.10.4 of the Registration Statement on Form S-4

	(File No. 333-171820-26) filed by Sabra Health Care REIT, Inc. on January 21, 2011).
10.16.6+	Non-Employee Directors Stock-for-Fees Program (incorporated by reference to Exhibit 10.10.5 of the Registration Statement on Form S-4 (File No. 333-171820-26) filed by Sabra Health Care REIT, Inc. on January 21, 2011).
10.17+*	Sabra Health Care REIT, Inc. Directors' Compensation Policy, effective January 1, 2017.
12.1*	Statement Re: Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
21.1*	List of Subsidiaries of Sabra Health Care REIT, Inc.
23.1*	Consent of PricewaterhouseCoopers LLP.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB* XBRL Taxonomy Extension Label Linkbase Document.

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

** Furnished herewith.

\+ Designates a management compensation plan, contract or arrangement.

† Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrants hereby agree to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

ITEM 16. FORM 10-K SUMMARY

None.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders
Sabra Health Care REIT, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Sabra Health Care REIT, Inc. and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting
included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Irvine, California

February 22, 2017

SABRA HEALTH CARE REIT, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31,	
	2016	2015
Assets		
Real estate investments, net of accumulated depreciation of $282,812 and $237,841 as of December 31, 2016 and 2015, respectively	$2,009,939	$2,039,616
Loans receivable and other investments, net	96,036	300,177
Cash and cash equivalents	25,663	7,434
Restricted cash	9,002	9,813
Prepaid expenses, deferred financing costs and other assets, net	125,279	111,797
Total assets	$2,265,919	$2,468,837
Liabilities		
Mortgage notes, net	$160,752	$174,846
Revolving credit facility	26,000	255,000
Term loans, net	335,673	264,229
Senior unsecured notes, net	688,246	685,704
Accounts payable and accrued liabilities	39,639	35,182
Total liabilities	1,250,310	1,414,961
Commitments and contingencies (Note 17)		
Equity		
Preferred stock, $.01 par value; 10,000,000 shares authorized, 5,750,000 shares issued and outstanding as of December 31, 2016 and 2015	58	58
Common stock, $.01 par value; 125,000,000 shares authorized, 65,285,614 and 65,182,335 shares issued and outstanding as of December 31, 2016 and 2015, respectively	653	652
Additional paid-in capital	1,208,862	1,202,541
Cumulative distributions in excess of net income	(192,201)	(142,148)
Accumulated other comprehensive loss	(1,798)	(7,333)
Total Sabra Health Care REIT, Inc. stockholders' equity	1,015,574	1,053,770
Noncontrolling interests	35	106
Total equity	1,015,609	1,053,876
Total liabilities and equity	$2,265,919	$2,468,837

See accompanying notes to consolidated financial statements.

SABRA HEALTH CARE REIT, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share amounts)

	Year Ended December 31,		
	2016	2015	2014
Revenues:			
Rental income	$225,275	$209,851	$161,483
Interest and other income	27,463	25,505	19,367
Resident fees and services	7,788	3,508	2,668
Total revenues	260,526	238,864	183,518
Expenses:			
Depreciation and amortization	68,472	63,079	43,332
Interest	64,873	59,218	46,958
Operating expenses	5,703	2,576	1,930
General and administrative	19,918	23,865	23,815
Provision for doubtful accounts and loan losses	5,543	12,842	3,594
Impairment of real estate	29,811	—	—
Total expenses	194,320	161,580	119,629
Other income (expense):			
Loss on extinguishment of debt	(556)	—	(22,454)
Other income	10,677	2,260	1,560
Net (loss) gain on sales of real estate	(6,122)	(161)	3,914
Total other income (expense)	3,999	2,099	(16,980)
Net income	70,205	79,383	46,909
Net loss attributable to noncontrolling interests	71	30	43
Net income attributable to Sabra Health Care REIT, Inc.	70,276	79,413	46,952
Preferred stock dividends	(10,242)	(10,242)	(10,242)
Net income attributable to common stockholders	$60,034	$69,171	$36,710
Net income attributable to common stockholders, per:			
Basic common share	$0.92	$1.11	$0.79
Diluted common share	$0.92	$1.11	$0.78
Weighted-average number of common shares outstanding, basic	65,284,251	62,235,014	46,351,544

Weighted-average number of common shares outstanding, diluted	65,520,672	62,460,239	46,889,531

See accompanying notes to consolidated financial statements.

SABRA HEALTH CARE REIT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income	$70,205	$79,383	$46,909
Other comprehensive income (loss):			
Foreign currency translation	(1,634)	(1,433)	—
Unrealized gain (loss) on cash flow hedge	7,169	(4,358)	(1,542)
Total other comprehensive income (loss)	5,535	(5,791)	(1,542)
Comprehensive income	75,740	73,592	45,367
Comprehensive loss attributable to noncontrolling interest	71	30	43
Comprehensive income attributable to Sabra Health Care REIT, Inc.	$75,811	$73,622	$45,410

See accompanying notes to consolidated financial statements.

SABRA HEALTH CARE REIT, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands, except share and per share amounts)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amounts	Shares	Amounts						
Balance, December 31, 2013	5,750,000	$58	38,788,745	$388	$534,639	$(74,921)	$—	$460,164	$—	$460,164
Net income (loss)	—	—	—	—	—	46,952	—	46,952	(43)	46,909
Other comprehensive loss	—	—	—	—	—	—	(1,542)	(1,542)	—	(1,542)
Amortization of stock-based compensation	—	—	—	—	11,234	—	—	11,234	—	11,234
Common stock issuance, net	—	—	20,258,256	202	507,728	—	—	507,930	—	507,930
Preferred dividends	—	—	—	—	—	(10,242)	—	(10,242)	—	(10,242)
Common dividends ($1.51 per share)	—	—	—	—	—	(72,630)	—	(72,630)	—	(72,630)
Balance, December 31, 2014	5,750,000	58	59,047,001	590	1,053,601	(110,841)	(1,542)	941,866	(43)	941,823
Net income (loss)	—	—	—	—	—	79,413	—	79,413	(30)	79,383
Other comprehensive loss	—	—	—	—	—	—	(5,791)	(5,791)	—	(5,791)
Amortization of stock-based compensation	—	—	—	—	6,946	—	—	6,946	—	6,946
Common stock issuance, net	—	—	6,135,334	62	141,994	—	—	142,056	—	142,056
Preferred dividends	—	—	—	—	—	(10,242)	—	(10,242)		(10,242)
Common dividends ($1.60 per	—	—	—	—	—	(100,478)	—	(100,478)	—	(100,478)

share)										
Contribution from noncontrolling interest	—	—	—	—	—	—	—	—	179	179
Balance, December 31, 2015	5,750,000	58	65,182,335	652	1,202,541	(142,148)	(7,333)	1,053,770	106	1,053,876
Net income (loss)	—	—	—	—	—	70,276	—	70,276	(71)	70,205
Other comprehensive income	—	—	—	—	—	—	5,535	5,535	—	5,535
Amortization of stock-based compensation	—	—	—	—	8,559	—	—	8,559	—	8,559
Common stock issuance, net	—	—	134,509	1	(1,513)	—	—	(1,512)	—	(1,512)
Repurchase of common stock	—	—	(31,230)	—	(725)	—	—	(725)	—	(725)
Preferred dividends	—	—	—	—	—	(10,242)	—	(10,242)	—	(10,242)
Common dividends ($1.67 per share)	—	—	—	—	—	(110,087)	—	(110,087)	—	(110,087)
Balance, December 31, 2016	5,750,000	$58	65,285,614	$653	$1,208,862	$(192,201)	$(1,798)	$1,015,574	$35	$1,015,609

See accompanying notes to consolidated financial statements.

SABRA HEALTH CARE REIT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$70,205	$79,383	$46,909
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	68,472	63,079	43,332
Non-cash interest income adjustments	582	626	325
Amortization of deferred financing costs	5,040	5,143	4,045
Stock-based compensation expense	7,496	6,123	9,851
Amortization of debt discount (premium)	109	103	(10)
Loss on extinguishment of debt	556	—	1,576
Straight-line rental income adjustments	(21,984)	(24,320)	(19,821)
Provision for doubtful accounts and loan losses	5,543	12,842	3,594
Change in fair value of contingent consideration	(1,526)	(1,550)	(1,560)
Gain on consolidation	—	(710)	—
Net loss (gain) on sales of real estate	6,122	161	(3,914)
Impairment of real estate	29,811	—	—
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	(1,452)	(22,794)	(7,993)
Accounts payable and accrued liabilities	11,462	6,977	12,635
Restricted cash	(3,697)	(3,962)	(3,632)
Net cash provided by operating activities	176,739	121,101	85,337
Cash flows from investing activities:			
Acquisitions of real estate	(153,579)	(461,330)	(771,479)
Origination and fundings of loans receivable	(9,675)	(49,687)	(66,397)
Origination and fundings of preferred equity investments	(7,348)	(12,804)	(15,486)
Additions to real estate	(1,003)	(3,689)	(1,471)
Repayment of loans receivable	215,962	5,803	1,097
Release of contingent consideration held in escrow	—	5,240	—
Net proceeds from sale of real estate	98,006	27,241	27,264
Net cash provided by (used in) investing activities	142,363	(489,226)	(826,472)
Cash flows from financing activities:			
Proceeds from issuance of senior unsecured notes	—	—	499,250
Principal payments on senior unsecured notes	—	—	(211,250)
Net (repayments of) proceeds from revolving credit facility	(229,000)	187,000	132,500
Proceeds from term loan	69,360	73,242	—
Proceeds from mortgage notes	—	28,735	57,703
Principal payments on mortgage notes	(14,768)	(3,132)	(89,110)
Payments of deferred financing costs	(5,937)	(1,452)	(19,131)
Contributions by noncontrolling interests	—	179	—
Issuance of common stock, net	(1,289)	139,403	510,147
Dividends paid on common and preferred stock	(119,264)	(109,897)	(81,489)
Net cash (used in) provided by financing activities	(300,898)	314,078	798,620
Net increase (decrease) in cash and cash equivalents	18,204	(54,047)	57,485
Effect of foreign currency translation on cash and cash equivalents	25	(312)	—
Cash and cash equivalents, beginning of period	7,434	61,793	4,308

Cash and cash equivalents, end of period	$25,663	$7,434	$61,793
Supplemental disclosure of cash flow information:			
Interest paid	$59,234	$53,875	$34,468
Supplemental disclosure of non-cash investing and financing activities:			
Assumption of mortgage indebtedness	$—	$30,456	$14,102
Increase in real estate investments due to variable interest consolidation	$—	$10,700	$—
Real estate acquired through loan receivable foreclosure	$10,100	$—	$—
Decrease in loans receivable and preferred equity due to variable interest consolidation	$—	$(8,615)	$—
Repayment of preferred equity investments	$—	$—	$6,949
Decrease in loans receivables/increase in real estate	$—	$—	$16,832

See accompanying notes to consolidated financial statements.

SABRA HEALTH CARE REIT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.BUSINESS

Overview

Sabra Health Care REIT, Inc. (“Sabra” or the “Company”) was incorporated on May 10, 2010 as a wholly owned subsidiary of Sun Healthcare Group, Inc. (“Sun”) and commenced operations on November 15, 2010 following Sabra's separation from Sun (the “Separation Date”). Sabra elected to be treated as a real estate investment trust (“REIT”) with the filing of its U.S. federal income tax return for the taxable year beginning January 1, 2011. Sabra believes that it has been organized and operated, and it intends to continue to operate, in a manner to qualify as a REIT. Sabra’s primary business consists of acquiring, financing and owning real estate property to be leased to third party tenants in the healthcare sector. Sabra primarily generates revenues by leasing properties to tenants and operators throughout the United States and Canada. Sabra owns substantially all of its assets and properties and conducts its operations through Sabra Health Care Limited Partnership, a Delaware limited partnership (the “Operating Partnership”), of which Sabra is the sole general partner and Sabra's wholly owned subsidiaries are currently the only limited partners, or by subsidiaries of the Operating Partnership. The Company’s investment portfolio is primarily comprised of skilled nursing/transitional care facilities, senior housing facilities, an acute care hospital, investments in loans receivable and preferred equity investments.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Sabra and its wholly owned subsidiaries as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014. All material intercompany transactions and balances have been eliminated in consolidation. The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

GAAP requires the Company to identify entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of variable interest entities (“VIEs”). A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity's activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. If the Company were determined to be the primary beneficiary of the VIE, the Company would consolidate investments in the VIE. The Company may change its original assessment of a VIE due to events such as modifications of contractual arrangements that affect the characteristics or adequacy of the entity's equity investments at risk and the disposal of all or a portion of an interest held by the primary beneficiary.

The Company identifies the primary beneficiary of a VIE as the enterprise that has both: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could be significant to the entity. The Company performs this analysis on an ongoing basis.

As of December 31, 2016, the Company determined it was the primary beneficiary of two variable interest entities–a senior housing facility and an exchange accommodation titleholder variable interest entity–and has consolidated the operations of these entities in the accompanying consolidated financial statements. As of December 31, 2016, the Company determined that operations of the entities were not material to the Company’s results of operations, financial condition or cash flows.

As it relates to investments in loans, in addition to the Company's assessment of VIEs and whether the Company is the primary beneficiary of those VIEs, the Company evaluates the loan terms and other pertinent facts to determine if the loan investment should be accounted for as a loan or as a real estate joint venture. If an investment has the characteristics of a real estate joint venture, including if the Company participates in the majority of the borrower's expected residual profit, the Company would account for the investment as an investment in a real estate joint venture and not as a loan investment. Expected residual profit is defined as the amount of profit, whether called interest or another name, such as an equity kicker, above a reasonable amount of interest and fees expected to be earned by a lender. At December 31, 2016 and 2015, none of the Company's investments in loans are accounted for as real estate joint ventures.

As it relates to investments in joint ventures, based on the type of rights held by the limited partner(s), GAAP may preclude consolidation by the sole general partner in certain circumstances in which the general partner would otherwise consolidate the joint venture. The Company assesses limited partners' rights and their impact on the presumption of control of the limited partnership by the sole general partner when an investor becomes the sole general partner, and the Company reassesses if: there is a change to the terms or in the exercisability of the rights of the limited partners; the sole general partner increases or decreases its ownership of limited partnership interests; or there is an increase or decrease in the number of outstanding limited partnership interests. The Company also applies this guidance to managing member interests in limited liability companies.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

Reclassifications

Certain amounts in the Company’s consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods. As a result, certain reclassifications were made to the consolidated balance sheets and consolidated statements of income. As of December 31, 2015, there was $17.3 million of deferred financing costs related to the Company's mortgage notes, term loans and senior unsecured notes that was previously reported within “prepaid expenses, deferred financing costs and other assets, net” that was reclassified in accordance with Accounting Standards Update ("ASU") 2015-03 to their respective debt liability financial statement line items on the Company’s consolidated balance sheets.

Real Estate Investments and Rental Revenue Recognition

Real Estate Acquisition Valuation

All assets acquired and liabilities assumed in an acquisition of real estate are measured at their acquisition date fair values. The acquisition value of land, building and improvements are included in real estate investments on the accompanying consolidated balance sheets. The acquisition value of tenant relationship and origination and absorption intangible assets are included in prepaid expenses, deferred financing costs and other assets in the accompanying consolidated balance sheets. Acquisition pursuit costs associated with business combinations are expensed as incurred and costs associated with asset acquisitions are capitalized. On October 1, 2016, the Company early adopted ASU 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as businesses acquisitions. (See “Recently Issued Accounting Standards Update” below for further information). As a result of early adopting ASU 2017-01, real estate acquisitions completed subsequent to October 1, 2016 did not meet the definition of a business combination and were deemed asset acquisitions, and the Company capitalized $0.3 million of acquisition pursuit costs associated with these acquisitions. Real estate acquisitions completed prior to October 1, 2016 were deemed business combinations and the related acquisition pursuit costs were expensed as incurred. Restructuring costs that do not meet the definition of a liability at the acquisition date are expensed in periods subsequent to the acquisition date. During the years ended December 31, 2016, 2015 and 2014, the Company acquired seven, 24, and 42 real estate properties, respectively, and expensed $1.2 million, $7.0 million and $3.1 million of acquisition pursuit costs, respectively, which is included in general and administrative expense on the accompanying consolidated statements of income.

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities require the Company to make significant assumptions to estimate market lease rates, property operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property will be held for investment. The Company makes its best estimate based on the evaluation of the specific characteristics of each tenant's lease. The use of inappropriate assumptions would result in an incorrect valuation of the Company’s acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of the Company’s net income.

Depreciation and Amortization

Real estate costs related to the acquisition and improvement of properties are capitalized and amortized on a straight-line basis over the lesser of the expected useful life of the asset and the remaining lease term of any property subject to a ground lease. Tenant improvements are capitalized and amortized on a straight-line basis over the lesser of the expected useful life of the asset and the remaining lease term. Depreciation is discontinued when a property is identified as held for sale. Repair and maintenance costs are charged to expense as incurred and significant replacements and betterments are capitalized. Repair and maintenance costs include all costs that do not extend the useful life of the real estate asset. The Company considers the period of future benefit of an asset to determine its appropriate useful life. Depreciation of real estate assets and amortization of lease intangibles are included in depreciation and amortization in the accompanying consolidated statements of income. The Company anticipates the estimated useful lives of its assets by class to be generally as follows: land improvements, 3 to 40 years; buildings and building improvements, 3 to 40 years; and furniture and equipment, 1 to 20 years.

Impairment of Real Estate Investments

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of its real estate investments may not be recoverable or realized. When indicators of potential impairment suggest that the carrying value of real estate investments may not be recoverable, the Company assesses the recoverability by estimating whether the Company will recover the carrying value of its real estate investments through its undiscounted future cash flows and the eventual disposition of the investment. In some instances, there may be various potential outcomes for an investment and its potential future cash flows. In these instances, the undiscounted future cash flows used to assess recoverability are probability-weighted based on the Company's best estimates as of the date of evaluation. If, based on this analysis, the Company does not believe that it will be able to recover the carrying value of its real estate investments, the Company would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of its real estate investments. During the year ended December 31, 2016, the Company recorded an impairment loss of $29.8 million related to the Company's Forest Park - Frisco real estate investment. This facility was subsequently disposed of during the year ended December 31, 2016. The Company did not record any impairment losses on its real estate investments during the years ended December 31, 2015 or 2014.

Rental Revenue Recognition

The Company recognizes rental revenue from tenants, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured.

The Company makes estimates of the collectability of its tenant receivables related to base rents, straight-line rent and other revenues. When the Company analyzes accounts receivable and evaluates the adequacy of the allowance for doubtful accounts, it considers such things as historical bad debts, tenant creditworthiness, current economic trends, facility operating performance, lease structure, credit enhancements (including guarantees), current developments relevant to a tenant’s business specifically and to its business category generally, and changes in tenants’ payment patterns. Specifically for straight-line rent receivables, the Company's assessment includes an estimation of a tenant's ability to fulfill its rental obligations over the remaining lease term. In addition, with respect to tenants in bankruptcy, management makes estimates of the expected recovery of pre-petition and post-petition claims in assessing the estimated collectability of the related receivable. When a tenant is in bankruptcy, the Company records a provision for doubtful accounts for management’s estimate of the tenant’s receivable balance that is uncollectible and generally will not recognize subsequent rental revenue until cash is received or until the tenant is no longer in bankruptcy and has the ability to make rental payments. The Company's collectability estimates for straight-line rent receivables include an assessment at the individual or master lease level as well as at an overall portfolio level.

Assets Held for Sale and Discontinued Operations

The Company generally considers real estate to be “held for sale” when the following criteria are met: (i) management commits to a plan to sell the property, (ii) the property is available for sale immediately, (iii) the property is actively being marketed for sale at a price that is reasonable in relation to its current fair value, (iv) the sale of the property within one year is considered probable and (v) significant changes to the plan to sell are not expected. Real estate that is held for sale and its related assets are classified as “assets held for sale” for all periods presented in the accompanying consolidated financial statements. Mortgage notes payable and other liabilities related to real estate held for sale are classified as “liabilities related to assets held for sale” for all periods presented in the accompanying consolidated financial statements. Real estate classified as held for sale is no longer depreciated and is reported at the lower of its carrying value or its estimated fair value less estimated costs to sell. As of December 31, 2016 and 2015, the Company did not have any assets held for sale.

Additionally, the Company records the operating results related to real estate that has been disposed of or classified as held for sale as discontinued operations for all periods presented if it represents a strategic shift that has or will have a major effect on the Company's operations and financial results.

Loans Receivable and Interest Income

Loans Receivable

The Company’s loans receivable are recorded at amortized cost on the accompanying consolidated balance sheets. The amortized cost of a loan receivable is the outstanding unpaid principal balance, net of unamortized costs and fees directly associated with the origination of the loan.

On a quarterly basis the Company evaluates the collectability of its loan portfolio, including related interest income receivable, and establishes a reserve for loan losses. The Company's evaluation includes reviewing credit quality indicators such as payment status, changes affecting the underlying real estate collateral (for collateral dependent loans), changes affecting the operations of the facilities securing the loans, and national and regional economic factors. The reserve for loan losses is a valuation allowance that reflects management’s estimate of loan losses inherent in the loan portfolio as of the balance sheet date. The reserve is adjusted through “Provision for doubtful accounts and loan losses” on the Company's consolidated statements of income and is decreased by charge-offs to specific loans when losses are confirmed. The reserve for loan losses includes an asset-specific component and a portfolio-based component.

An asset-specific reserve relates to reserves for losses on loans considered impaired and interest income receivable that is deemed uncollectible. The Company considers a loan to be impaired when, based upon current information and events, management believes that it is probable that the Company will be unable to collect all amounts due under the contractual terms of the loan agreement resulting from the borrower’s failure to repay contractual amounts due, the granting of a concession by the Company or the expectation that the Company will receive assets with fair values less than the carrying value of the loan in satisfaction of the loan. If a loan is considered to be impaired, a reserve is established when the carrying value of that loan is greater than the present value of payments expected to be received, the observable market prices for similar instruments, the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) or other amounts expected to be received in satisfaction of the loan.

A portfolio-based reserve covers the pool of loans that do not have asset-specific reserves. A provision for loan losses is recorded when available information as of each balance sheet date indicates that it is probable that a loss occurred in the pool of loans and the amount of the loss can be reasonably estimated, but the Company does not know which specific loans within the pool will ultimately result in losses. The required reserve balances for this pool of loans is derived based on estimated probabilities of default and estimated loss severities assuming a default occurs.

Interest Income

Interest income on the Company’s loans receivable is recognized on an accrual basis over the life of the investment using the interest method. Direct loan origination costs are amortized over the term of the loan as an adjustment to interest income. When concerns exist as to the ultimate collection of principal or interest due under a loan, the loan is placed on nonaccrual status and the Company will not recognize interest income until the cash is received, or the loan returns to accrual status. If the Company determines that the collection of interest according to the contractual terms of the loan or through the receipts of assets in satisfaction of contractual amounts due is probable, the Company will resume the accrual of interest. In instances where borrowers are in default under the terms of their loans, the Company may continue recognizing interest income provided that all amounts owed under the contractual terms of the loan, including accrued and unpaid interest, do not exceed the estimated fair value of the collateral, less costs to sell.

Preferred Equity Investments and Preferred Return

Preferred equity investments are accounted for at unreturned capital contributions, plus accrued and unpaid preferred returns. The Company recognizes preferred return income on a monthly basis based on the outstanding investment including any previously accrued and unpaid return. As a preferred member of the joint venture, the Company is not entitled to share in the joint venture’s earnings or losses. Rather, the Company is entitled to receive a preferred return, which is deferred if the cash flow of the joint venture is insufficient to currently pay the accrued preferred return.

Cash and Cash Equivalents

The Company considers all short-term (with an original maturity of three months or less), highly-liquid investments utilized as part of the Company’s cash-management activities to be cash equivalents. Cash equivalents may include cash and short-term investments. Short-term investments are stated at cost, which approximates fair value.

The Company’s cash and cash equivalents balance exceeded federally insurable limits as of December 31, 2016. To date, the Company has experienced no loss or lack of access to cash in its operating accounts. The Company has a corporate banking relationship with Bank of America, N.A. in which it deposits the majority of all funds.

Restricted Cash

Restricted cash primarily consists of amounts held by mortgage lenders to provide for future real estate tax expenditures, tenant improvements and capital expenditures. Pursuant to the terms of the Company’s leases with certain tenants, the Company has assigned its interests in certain of these restricted cash accounts to the tenants and this amount is included in accounts payable and accrued liabilities on the Company’s consolidated balance sheets. As of December 31, 2016 and 2015, restricted cash totaled $9.0 million and $9.8 million, respectively, and restricted cash obligations totaled $6.8 million and $5.0 million, respectively.

Stock-Based Compensation

Stock-based compensation expense for stock-based awards granted to Sabra’s employees and its non-employee directors are recognized in the statements of income based on their estimated grant date fair value, as adjusted. Compensation expense for awards with graded vesting schedules is generally recognized ratably over the period from the grant date to the date when the award is no longer contingent on the employee providing additional services. Compensation expense for awards with performance-based vesting conditions is recognized based on the Company's estimate of the ultimate value of such award after considering the Company's expectations of future performance.

Deferred Financing Costs

Deferred financing costs representing fees paid to third parties to obtain financing are amortized over the terms of the respective financing agreements using the interest method. Unamortized deferred financing costs are generally expensed when the associated debt is refinanced or repaid before maturity. Costs incurred in seeking financings that do not close are expensed in the period in which it is determined that the financing will not close.

Income Taxes

The Company elected to be treated as a REIT with the filing of its U.S. federal income tax return for the taxable year beginning January 1, 2011. The Company believes that it has been organized and operated, and it intends to continue to operate, in a manner to qualify as a REIT. To qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the Company’s annual REIT taxable income to stockholders (which is computed without regard to the dividends-paid deduction or net capital gains and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax on income that it distributes as dividends to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the Internal Revenue Service grants the Company relief under certain statutory provisions. Such an event could materially and adversely affect the Company’s net income and net cash available for distribution to stockholders. However, the Company believes that it is organized and operates in such a manner as to qualify for treatment as a REIT.

As a result of certain acquisitions, the Company now records income tax expense or benefit with respect to certain of its entities that are taxed as taxable REIT subsidiaries under provisions similar to those applicable to regular corporations and not under the REIT provisions.

The Company accounts for deferred income taxes using the asset and liability method and recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the Company's financial statements or tax returns. Under this method, the Company determines deferred tax assets and liabilities based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Any increase or decrease in the deferred tax liability that results from a change in circumstances, and that causes a change in the Company's judgment about expected future tax consequences of events, is included in the tax provision when such changes occur. Deferred income taxes also reflect the impact of operating loss and tax credit carryforwards. A valuation allowance is provided if the Company believes it is more likely than not that all or some portion of the deferred tax asset will not be realized. Any increase or decrease in the valuation allowance that results from a change in circumstances, and that causes a change in the Company's judgment about the realizability of the related deferred tax asset, is included in the tax provision when such changes occur.

The Company evaluates its tax positions using a two step approach: step one (recognition) occurs when a company concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination and step two (measurement) is only addressed if step one has been satisfied (i.e., the position is more likely than not to be sustained). Under step two, the tax benefit is measured as the largest amount of benefit (determined on a cumulative probability basis) that is more likely than not to be realized upon ultimate settlement. The Company will recognize tax penalties relating to unrecognized tax benefits as additional tax expense.

Foreign Currency

Certain of the Company's subsidiaries' functional currencies are the local currencies of their respective foreign jurisdictions. The Company translates the results of operations of its foreign subsidiaries into U.S. dollars using average rates of exchange in effect during the period presented, and it translates balance sheet accounts using exchange rates in effect at the end of the period presented. The Company records resulting currency translation adjustments in accumulated other comprehensive income, a component of stockholders' equity, on its consolidated balance sheets, and it records foreign currency transaction gains and losses as a component of interest and other income on its consolidated statements of income.

Derivative Instruments

The Company uses certain types of derivative instruments for the purpose of managing interest rate and currency risk. To qualify for hedge accounting, derivative instruments used for risk management purposes must effectively reduce the risk exposure that they are designed to hedge. In addition, at inception the Company must make an assessment that the transaction that the Company intends to hedge is probable of occurring and this assessment must be updated each reporting period.

The Company recognizes all derivative instruments as assets or liabilities in the consolidated balance sheets at their fair value. For derivatives designated and qualified as a hedge, the change in fair value of the effective portion of the derivatives is recognized in accumulated other comprehensive income (loss), whereas the change in fair value of the ineffective portion is recognized in earnings. Changes in the fair value of derivative instruments that are not designated in hedging relationships or that do not meet the criteria for hedge accounting would be recognized in earnings. As of December 31, 2016, all of the Company's derivative instruments met the criteria for hedge accounting.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. This process includes designating all derivatives that are part of a hedging relationship to specific transactions as well as recognizing obligations or assets in the consolidated balance sheets. The Company also assesses and documents, both at inception of the hedging relationship and on a quarterly basis thereafter, whether the derivatives are highly effective in offsetting the designated risks associated with the respective hedged items. If it is determined that a derivative ceases to be highly effective as a hedge, or that it is probable the underlying transaction will not occur, the Company would discontinue hedge accounting prospectively and record the appropriate adjustment to earnings based on the then-current fair value of the derivative.

Fair Value Measurements

Under GAAP, the Company is required to measure certain financial instruments at fair value on a recurring basis. In addition, the Company is required to measure other financial instruments and balances at fair value on a non-recurring basis (e.g., carrying value of impaired real estate loans receivable and long-lived assets). Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

When available, the Company utilizes quoted market prices from an independent third-party source to determine fair value and classifies such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require the Company to make a significant adjustment to derive a fair value measurement. Additionally, in an inactive market, a market price quoted from an independent third party may rely more on models with inputs based on information available only to that independent third party. When the Company determines the market for a financial instrument owned by the Company to be illiquid or when market transactions for similar instruments do not appear orderly, the Company may use several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) to establish a fair value. If more than one valuation source is used, the Company will assign weights to the various valuation sources. Additionally, when determining the fair value of liabilities in circumstances in which a quoted price in an active market for an identical liability is not available, the Company measures fair value using (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach.

Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

The Company considers the following factors to be indicators of an inactive market: (i) there are few recent transactions, (ii) price quotations are not based on current information, (iii) price quotations vary substantially either over time or among market makers (for example, some brokered markets), (iv) indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability, (v) there is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the Company's estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability, (vi) there is a wide bid-ask spread or significant increase in the bid-ask spread, (vii) there is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities, and (viii) little information is released publicly (for example, a principal-to-principal market).

The Company considers the following factors to be indicators of non-orderly transactions: (i) there was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions, (ii) there was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant, (iii) the seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced), and (iv) the transaction price is an outlier when compared with other recent transactions for the same or similar assets or liabilities.

Per Share Data

Basic earnings per common share is computed by dividing net income applicable to common stockholders by the weighted average number of shares of common stock and common equivalents outstanding during the period. Diluted earnings per common share is calculated by including the effect of dilutive securities. See Note 14, "Earnings Per Common Share," to the Consolidated Financial Statements.

Industry Segments

The Company has one reportable segment consisting of investments in healthcare-related real estate properties.

Beds, Units and Other Measures

The number of beds, units and other measures used to describe the Company's real estate investments included in the Notes to Consolidated Financial Statements are presented on an unaudited basis.

Recently Issued Accounting Standards Update

In January 2016, the FASB issued ASU 2016-01, Financial Instruments–Overall (Subtopic 825-10) ("ASU 2016-01"). ASU 2016-01 updates guidance related to recognition and measurement of financial assets and financial liabilities. ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in ASU 2016-01 also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in ASU 2016-01 eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. ASU 2016-01 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements when adopted.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 supersedes guidance related to accounting for leases. ASU 2016-02 updates guidance around the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The objective of ASU 2016-02 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. ASU 2016-02 does not fundamentally change lessor accounting, however, some changes have been made to lessor accounting to conform and align that guidance with the lessee guidance and other areas within GAAP. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements when adopted.

In March 2016, the FASB issued ASU 2016-07, Equity Method and Joint Ventures (Topic 323) (“ASU 2016-07”). ASU 2016-07 simplifies the accounting for equity method investments. ASU 2016-07 eliminates the requirement in Topic 323 that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The Company adopted ASU 2016-07 on January 1, 2017. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. In addition, the amendments in ASU 2016-09 eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. The Company adopted ASU 2016-09 on January 1, 2017. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements.

Between May 2014 and May 2016, the FASB issued three ASUs changing the requirements for recognizing and reporting revenue (together, herein referred to as the “Revenue ASUs”): (i) ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), (ii) ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (“ASU 2016-08”) and (iii) ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”). ASU 2014-09 provides guidance for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2016-08 is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. ASU 2016-12 provides practical expedients and improvements on the previously narrow scope of ASU 2014-09. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (“ASU 2015-14”). ASU 2015-14 defers the effective date of ASU 2014-09 by one year to fiscal years, and interim periods within, beginning after December 15, 2017. All subsequent ASUs related to ASU 2014-09, including ASU 2016-08 and ASU 2016-12, assumed the deferred effective date enforced by ASU 2015-14. Early adoption of the Revenue ASUs is permitted for annual periods, and interim periods within, beginning after December 15, 2016. A reporting entity may apply the amendments in the Revenue ASUs using either a modified retrospective approach, by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or full retrospective approach. The Company is evaluating the complete impact of the adoption of the Revenue ASUs on January 1, 2018 to its consolidated financial position and results of operations. As the primary source of revenue for the Company is generated through leasing arrangements, which are excluded from the Revenue ASUs, the Company expects that the impact of the Revenue ASUs to the Company will be limited to the recognition of non-lease revenue, such as certain resident fees in its Managed Properties structures (a portion of which are not generated through leasing arrangements) and therefore are not expected to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires that a financial asset (or a group of financial assets) measured at amortized cost basis be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in ASU 2016-13 are an improvement because they eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses. Previously, when credit losses were measured under GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss. ASU 2016-13 is effective for fiscal years and interim periods within those years beginning after December 15, 2019, with early adoption permitted as of the fiscal years beginning after December 15, 2018. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company is currently evaluating the impact this guidance will have on its consolidated financial statements when adopted.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). ASU 2016-15 provides specific guidance on the following eight specific cash flow classification issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 will reduce the current and potential future diversity in practice of cash flow classifications. ASU 2016-15 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements when adopted.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, 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 amendments in ASU 2016-18 apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. ASU 2016-18 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of ASU 2016-18 to have a material impact to its consolidated statements of cash flows as the Company does not have material restricted cash activity.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the definition of a business (“ASU 2017-01”). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. When substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. To be a business without outputs, there will now need to be an organized workforce. ASU 2017-01 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2017-01 on October 1, 2016 on a prospective basis. The Company expects that the majority of its future acquisitions of real estate will be accounted for as asset acquisitions under the new guidance. This adoption will impact how the Company accounts for acquisition pursuit costs and contingent consideration which may result in lower expensed acquisition pursuit costs and eliminate fair value adjustments related to future contingent consideration arrangements.

3. RECENT REAL ESTATE ACQUISITIONS

During the year ended December 31, 2016, the Company acquired one skilled nursing/transitional care facility and six senior housing facilities. During the year ended December 31, 2015, the Company acquired four skilled nursing/transitional care facilities and 20 senior housing facilities. The consideration was allocated as follows (in thousands):

	Year Ended December 31,	
	2016	2015
Land	$7,755	$32,336
Building and Improvements	143,027	449,789
Tenant Origination and Absorption Costs	2,202	7,556

Tenant Relationship	642	2,106
Total Consideration	$153,626	$491,787

The tenant origination and absorption costs intangible assets and tenant relationship intangible assets acquired in connection with these acquisitions have weighted-average amortization periods as of the date of acquisition of 15 years and 25 years, respectively.

For the year ended December 31, 2016, the Company recognized $4.6 million and $2.2 million of total revenues and net income attributable to common stockholders, respectively, from the properties acquired during the year ended December 31, 2016. Net income attributable to common stockholders for the year ended December 31, 2016 includes expensed acquisition pursuit costs of $1.1 million related to acquisitions accounted for as business combinations. For the year ended December 31, 2015, the Company recognized $17.6 million and $5.3 million of total revenues and net income attributable to common stockholders, respectively, from the properties acquired during the year ended December 31, 2015. Net income attributable to common stockholders for the year ended December 31, 2015 includes expensed acquisition pursuit costs of $6.7 million.

On June 11, 2015, the Company acquired nine senior housing facilities with a total of 865 units located in British Columbia and Ontario, Canada (the “Canadian Portfolio”) for a purchase price of CAD $170.5 million (U.S. $138.8 million). Concurrently with the acquisition, the Company entered into a triple-net master lease agreement with an affiliate of Senior Lifestyle Corporation. The master lease has an initial term of 10 years with two five-year renewal options with annual rent increases of 4.0% in years two and three and the greater of 3.0% or the Canadian Consumer Price Index ("CPI") during the remainder of the lease term. The master lease is expected to generate annual lease revenues determined in accordance with GAAP of CAD $11.9 million. In connection with the acquisition of the Canadian Portfolio, the Company assumed three existing mortgage loans with then outstanding principal amounts totaling CAD $24.2 million.

On June 30, 2015, the Company acquired three skilled nursing facilities for a purchase price of $175.5 million. On November 25, 2015, the Company acquired another skilled nursing facility for a purchase price of $58.9 million. Each of these facilities specializes in transitional care and medically complex post-surgical, ventilator and dialysis patients, and the facilities have a total of 678 licensed beds located in Maryland. Each of these facilities is operated by the same operator. Concurrently with the acquisition of the three skilled nursing facilities on June 30, 2015, the Company entered into a triple-net master lease agreement with the operator of these facilities. This master lease has an initial term of 15 years with two 10-year renewal options and annual rent escalators equal to the greater of 2.50% or CPI, but not to exceed 2.75%. In connection with its November 25, 2015 acquisition of the skilled nursing facility for $58.9 million, the Company assumed one U.S. Department of Housing and Urban Development ("HUD") insured mortgage with an outstanding principal balance of $10.8 million, having an annual interest rate of 5.60%. The mortgage note was subsequently repaid during the twelve months ended December 31, 2016. This skilled nursing facility is also being operated by the same operator that operates the three skilled nursing facilities acquired by the Company on June 30, 2015. The Company has been advised by the sellers of each of these four skilled nursing facilities that prior to the sales of these facilities to the Company, no entity or group of entities, or individual or group of individuals, controlled or jointly controlled all four facilities, and no individual or group managed all four facilities.

4. REAL ESTATE PROPERTIES HELD FOR INVESTMENT

The Company's real estate properties held for investment consisted of the following (dollars in thousands):

As of December 31, 2016

Property Type	Number of Properties	Number of Beds/Units	Total Real Estate at Cost	Accumulated Depreciation	Total Real Estate Investments, Net
Skilled Nursing/Transitional Care	97	10,819	$ 1,042,754	$ (190,038)	$ 852,716
Senior Housing	85	7,989	1,187,951	(82,131)	1,105,820
Acute Care Hospital	1	70	61,640	(10,387)	51,253
	183	18,878	2,292,345	(282,556)	2,009,789
Corporate Level			406	(256)	150
			$ 2,292,751	$ (282,812)	$ 2,009,939

As of December 31, 2015

Property Type	Number of Properties	Number of Beds/Units	Total Real Estate at Cost	Accumulated Depreciation	Total Real Estate Investments, Net
Skilled Nursing/Transitional Care	100	11,012	$ 1,029,291	$ (167,968)	$ 861,323
Senior Housing	78	7,213	1,072,060	(52,494)	1,019,566
Acute Care Hospitals	2	124	175,807	(17,127)	158,680
	180	18,349	2,277,158	(237,589)	2,039,569
Corporate Level			299	(252)	47
			$ 2,277,457	$ (237,841)	$ 2,039,616

	December 31, 2016	December 31, 2015
Building and improvements	$ 1,983,769	$ 1,954,129
Furniture and equipment	85,196	97,840
Land improvements	3,744	3,594
Land	220,042	221,894
	2,292,751	2,277,457
Accumulated depreciation	(282,812)	(237,841)
	$ 2,009,939	$ 2,039,616

Contingent Consideration Arrangements

In connection with four of its real estate acquisitions, the Company entered into contingent consideration arrangements. Under the contingent consideration arrangements, the Company may pay out additional amounts based on incremental value created through the improvement of operations of the acquired facility (a contingent consideration liability) or may be entitled to receive a portion of the original purchase price of the acquired facility if the facility does not meet certain performance hurdles (a contingent consideration asset). The estimated value of the contingent consideration liabilities at the time of purchase was $3.2 million. The estimated value of the contingent consideration asset at the time of purchase was $0. The contingent consideration amounts would be determined based on facility performance and the facilities achieving certain performance hurdles during 2016 through 2018. To determine the value of the contingent consideration, the Company used significant inputs not observable in the market to estimate the contingent consideration, made assumptions regarding the probability of the facilities achieving the incremental value and then applied an appropriate discount rate. As of December 31, 2016, based on the potential future performance of these facilities, the contingent consideration liabilities had an estimated value of $0.8 million, which amount is included in accounts payable in the accompanying consolidated balance sheets, and the contingent consideration asset was determined to have a value of $0. During the year ended December 31, 2016, the Company recorded an adjustment to decrease the contingent consideration arrangements by $1.5 million and included this amount in other income (expense) on the accompanying consolidated statements of income.

Operating Leases

As of December 31, 2016, nearly all of the Company’s real estate properties held for investment were leased under triple-net operating leases with expirations ranging from four to 16 years. As of December 31, 2016, the leases had a weighted-average remaining term of over nine years. The leases include provisions to extend the lease terms and other negotiated terms and conditions. The Company, through its subsidiaries, retains substantially all of the risks and benefits of ownership of the real estate assets leased to the tenants. In addition, the Company may receive additional security under these operating leases in the form of letters of credit and security deposits from the lessee or guarantees from the parent of the lessee. Security deposits received in cash related to tenant leases are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets and totaled $2.7 million and $1.3 million as of December 31, 2016 and 2015, respectively. As of December 31, 2016, the Company had a $3.2 million reserve for unpaid cash rents and a $3.7 million reserve associated with accumulated straight-line rental income. As of December 31, 2015, the Company had a $3.5 million reserve for unpaid cash rents and a $5.3 million reserve associated with accumulated straight-line rental income. As of December 31, 2016, the Company's three largest tenants, Genesis Healthcare, Inc. ("Genesis"), certain wholly owned subsidiaries of Holiday AL Holdings LP (collectively, "Holiday") and NMS Healthcare, represented 32.3%, 16.2%, and 12.4%, respectively, of the Company's annualized revenues. Other than these three tenants, none of the Company's tenants individually represented 10% or more of the Company's annualized revenues as of December 31, 2016.

The Company has entered into memoranda of understanding with Genesis to market for sale 35 skilled nursing facilities and make certain other lease and corporate guarantee amendments for the remaining 43 facilities leased to Genesis. Marketing of these 35 facilities is ongoing and is expected to be completed over the next several quarters; provided, however that there can be no assurances that the Company will successfully complete these sales on the terms or timing contemplated by the memoranda or understanding, or at all.

The Company monitors the creditworthiness of its tenants by reviewing credit ratings (if available) and evaluating the ability of the tenants to meet their lease obligations to the Company based on the tenants’ financial performance, including the evaluation of any parent guarantees (or the guarantees of other related parties) of tenant lease obligations. Because formal credit ratings may not be available for most of the Company’s tenants, the primary basis for the Company’s evaluation of the credit quality of its tenants (and more specifically the tenants’ ability to pay their rent obligations to the Company) is the tenants’ lease coverage ratios. These coverage ratios include earnings before interest, taxes, depreciation, amortization and rent (“EBITDAR”) to rent coverage and earnings before interest, taxes, depreciation, amortization, rent and management fees (“EBITDARM”) to rent coverage at the lease level and consolidated EBITDAR to total fixed charge coverage at the parent guarantor level when such a guarantee exists. The Company obtains various financial and operational information from its tenants each month and reviews this information in conjunction with the above-described coverage metrics to identify financial and operational trends, evaluate the impact of the industry's operational and financial environment (including the impact of government reimbursement), and evaluate the management of the tenant’s operations. These metrics help the Company identify potential areas of concern relative to its tenants’ credit quality and ultimately the tenants’ ability to generate sufficient liquidity to meet its obligations, including its obligation to continue to pay the rent due to the Company.

As of December 31, 2016, the future minimum rental payments from the Company’s properties under non-cancelable operating leases was as follows (in thousands):

2017	$214,701
2018	220,677
2019	227,049
2020	233,275
2021	203,442
Thereafter	1,145,204
	$2,244,348

5. DISPOSITIONS

2016 Dispositions

During the year ended December 31, 2016, the Company completed the sale of four skilled nursing/transitional care facilities, one acute care hospital, and one parcel of land for aggregate consideration of $98.0 million after selling expenses of

$2.7 million. The net carrying value of the assets and liabilities of these facilities, after the impairment loss of $29.8 million recognized in relation to the acute care hospital, was $104.1 million, resulting in an aggregate $6.1 million loss on sale.
Excluding the net loss on sale and real estate impairment, the Company recognized $0.7 million of net income, $2.3 million of net loss and $13.3 million of net income from these facilities during the years ended December 31, 2016, 2015 and 2014, respectively. The sales of these facilities do not represent a strategic shift that has or will have a major effect on the Company's operations and financial results and therefore the results of operations attributable to these facilities have remained in continuing operations.
2015 Dispositions
During the year ended December 31, 2015, the Company completed the sale of five skilled nursing/transitional care facilities for aggregate consideration of $27.2 million after selling expenses of $0.5 million. The carrying values of the assets and liabilities of these facilities was $27.4 million, which resulted in a $0.2 million loss. During the years ended December 31, 2015 and 2014 the Company recognized $1.8 million (excluding the net loss on sale) and $2.3 million of net income, respectively, from these facilities.

6. TENANT ORIGINATION AND ABSORPTION COSTS AND TENANT RELATIONSHIP ASSETS
As of December 31, 2016 and 2015, the Company's tenant origination and absorption costs and tenant relationship assets were as follows (in thousands):

	Tenant Origination and Absorption Costs		Tenant Relationship	
	December 31,			
	2016	2015	2016	2015
Cost	$23,987	$24,492	$7,430	$7,269
Accumulated amortization	(4,432)	(4,215)	(735)	(679)
Net amount	$19,555	$20,277	$6,695	$6,590

Decreases in net income as a result of amortization of the Company's tenant origination and absorption costs and tenant relationship assets for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Tenant Origination and Absorption Costs			Tenant Relationship		
	For the Year Ended December 31,					
	2016	2015	2014	2016	2015	2014
Amortization	$(2,705)	$(2,729)	$(1,109)	$(477)	$(466)	$(192)

The remaining unamortized balance for these outstanding intangible assets and liabilities as of December 31, 2016 will be amortized for the years ending December 31 as follows (dollars in thousands):

	Tenant Origination and Absorption Costs	Tenant Relationship
2017	$ 1,868	$ 326
2018	1,868	326
2019	1,868	326
2020	1,868	326
2021	1,868	326
Thereafter	10,215	5,065

	$ 19,555	$ 6,695
Weighted-Average Remaining Amortization Period	13.4 years	23.1 years

7. LOANS RECEIVABLE AND OTHER INVESTMENTS

As of December 31, 2016 and 2015, the Company’s loans receivable and other investments consisted of the following (dollars in thousands):

						December 31, 2016		
Investment	Quantity as of December 31, 2016	Facility Type	Principal Balance as of December 31, 2016 (1)	Book Value as of December 31, 2016	Book Value as of December 31, 2015	Weighted Average Contractual Interest Rate / Rate of Return	Weighted Average Annualized Effective Interest Rate / Rate of Return	Maturity Date as of December 31, 2016
Loans Receivable:								
Mortgage	4	Skilled Nursing / Senior Housing	$ 38,231	$ 38,262	$ 166,277	9.1 %	8.9 %	11/07/16 - 04/30/18
Construction	1	Senior Housing	795	842	75,201	8.0 %	7.7 %	03/31/21
Mezzanine	1	Senior Housing	9,640	9,656	15,613	11.0 %	10.8 %	08/31/17
Pre-development	3	Senior Housing	4,005	4,023	3,768	9.0 %	7.7 %	01/28/17 - 09/09/17
Debtor-in-possession	1	Acute Care Hospital	813	813	13,625	5.0 %	5.0 %	N/A
	10		53,484	53,596	274,484	9.3 %	9.1 %	
Loan loss reserve			—	(2,750)	(4,300)			
			53,484	50,846	270,184			
Other Investments:								
Preferred Equity	12	Skilled Nursing/Senior Housing	44,882	45,190	29,993	12.9 %	12.9 %	N/A
Total	22		$ 98,366	$ 96,036	$ 300,177	10.9 %	10.8 %	

(1) Principal balance includes amounts funded and accrued but unpaid interest / preferred return and excludes capitalizable fees.

During the year ended December 31, 2016, the Company received aggregate proceeds of $196.1 million, consisting of outstanding principal balance of $170.8 million and $25.3 million of accrued and unpaid interest and fees, in final repayments of the Forest Park - Fort Worth construction loan and the Forest Park - Dallas mortgage loan.

As of December 31, 2016, the Company considered three loan receivable investments to be impaired. The principal balances of the impaired loans were $17.4 million and $30.0 million as of December 31, 2016 and December 31, 2015, respectively. The Company recorded a provision for loan losses of $3.1 million related to four loan receivable investments during the year ended December 31, 2016, one of which was partially repaid prior to December 31, 2016 through the foreclosure of the real estate asset. As of December 31, 2016, four investments in loans receivable totaling $31.2 million were on nonaccrual status. During the year ended December 31, 2016, the Company decreased its provision for portfolio-based loan losses by $1.3 million. The Company's specific loan loss reserve and portfolio-based loan loss reserve were $2.3 million and $0.4 million, respectively, as of December 31, 2016. The Company recorded a $2.6 million specific loan loss reserve and a $1.8 million portfolio-based loan loss reserve during the year ended December 31, 2015.

8. DEBT

Mortgage Indebtedness

The Company’s mortgage notes payable consist of the following (dollars in thousands):

Interest Rate Type	Book Value as of December 31, 2016 [1]	Book Value as of December 31, 2015 [1]	Weighted Average Effective Interest Rate at December 31, 2016 [2]	Maturity Date
Fixed Rate	$ 163,638	$ 177,850	3.87 %	December 2021 - August 2051

[1] Principal balance does not include deferred financing costs of $2.9 million and $3.0 million as of December 31, 2016 and 2015, respectively.

[2] Weighted average effective interest rate includes private mortgage insurance.

Senior Unsecured Notes

The Company’s senior unsecured notes consist of the following (dollars in thousands):

Title	Maturity Date	Principal Balance as of December 31, 2016 [1]	December 31, 2015 [1]
5.5% senior unsecured notes due 2021 (“2021 Notes”)	February 1, 2021	$500,000	$500,000
5.375% senior unsecured notes due 2023 (“2023 Notes”)	June 1, 2023	200,000	200,000
		$700,000	$700,000

[1] Principal balance does not include discount of $0.5 million and $0.6 million as of December 31, 2016 and 2015, respectively, and also excludes deferred financing costs of $11.2 million and $13.7 million as of December 31, 2016 and 2015, respectively.

5.5% Notes due 2021. On January 23, 2014, the Operating Partnership and Sabra Capital Corporation, wholly owned subsidiaries of the Company (the “Issuers”), completed an underwritten offering of $350.0 million aggregate principal amount of 5.5% senior unsecured notes (the “Existing 2021 Notes”). The 2021 Notes were sold at par, resulting in gross proceeds of $350.0 million and net proceeds of approximately $340.8 million after deducting underwriting discounts and other offering expenses. On October 10, 2014, the Issuers issued an additional $150.0 million aggregate principal amount of 5.5% senior unsecured notes, which are treated as a single class with, and have the same terms as, the Existing 2021 Notes (the additional notes and the Existing 2021 Notes, together, the “2021 Notes”). The notes were issued at 99.5% providing net proceeds of approximately $145.6 million (not including pre-issuance accrued interest), after deducting underwriting discounts and other offering expenses and a yield-to-maturity of 5.593%. The 2021 Notes accrue interest at a rate of 5.5% per annum payable semiannually on February 1 and August 1 of each year.

The 2021 Notes are redeemable at the option of the Issuers, in whole or in part, at any time, and from time to time, on or after February 1, 2017, at the redemption prices set forth in the 2021 Notes indenture, plus accrued and unpaid interest to the applicable redemption date. Assuming the 2021 Notes are not redeemed, the 2021 Note mature on February 1, 2021.

5.375% Notes Due 2023. On May 23, 2013, the Issuers completed an underwritten public offering of $200.0 million aggregate principal amount of 5.375% senior unsecured notes (the “2023 Notes”). The 2023 Notes were sold at par, resulting in gross proceeds of $200.0 million and net proceeds of approximately $194.6 million after deducting underwriting discounts and other offering expenses. The 2023 Notes accrue interest at a rate of 5.375% per annum payable semiannually on June 1 and December 1 of each year.

The 2023 Notes are redeemable at the option of the Issuers, in whole or in part, at any time, and from time to time, on or after June 1, 2018, at the redemption prices set forth in the indenture governing the 2023 Notes (the “2023 Notes Indenture”), plus accrued and unpaid interest to the applicable redemption date. In addition, prior to June 1, 2018, the Issuers may redeem all or a portion of the 2023 Notes at a redemption price equal to 100% of the principal amount of the 2023 Notes redeemed, plus a “make-whole” premium, plus accrued and unpaid interest to the applicable redemption date. At any time, or from time to time, on or prior to June 1, 2016, the Issuers may redeem up to 35% of the principal amount of the 2023 Notes, using the proceeds of specific kinds of equity offerings, at a redemption price of 105.375% of the principal amount to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. Assuming the 2023 Notes are not redeemed, the 2023 Notes mature on June 1, 2023.

The obligations under the 2021 Notes and 2023 Notes (collectively, the “Senior Notes”) are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by Sabra and certain of Sabra’s other existing and, subject to certain exceptions, future material subsidiaries; provided, however, that such guarantees are subject to release under certain customary circumstances. See Note 15, “Summarized Consolidating Information”, for additional information concerning the circumstances pursuant to which the guarantors will be automatically and unconditionally released from their obligations under the guarantees.

The indentures governing the Senior Notes (the “Senior Notes Indentures”) contain restrictive covenants that, among other things, restrict the ability of Sabra, the Issuers and their restricted subsidiaries to: (i) incur or guarantee additional indebtedness; (ii) incur or guarantee secured indebtedness; (iii) pay dividends or distributions on, or redeem or repurchase, their capital stock; (iv) make certain investments or other restricted payments; (v) sell assets; (vi) create liens on their assets; (vii) enter into transactions with affiliates; (viii) merge or consolidate or sell all or substantially all of their assets; and (ix) create restrictions on the ability of Sabra’s restricted subsidiaries to pay dividends or other amounts to Sabra. Such limitations on distributions also include a limitation on the extent of allowable cumulative distributions made not to exceed the greater of (a) the sum of (x) 95% of cumulative Adjusted Funds from Operations and (y) the net proceeds from the issuance of common and preferred equity and (b) the minimum amount of distributions required for the Company to maintain its REIT status. The Senior Notes Indentures also provide for customary events of default, including, but not limited to, the failure to make payments of interest or premium, if any, on, or principal of, the Senior Notes, the failure to comply with certain covenants and agreements specified in the Senior Notes Indentures for a period of time after notice has been provided, the acceleration of other indebtedness resulting from the failure to pay principal on such other indebtedness prior to its maturity, and certain events of insolvency. If any event of default occurs, the principal of, premium, if any, and accrued interest on all the then-outstanding Senior Notes may become due and payable immediately. The Company was in compliance with all applicable financial covenants under the Senior Notes Indentures related to the Senior Notes outstanding as of December 31, 2016.

Revolving Credit Facility and Term Loans

On September 10, 2014, the Operating Partnership entered into an unsecured revolving credit facility (the “Prior Revolving Credit Facility”) that provided for a borrowing capacity of $650.0 million and provided an accordion feature allowing for an additional $100.0 million of capacity, subject to terms and conditions. On October 10, 2014, the Operating Partnership converted $200.0 million of the outstanding borrowings under the Prior Revolving Credit Facility to a term loan. Concurrent with the term loan conversion, the Company entered into a five-year interest rate cap contract that caps LIBOR at 2.0%.

Borrowings under the Prior Revolving Credit Facility bore interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Operating Partnership's option, either (a) LIBOR or (b) a base rate determined as the greater of (i) the federal funds rate plus 0.5%, (ii) the prime rate, and (iii) one-month LIBOR plus 1.0% (referred to as the “Base Rate”). The applicable percentage for borrowings varied based on the Consolidated Leverage Ratio, as defined in the credit agreement for the Prior Revolving Credit Facility, and ranged from 2.00% to 2.60% per annum for LIBOR based borrowings and 1.00% to 1.60% per annum for borrowings at the Base Rate. In addition, the Operating Partnership was required to pay an unused fee to the lenders equal to 0.25% or 0.35% per annum based on the amount of unused borrowings under the Prior Revolving Credit Facility.

On June 10, 2015, Sabra Canadian Holdings, LLC, a wholly-owned subsidiary of the Company, entered into a new Canadian dollar denominated term loan of CAD $90.0 million (U.S. $73.2 million) (the "Prior Canadian Term Loan") that bore a variable interest rate of the Canadian Dollar Offer Rate (“CDOR”) plus 2.00%-2.60% depending on the Company's consolidated leverage ratio.

On January 14, 2016, the Operating Partnership and Sabra Canadian Holdings, LLC, also a wholly owned subsidiary of the Company (together, the “Borrowers”), entered into a third amended and restated unsecured credit facility (the “Credit Facility”). The Credit Facility amends and restates the a Prior Revolving Credit Facility and replaces the Prior Canadian Term Loan.

The Credit Facility includes a revolving credit facility (the “Revolving Credit Facility”) and U.S. dollar and Canadian dollar term loans (collectively, the “Term Loans”). The Revolving Credit Facility provides for a borrowing capacity of

$500.0 million and, in addition, increases the Company's U.S. dollar and Canadian dollar term loans to $245.0 million and CAD $125.0 million, respectively. Further, up to $125.0 million of the Revolving Credit Facility may be used for borrowings in certain foreign currencies. The Credit Facility also contains an accordion feature that can increase the total available borrowings to $1.25 billion, subject to terms and conditions. In addition, the Canadian dollar term loan was re-designated as a net investment hedge (see Note 9, “Derivative and Hedging Instruments,” for further information).

The Revolving Credit Facility has a maturity date of January 14, 2020, and includes two six-month extension options. The Term Loans have a maturity date of January 14, 2021.

As of December 31, 2016, there was $26.0 million outstanding under the Revolving Credit Facility and $474.0 million available for borrowing.

Borrowings under the Revolving Credit Facility bear interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Operating Partnership's option, either (a) LIBOR or (b) a base rate determined as the greater of (i) the federal funds rate plus 0.5%, (ii) the prime rate, and (iii) one-month LIBOR plus 1.0% (the "Base Rate"). The applicable percentage for borrowings will vary based on the Consolidated Leverage Ratio, as defined in the credit agreement, and will range from 1.80% to 2.40% per annum for LIBOR based borrowings and 0.80% to 1.40% per annum for borrowings at the Base Rate. As of December 31, 2016, the interest rate on the Revolving Credit Facility was 2.77%. In addition, the Operating Partnership pays an unused fee to the lenders equal to 0.25% or 0.30% per annum, which is determined by usage under the Revolving Credit Facility.

The U.S. dollar term loan bears interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Operating Partnership's option, either (a) LIBOR or (b) the Base Rate. The applicable percentage for borrowings will vary based on the Consolidated Leverage Ratio, as defined in the credit agreement, and will range from 1.75% to 2.35% per annum for LIBOR based borrowings and 0.75% to 1.35% per annum for borrowings at the Base Rate. The Canadian dollar term loan bears interest on the outstanding principal amount at a rate equal to the Canadian Dollar Offer Rate ("CDOR") plus 1.75% to 2.35% depending on the Consolidated Leverage Ratio.

On June 10, 2015, concurrently with entering into the Prior Canadian Term Loan, the Company entered into an interest rate swap agreement to fix the CDOR portion of the interest rate for this CAD $90.0 million term loan at 1.59%. In addition, the Prior Canadian Term Loan was designated as a net investment hedge (see Note 9, "Derivative and Hedging Instruments," for further information). On August 10, 2016, the Company entered into two interest rate swap agreements to fix the LIBOR portion of the interest rate for its $245.0 million U.S. dollar term loan at 0.90% and one interest rate swap agreement to fix the CDOR portion on CAD $35.0 million of its Canadian dollar term loan at 0.93%. In addition, the Company terminated the five-year interest rate cap contract that capped LIBOR at 2.0%.

In the event that Sabra achieves investment grade ratings from at least two of S&P, Moody's and/or Fitch, the Operating Partnership can elect to reduce the applicable percentage for LIBOR or Base Rate borrowings. If the Operating Partnership makes this election, the applicable percentage for borrowings will vary based on the Debt Ratings at each Pricing Level, as defined in the credit agreement, and will range from 0.90% to 1.70% per annum for LIBOR based borrowings under the Revolving Credit Facility, 1.00% to 1.95% per annum for LIBOR or CDOR based borrowings under the Term Loans, 0.00% to 0.70% per annum for borrowings at the Base Rate under the Revolving Credit Facility, and 0.00% to 0.95% per annum for borrowings at the Base Rate under the U.S. dollar term loan. In addition, should the Operating Partnership elect this option, the unused fee will no longer apply and a facility fee ranging between 0.125% and 0.300% per annum will take effect based on the borrowing capacity regardless of amounts outstanding under the Revolving Credit Facility.

The obligations of the Borrowers under the Credit Facility are guaranteed by Sabra and certain subsidiaries of Sabra. The Credit Facility contains customary covenants that include restrictions or limitations on the ability to make acquisitions and other investments, pay dividends, incur additional indebtedness, engage in non-healthcare related business activities, enter into transactions with affiliates and sell or otherwise transfer certain assets as well as customary events of default. The Credit Facility also requires Sabra, through the Operating Partnership, to comply with specified financial covenants, which include a maximum leverage ratio, a minimum fixed charge coverage ratio and a minimum tangible net worth requirement. As of December 31, 2016, the Company was in compliance with all applicable financial covenants under the Prior Revolving Credit Facility and the Prior Canadian Term Loan.

Interest Expense

During the years ended December 31, 2016, 2015 and 2014, the Company incurred interest expense of $64.9 million, $59.2 million and $47.0 million, respectively. Included in interest expense for the years ended December 31, 2016, 2015 and 2014, was $5.0 million, $5.1 million and $4.0 million, respectively, of deferred financing costs amortization. As of December 31, 2016 and 2015, the Company had $13.8 million and $13.3 million, respectively, of accrued interest included in accounts payable and accrued liabilities on the accompanying consolidated balance sheets.

Maturities

The following is a schedule of maturities for the Company's outstanding debt as of December 31, 2016 (in thousands):

	Mortgage Indebtedness	Revolving Credit Facility (1)	Terms Loans	Senior Notes	Total
2017	$ 4,128	$ —	$ —	$ —	$ 4,128
2018	4,265	—	—	—	4,265
2019	4,408	—	—	—	4,408
2020	4,555	26,000	—	—	30,555
2021	19,402	—	338,000	500,000	857,402
Thereafter	126,880	—	—	200,000	326,880
Total Principal Balance	163,638	26,000	338,000	700,000	1,227,638
Discount	—	—	—	(515)	(515)
Deferred Financing Costs	(2,886)	—	(2,327)	(11,239)	(16,452)
Total Debt, net	160,752	26,000	335,673	688,246	1,210,671

(1) Revolving Credit Facility is subject to two six-month extension options.

9. DERIVATIVE AND HEDGING INSTRUMENTS

The Company is exposed to various market risks, including the potential loss arising from adverse changes in interest rates and foreign exchange rates. The Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates and foreign exchange rates. The Company's derivative financial instruments are used to manage differences in the amount of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

Certain of the Company's foreign operations expose the Company to fluctuations of foreign interest rates and exchange rates. These fluctuations may impact the value in the Company's functional currency, the U.S. dollar, of the Company's investment in foreign operations, the cash receipts and payments related to these foreign operations and payments of interest and principal under Canadian dollar denominated debt. The Company enters into derivative financial instruments to protect the value of its foreign investments and fix a portion of the interest payments for certain debt obligations. The Company does not enter into derivatives for speculative purposes.

Cash Flow Hedges

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Approximately $3.3 million of losses, which are included in accumulated other comprehensive loss, as of December 31, 2016, are expected to be reclassified into earnings in the next 12 months. During the year ended December 31, 2016, the Company terminated its interest rate cap, generating cash proceeds of $0.3 million. The balance of the loss in other comprehensive income will be reclassified to earnings through 2019.

Net Investment Hedges

The Company is exposed to fluctuations in foreign exchange rates on investments it holds in Canada. The Company uses cross currency interest rate swaps to hedge its exposure to changes in foreign exchange rates on these foreign investments.

The following presents the notional amount of derivatives instruments as of the dates indicated (in thousands):

	December 31, 2016	December 31, 2015
Derivatives designated as cash flow hedges:		
Denominated in U.S. Dollars	$ 245,000	$ 200,000
Denominated in Canadian Dollars	$ 125,000	$ 90,000
Derivatives designated as net investment hedges:		
Denominated in Canadian Dollars	$ 56,300	$ 56,300
Financial instrument designated as net investment hedge:		
Denominated in Canadian Dollars	$ 125,000	$ 90,000

The following is a summary of the derivative and financial instruments designated as hedging instruments held by the Company at December 31, 2016 and 2015 (in thousands):

Type	Designation	Count	Fair Value December 31, 2016	2015	Maturity Dates	Balance Sheet Location
Assets:						
Interest rate cap	Cash Flow	—	$—	$1,695	2019	Prepaid expenses, deferred financing costs and other assets, net
Interest rate swap	Cash Flow	3	8,083	—	2021	Prepaid expenses, deferred financing costs and other assets, net
Cross currency interest rate swaps	Net Investment	2	3,157	5,392	2025	Prepaid expenses, deferred financing costs and other assets, net
			$11,240	$7,087		
Liabilities:						
Interest rate swap	Cash Flow	1	$716	$1,468	2020 - 2021	Accounts payable and accrued liabilities
CAD Term Loan	Net Investment	1	93,000	64,890	2020	Term loans, net
			$93,716	$66,358		

The following presents the effect of the Company’s hedging instruments on the consolidated statements of income and the consolidated statements of equity for years ended December 31, 2016, 2015 and 2014:

	Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)			Gain (Loss) Reclassified from Accumulated Other Comprehensive Income Into Income (Effective Portion)			Income Statement Location
	For the year ended December 31,						
	2016	2015	2014	2016	2015	2014	
Cash Flow Hedges:							
Interest Rate Products	$5,879	$(4,764)	$(1,542)	$(1,360)	$(319)	$ —	Interest Expense
Net Investment Hedges:							

Foreign Currency Products	(2,085)	5,476	—	—	—	—	N/A
CAD Term Loan	(3,750)	(8,352)	—	—	—	—	N/A
	$44	$(7,640)	$(1,542)	$(1,360)	$(319)	$ —	

During the year ended December 31, 2016, the Company determined that a portion of a cash flow hedge was ineffective and recognized $0.8 million of unrealized gains related to its interest rate swaps to other income (expense) in the consolidated statements of income. During the years ended December 31, 2015 and 2014, the Company recorded no hedge ineffectiveness in earnings.

Offsetting Derivatives

The Company enters into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company’s derivatives as of December 31, 2016 and 2015 :

As of December 31, 2016

				Gross Amounts Not Offset in the Balance Sheet		
	Gross Amounts of Recognized Assets / Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets / Liabilities presented in the Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amount
Offsetting Assets:						
Derivatives	$11,240	$ —	$ 11,240	$ (716)	$ —	$ 10,524
Offsetting Liabilities:						
Derivatives	$716	$ —	$ 716	$ (716)	$ —	$ —

As of December 31, 2015

				Gross Amounts Not Offset in the Balance Sheet		
	Gross Amounts of Recognized Assets / Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets / Liabilities presented in the Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amount
Offsetting Assets:						
Derivatives	$7,087	$ —	$ 7,087	$ (1,468)	$ —	$ 5,619
Offsetting Liabilities:						
Derivatives	$1,468	$ —	$ 1,468	$ (1,468)	$ —	$ —

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including a default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

As of December 31, 2016, the Company had no derivatives with a fair value in a net liability position.

10.FAIR VALUE DISCLOSURES

Financial Instruments

The fair value for certain financial instruments is derived using a combination of market quotes, pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company's financial instruments.

Financial instruments for which actively quoted prices or pricing parameters are available and whose markets contain orderly transactions will generally have a higher degree of price transparency than financial instruments whose markets are inactive or consist of non-orderly trades. The Company evaluates several factors when determining if a market is inactive or when market transactions are not orderly. The carrying values of cash and cash equivalents, restricted cash, accounts payable, accrued liabilities, the Credit Facility are reasonable estimates of fair value because of the short-term maturities of these instruments. Fair values for other financial instruments are derived as follows:

Loans receivable: These instruments are presented in the accompanying consolidated balance sheets at their amortized cost and not at fair value. The fair value of the loans receivable were estimated using an internal valuation model that considered the expected cash flows for the loans receivable, the underlying collateral value and other credit enhancements. As such, the Company classifies these instruments as Level 3.

Preferred equity investments: These instruments are presented in the accompanying consolidated balance sheets at their cost and not at fair value. The fair value of the preferred equity investments were estimated using an internal valuation model that considered the expected future cash flows for the preferred equity investment, the underlying collateral value and other credit enhancements. As such, the Company classifies these instruments as Level 3.
Derivative instruments: The Company's derivative instruments are presented at fair value on the accompanying consolidated balance sheets. The Company estimates the fair value of derivative instruments, including its interest rate cap, interest rate swap and cross currency swaps, using the assistance of a third party using inputs that are observable in the market, which includes forward yield curves and other relevant information. Although the Company has determined that the majority of the inputs used to value its derivative financial instruments fall within level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivative financial instruments utilize level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivative financial instruments. As a result, the Company has determined that its derivative financial instruments valuations in their entirety are classified in level 2 of the fair value hierarchy.
Senior Notes: These instruments are presented in the accompanying consolidated balance sheets at their outstanding principal balance, net of unamortized deferred financing costs and premiums (discounts) and not at fair value. The fair values of the Senior Notes were determined using third-party market quotes derived from orderly trades. As such, the Company classifies these instruments as Level 2.
Mortgage indebtedness: These instruments are presented in the accompanying consolidated balance sheets at their outstanding principal balance, net of unamortized deferred financing costs and premiums (discounts) and not at fair value. The fair values of the Company's mortgage notes payable were estimated using a discounted cash flow analysis based on management's estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio, type of collateral and other credit enhancements. As such, the Company classifies these instruments as Level 3.
The following are the face values, carrying amounts and fair values of the Company's financial instruments as of December 31, 2016 and 2015 whose carrying amounts do not approximate their fair value (in thousands):

	December 31, 2016			December 31, 2015		
	Carrying Amount (1)	Face Value (2)	Fair Value	Carrying Amount (1)	Face Value (2)	Fair Value
Financial assets:						
Loans receivable	$53,596	$53,484	$51,914	$270,184	$273,811	$274,628
Preferred equity investments	45,190	44,882	48,332	29,993	29,643	30,838
Financial liabilities:						
Senior Notes	688,246	700,000	709,500	685,704	700,000	718,500
Mortgage indebtedness	160,752	163,638	150,091	174,846	177,850	165,296

(1) Carrying amounts represent the book value of financial instruments and include unamortized premiums (discounts).
(2) Face value represents amounts contractually due under the terms of the respective agreements.

The Company determined the fair value of financial instruments as of December 31, 2016 whose carrying amounts do not approximate their fair value with valuation methods utilizing the following types of inputs (in thousands):

	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Loans receivable	$51,914	$—	$ —	$ 51,914
Preferred equity investments	48,332	—	—	48,332
Financial liabilities:				
Senior Notes	709,500	—	709,500	—
Mortgage indebtedness	150,091	—	—	150,091

Disclosure of the fair value of financial instruments is based on pertinent information available to the Company at the applicable dates and requires a significant amount of judgment. Despite increased capital market and credit market activity, transaction volume for certain financial instruments remains relatively low. This has made the estimation of fair values difficult and, therefore, both the actual results and the Company's estimate of fair value at a future date could be materially different.

Items Measured at Fair Value on a Recurring Basis

During the year ended December 31, 2016, the Company recorded the following amounts measured at fair value (in thousands):

	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Basis:				
Financial assets:				
Interest rate swap	$8,083	$—	$ 8,083	$ —
Cross currency swap	3,157	—	3,157	—
Financial liabilities:				
Contingent consideration liability	818	—	—	818
Interest rate swap	716	—	716	—

The Company's contingent consideration arrangements are the result of four acquisitions of real estate (see Note 4, "Real Estate Properties Held for Investment"). In order to determine the fair value of the Company's contingent consideration arrangements, the Company used significant inputs not observable in the market to estimate the contingent consideration. In addition to using an appropriate discount rate, the Company used projections provided by the facilities to estimate future earnings at the facilities, then developed probability-weighted scenarios of the potential future performance of the facilities and the resulting payout from these scenarios. As of December 31, 2016, the contingent consideration liability was valued at $0.8 million and the contingent consideration asset was determined to have a value of $0.

The following reconciliation provides the details of activity for contingent consideration liability recorded at fair value using Level 3 inputs (in thousands):

Balance as of December 31, 2014	$3,900
Decrease in contingent liability	(1,200)
Balance as of December 31, 2015	$2,700
Decrease in contingent liability	(1,876)
Foreign currency translation	(6)
Balance as of December 31, 2016	$818

The following reconciliation provides the details of activity for contingent consideration asset recorded at fair value using Level 3 inputs (in thousands):

Balance as of December 31, 2014	$—
Increase in contingent asset	350
Balance as of December 31, 2015	$350
Decrease in contingent asset	(350)
Balance as of December 31, 2016	—

A corresponding amount equal to the decreases in the contingent consideration liability and contingent consideration asset were included as other income on the accompanying consolidated statements of income for the year ended December 31, 2016.

11. EQUITY

Preferred Stock

On March 21, 2013, the Company completed an underwritten public offering of 5.8 million shares of 7.125% Series A Cumulative Redeemable Preferred Stock (the “Series A Preferred Stock”) at a price of $25.00 per share, pursuant to an effective registration statement. The Company received net proceeds of $138.3 million from the offering, after deducting underwriting discounts and other offering expenses. The Company classified the par value as preferred equity on its consolidated balance sheets with the balance of the liquidation preference, net of any issuance costs, recorded as an increase in paid-in capital.

The holders of the Company’s Series A Preferred Stock rank senior to the Company’s common stock with respect to dividend rights and rights upon the Company’s liquidation, dissolution or winding up of its affairs. At December 31, 2016, there were no dividends in arrears.

The Series A Preferred Stock does not have a stated maturity date, but the Company may redeem the Series A Preferred Stock on or after March 21, 2018, for $25.00 per share, plus any accrued and unpaid dividends. The Company may redeem the Series A Preferred Stock prior to March 21, 2018, in limited circumstances to preserve its status as a REIT or pursuant to a specified change of control. Upon the occurrence of a specified change of control, each holder of Series A Preferred Stock will have the right to convert some or all of the shares of Series A Preferred Stock held by such holder into a number of shares of the Company’s common stock equivalent to $25.00 plus accrued and unpaid dividends, but not to exceed a cap of 1.7864 shares of common stock per share of Series A Preferred Stock (subject to certain adjustments).

Common Stock

On June 30, 2015, the Company completed an underwritten public offering of 5.9 million newly issued shares of its common stock pursuant to an effective registration statement. The Company received net proceeds, before expenses, of $147.9 million from the offering, after giving effect to the issuance and sale of all 5.9 million shares of common stock, at a price of $25.06 per share. These proceeds were primarily used to repay borrowings outstanding under the Prior Revolving Credit Facility.

Other Common Stock Issuances

The following is a summary of the Company’s other common stock issuances during the years ended December 31, 2016 and 2015:

	Year Ended December 31,	
	2016	2015
Vesting of common stock units	103,279	235,334

Upon any payment of shares as a result of restricted stock unit vestings, the participant is required to satisfy the related tax withholding obligation. The 2009 Performance Incentive Plan provides that the Company has the right, at its option, to (a) require the participant to pay such tax withholding or (b) reduce the number of shares to be delivered by a number of shares necessary to satisfy the related minimum applicable statutory tax withholding obligation. During the years ended December 31, 2016 and 2015, pursuant to advance elections made by certain participants, the

Company incurred $1.5 million and $5.0 million, respectively, in tax withholding obligations that were satisfied through a reduction in the number of shares delivered to those participants.

Accumulated Other Comprehensive Loss

The following is a summary of the Company's accumulated other comprehensive loss (in thousands):

	Year Ended December 31,	
	2016	2015
Foreign currency translation	$(3,067)	$(1,433)
Unrealized gains (losses) on cash flow hedges	1,269	(5,900)
Total accumulated other comprehensive loss	$(1,798)	$(7,333)

12. STOCK-BASED COMPENSATION

All stock-based awards are subject to the terms of the 2009 Performance Incentive Plan, which was assumed by the Company effective as of November 15, 2010 in connection with the Company's separation from Sun and amended and restated in June 2013. The 2009 Performance Incentive Plan provides for the granting of stock-based compensation, including stock options, time-based stock units, funds from operations-based stock units ("FFO Units"), relative total stockholder return-based stock units ("TSR Units") and performance based restricted stock units to officers, employees and directors in connection with their employment with or services provided to the Company.

Stock Options

The total intrinsic value of stock options exercised was $0.7 million during the year ended December 31, 2014. The exercise price for the stock options exercised during the year ended December 31, 2014 was paid through the withholding of shares. The total fair value of stock options that vested during the year ended December 31, 2014 was $0.2 million. The Company had no stock options outstanding during the years ended December 31, 2016 and 2015 .

Restricted Stock Units and Performance-Based Restricted Stock Units

Under the 2009 Performance Incentive Plan, restricted stock units and performance-based restricted stock units generally have a contractual life or vest over a three- to five-year period. The vesting of certain restricted stock units may accelerate, as defined in the grant, upon retirement, a change in control and other events. When vested (and subject to any applicable deferral or holdback period), each performance-based restricted stock unit is convertible into one share of common stock, subject to any deferrals in issuance pursuant to the grant. The restricted stock units are valued on the grant date based on the market price of the Company's common stock on that date. Generally, the Company recognizes the fair value of the awards over the applicable vesting period as compensation expense. In addition, since the shares to be issued may vary based on the performance of the Company, the Company must make assumptions regarding the projected performance criteria and the shares that will ultimately be issued. The amount of FFO Units that will ultimately vest is dependent on the amount by which the Company's funds from operation ("FFO") differs from a target FFO amount for a period specified in each grant and will range from 0% to 250% of the FFO Units initially granted. Similarly, the amount of TSR Units that will ultimately vest is dependent on the amount by which the total shareholder return ("TSR") of the Company's common stock differs from a predefined peer group for a period specified in each grant and will range from 0% to 200% of the TSR Units initially granted. Upon any payment of restricted stock units, the participant is required to pay the related tax withholding obligation. The 2009 Performance Incentive Plan provides that unless otherwise elected in advance by the participant, the Company will reduce the number of shares to be delivered to pay the related statutory tax withholding obligation. The value of the shares withheld is dependent on the closing price of the Company's common stock on the date the relevant transaction occurs.

The following table summarizes additional information concerning restricted stock units at December 31, 2016:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Unit
Unvested as of December 31, 2015	732,756	$ 21.37
Granted	393,532	22.05
Vested	(214,671)	22.01
Dividends reinvested	73,888	22.07
Cancelled/Forfeited	(81,538)	21.13
Unvested as of December 31, 2016	903,967	$ 21.58

As of December 31, 2016, the weighted average remaining vesting period of restricted stock units was 2.2 years. The weighted average fair value per share at the date of grant for restricted stock units for the years ended December 31, 2016, 2015 and 2014 was $22.05, $21.11 and $25.88, respectively. The total fair value of units vested during the years ended December 31, 2016, 2015 and 2014 was $4.7 million, $8.5 million and $9.6 million, respectively.

The fair value of the TSR Units are estimated on the date of grant using a Monte Carlo valuation model that uses the assumptions noted in the table below. The risk-free rate is based on the U.S. Treasury yield curve in effect at the grant date for the expected performance period. Expected volatility was based on historical volatility for the most recent 3-year period ending on the grant date for the Company and the selected peer companies, and calculated on a daily basis. The following are the key assumptions used in this valuation:

	2016	2015	2014
Risk Free Interest Rate	0.78% - 1.60%	0.87% - 1.31%	1.07% - 1.09%
Expected Stock Price Volatility	27.40% - 28.42%	23.55% - 27.02%	24.14% - 24.22%
Expected Service Period	2.3 - 3.0 years	2.5 - 3.0 years	3.0 years
Expected Dividend Yield (assuming full reinvestment)	— %	— %	— %

During the years ended December 31, 2016, 2015 and 2014, the Company recognized $7.5 million, $6.1 million and $9.9 million, respectively, of stock-based compensation expense. As of December 31, 2016, there was $10.4 million of total unrecognized stock-based compensation expense related to unvested awards, which is expected to be recognized over a weighted average period of 2.6 years.

Employee Benefit Plan

The Company maintains a 401(k) plan that allows for eligible participants to defer compensation, subject to certain limitations imposed by the Internal Revenue Code of 1986, as amended (the “Code”). The Company provides a discretionary matching contribution of up to 3% of each participant's eligible compensation. During the years ended December 31, 2016, 2015 and 2014, the Company's matching contributions were approximately $73,000, $35,000 and $51,000, respectively.

13. INCOME TAXES

The Company elected to be treated as a REIT with the filing of its U.S. federal income tax return for the taxable year beginning January 1, 2011. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement to distribute at least 90% of our taxable ordinary income. In addition, the Company is required to meet certain asset and income tests. As a REIT, the Company generally will not be subject to corporate level federal income tax on taxable income that it distributes to its stockholders. The Company also elected to treat certain of its consolidated subsidiaries as taxable REIT subsidiaries, which are subject to federal, state and foreign income taxes.

The Company is subject to corporate income tax on built-in gains (the excess of fair market value over tax basis on properties held by Sabra as of the date Sabra elected to be taxed as a REIT, or January 1, 2011) on taxable dispositions of properties acquired in the Company's separation from Sun occurring within a specified period (generally five years) following the election to be taxed as a REIT. As of January 1, 2011, the built-in-gains tax associated with the Company’s properties totaled approximately $145.8 million assuming a 40% corporate tax rate. This built-in gains tax is generally not payable on dispositions of property to the extent the proceeds from such dispositions are reinvested in qualifying like-kind replacement property as defined under various provisions of the Code. The Company does not expect to dispose of any properties held by Sabra at the Separation Date if such a disposition would result in the imposition of a material tax liability. Gains from asset

dispositions occurring more than five years after the acquisition will not be subject to this corporate-level tax. As a result, the Company has not recorded a deferred tax liability associated with this corporate-level tax.
As a result of acquisitions in Canada during 2015, the Company was subject to income taxes under the laws of Canada. The Company recorded a $0.7 million income tax benefit during each of the years ended December 31, 2016 and 2015, with respect to its Canadian operations. Due to uncertainty over the Company's ability to utilize this income tax benefit in future periods, the Company recorded a valuation allowance of $0.7 million against the deferred tax benefit during each of the years ended December 31, 2016 and 2015.
The following is a reconciliation of the Company’s beginning and ending unrecognized tax benefits (in thousands):

Balance at December 31, 2014	$24,212
Additions (reductions) based on prior years’ tax positions	—
Additions (reductions) based on 2015 tax positions	—
Balance at December 31, 2015	$24,212
Additions (reductions) based on prior years’ tax positions	(24,212)
Additions (reductions) based on 2016 tax positions	—
Balance at December 31, 2016	$—

During the 2016 fiscal year the full amount of unrecognized tax benefits were released due to the lapse of applicable statute of limitations. The Company does not anticipate that the balance in unrecognized tax benefits will change materially in fiscal year 2017. We classify interest and penalties from significant uncertain tax positions as interest expense and operating expenses, respectively, in our consolidated financial statements. For the years ended December 31, 2016, 2015, and 2014, we had no such interest or penalties. With certain exceptions, the tax year 2013 and thereafter remain open to examination by the major taxing jurisdictions with which the Company files tax returns.

14. EARNINGS PER COMMON SHARE

The following table illustrates the computation of basic and diluted earnings per share (in thousands, except share and per share amounts):

	Year Ended December 31,		
	2016	2015	2014
Numerator			
Net income attributable to common stockholders	$60,034	$ 69,171	$ 36,710
Denominator			
Basic weighted average common shares and common equivalents	65,284,256	62,235,014	46,351,544
Dilutive stock options and restricted stock units	236,421	225,225	537,987
Diluted weighted average common shares	65,520,677	62,460,239	46,889,531
Net income attributable to common stockholders, per:			
Basic common share	$0.92	$ 1.11	$ 0.79
Diluted common share	$0.92	$ 1.11	$ 0.78

During the years ended December 31, 2016, 2015 and 2014, approximately 128,000, 76,000 and 54,000 restricted stock units, respectively, were not included because they were anti-dilutive. No stock options were outstanding during the years ended December 31, 2016 and 2015 and no stock options were considered anti-dilutive during the year ended December 31, 2014.

15.SUMMARIZED CONSOLIDATING INFORMATION

In connection with the offerings of the Senior Notes by the Issuers, the Company and certain 100% owned subsidiaries of the Company (the “Guarantors”) have, jointly and severally, fully and unconditionally guaranteed the Senior Notes, subject to release under certain customary circumstances as described below. These guarantees are subordinated to all existing and future senior debt and senior guarantees of the Guarantors and are unsecured. The Company conducts all of its business through and derives virtually all of its income from its subsidiaries. Therefore, the Company’s ability to make required payments with respect to its indebtedness (including the Senior Notes) and other obligations depends on the financial results and condition of its subsidiaries and its ability to receive funds from its subsidiaries.

A Guarantor will be automatically and unconditionally released from its obligations under the guarantees with respect to the Senior Notes in the event of:

- Any sale of the subsidiary Guarantor or of all or substantially all of its assets;
- A merger or consolidation of a subsidiary Guarantor with an issuer of the Senior Notes or another Guarantor, provided that the surviving entity remains a Guarantor;
- A subsidiary Guarantor is declared “unrestricted” for covenant purposes under the Senior Notes Indentures;
- The requirements for legal defeasance or covenant defeasance or to discharge the Senior Notes Indentures have been satisfied;
- A liquidation or dissolution, to the extent permitted under the Senior Notes Indentures, of a subsidiary Guarantor; and
- The release or discharge of the guaranty that resulted in the creation of the subsidiary guaranty, except a discharge or release by or as a result of payment under such guaranty.

Pursuant to Rule 3-10 of Regulation S-X, the following summarized consolidating information is provided for the Company (the “Parent Company”), the Issuers, the Guarantors, and the Company’s non-Guarantor subsidiaries with respect to the Senior Notes. This summarized financial information has been prepared from the books and records maintained by the Company, the Issuers, the Guarantors and the non-Guarantor subsidiaries. The summarized financial information may not necessarily be indicative of the results of operations or financial position had the Issuers, the Guarantors or non-Guarantor subsidiaries operated as independent entities. Sabra’s investments in its consolidated subsidiaries are presented based upon Sabra’s proportionate share of each subsidiary’s net assets. The Guarantor subsidiaries’ investments in the non-Guarantor subsidiaries and non-Guarantor subsidiaries’ investments in Guarantor subsidiaries are presented under the equity method of accounting. Intercompany activities between subsidiaries and the Parent Company are presented within operating activities on the consolidating statement of cash flows.

Consolidating financial statements for the Company and its subsidiaries, including the Parent Company only, the Issuers, the combined Guarantor subsidiaries and the combined non-Guarantor subsidiaries, are as follows:

CONSOLIDATING BALANCE SHEET
December 31, 2016
(in thousands, except share and per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Assets						
Real estate investments, net of accumulated depreciation	$150	$—	$1,828,629	$181,160	$—	$2,009,939
Loans receivable and other investments, net	(410)	—	96,446	—	—	96,036
Cash and cash equivalents	18,168	—	2,675	4,820	—	25,663
Restricted cash	—	—	57	8,945	—	9,002
Prepaid expenses, deferred financing costs and other assets, net	2,859	18,023	95,740	10,566	(1,909)	125,279
Intercompany	368,281	686,376	—	—	(1,054,657)	—
Investment in subsidiaries	640,238	908,253	12,364	—	(1,560,855)	—
Total assets	$1,029,286	$1,612,652	$2,035,911	$205,491	$(2,617,421)	$2,265,919
Liabilities						
Mortgage notes, net	$—	$—	$—	$160,752	$—	$160,752
Revolving credit facility	—	26,000	—	—	—	26,000
Term loans, net	—	243,626	92,047	—	—	335,673
Senior unsecured notes, net	—	688,246	—	—	—	688,246
Accounts payable and accrued liabilities	13,712	14,542	11,333	1,961	(1,909)	39,639
Intercompany	—	—	1,048,309	6,348	(1,054,657)	—
Total liabilities	13,712	972,414	1,151,689	169,061	(1,056,566)	1,250,310
Total Sabra Health Care REIT, Inc. stockholders’ equity:	1,015,574	640,238	884,222	36,395	(1,560,855)	1,015,574
Noncontrolling interests	—	—	—	35	—	35
Total equity	1,015,574	640,238	884,222	36,430	(1,560,855)	1,015,609
Total liabilities and equity	$1,029,286	$1,612,652	$2,035,911	$205,491	$(2,617,421)	$2,265,919

CONSOLIDATING BALANCE SHEET
December 31, 2015
(in thousands, except share and per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Assets						
Real estate investments, net of accumulated depreciation	$48	$—	$1,874,394	$165,174	$—	$2,039,616
Loans receivable and other investments, net	—	—	302,282	—	(2,105)	300,177
Cash and cash equivalents	2,548	—	456	4,430	—	7,434
Restricted cash	—	—	1,788	8,025	—	9,813
Prepaid expenses, deferred financing costs and other assets, net	2,047	13,384	91,225	7,996	(2,855)	111,797
Intercompany	489,763	918,209	—	—	(1,407,972)	—
Investment in subsidiaries	568,841	792,065	8,855	—	(1,369,761)	—
Total assets	$1,063,247	$1,723,658	$2,279,000	$185,625	$(2,782,693)	$2,468,837
Liabilities						
Mortgage notes	$—	$—	$10,766	$164,080	$—	$174,846
Revolving credit facility	—	255,000	—	—	—	255,000
Term loans, net	—	200,000	64,229	—	—	264,229
Senior unsecured notes, net	—	685,704	—	—	—	685,704
Accounts payable and accrued liabilities	9,477	14,113	11,392	2,056	(1,856)	35,182
Intercompany	—	—	1,399,041	8,931	(1,407,972)	—
Total liabilities	9,477	1,154,817	1,485,428	175,067	(1,409,828)	1,414,961
Total Sabra Health Care REIT, Inc. stockholders' equity	1,053,770	568,841	793,572	10,452	(1,372,865)	1,053,770
Noncontrolling interests	—	—	—	106	—	106
Total equity	1,053,770	568,841	793,572	10,558	(1,372,865)	1,053,876
Total liabilities and equity	$1,063,247	$1,723,658	$2,279,000	$185,625	$(2,782,693)	$2,468,837

CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2016
(in thousands, except share and per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	$ —	$—	$ 206,406	$ 21,197	$ (2,328)	$ 225,275
Interest and other income	3	—	27,712	1	(253)	27,463
Resident fees and services	—	—	—	7,788	—	7,788
Total revenues	3	—	234,118	28,986	(2,581)	260,526
Expenses:						
Depreciation and amortization	816	—	60,910	6,746	—	68,472
Interest	—	54,589	3,497	6,787	—	64,873
Operating expenses	—	—	—	8,066	(2,363)	5,703
General and administrative	16,218	57	3,284	359	—	19,918
Provision for doubtful accounts and loan losses	(1,376)	—	6,498	421	—	5,543
Impairment of real estate	—	—	29,811	—	—	29,811
Total expenses	15,658	54,646	104,000	22,379	(2,363)	194,320
Other income (expense):						
Loss on extinguishment of debt	—	(468)	(88)	—	—	(556)
Other income (expense)	7,366	(196)	3,507	—	—	10,677
Net (loss) gain on sales of real estate	—	—	(6,143)	21	—	(6,122)
Total other income (expense)	7,366	(664)	(2,724)	21	—	3,999
Income in subsidiary	78,783	134,093	6,840	—	(219,716)	—
Net income	70,494	78,783	134,234	6,628	(219,934)	70,205
Net loss attributable to noncontrolling interest	—	—	—	71	—	71
Net income attributable to Sabra Health Care REIT, Inc.	70,494	78,783	134,234	6,699	(219,934)	70,276
Preferred stock dividends	(10,242)	—	—	—	—	(10,242)
Net income attributable to common stockholders	$ 60,252	$ 78,783	$ 134,234	$ 6,699	$ (219,934)	$ 60,034
Net income attributable to common stockholders, per:						
Basic common share						$ 0.92

Diluted common share	$ 0.92
Weighted-average number of common shares outstanding, basic	65,284,251
Weighted-average number of common shares outstanding, diluted	65,520,672

CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2015
(in thousands, except share and per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	$ —	$—	$ 190,582	$ 20,470	$ (1,201)	$ 209,851
Interest and other income	2	334	25,472	1	(304)	25,505
Resident fees and services	—	—	—	3,508	—	3,508
Total revenues	2	334	216,054	23,979	(1,505)	238,864
Expenses:						
Depreciation and amortization	47	—	57,141	5,891	—	63,079
Interest	—	52,208	1,536	5,735	(261)	59,218
Operating expenses	—	—	—	3,789	(1,213)	2,576
General and administrative	14,910	30	8,566	359	—	23,865
Provision for doubtful accounts and loan losses	1,291	—	11,551	—	—	12,842
Total expenses	16,248	52,238	78,794	15,774	(1,474)	161,580
Other income (expense):						
Other income (expense)	—	1,651	(101)	710	—	2,260
Net loss on sales of real estate	—	—	(161)	—	—	(161)
Total other income (expense)	—	1,651	(262)	710	—	2,099
Income in subsidiary	95,690	145,943	8,368	—	(250,001)	—
Net income	79,444	95,690	145,366	8,915	(250,032)	79,383
Net loss attributable to noncontrolling interest	—	—	—	30	—	30
Net income attributable to Sabra Health Care REIT, Inc.	79,444	95,690	145,366	8,945	(250,032)	79,413
Preferred stock dividends	(10,242)	—	—	—	—	(10,242)
Net income attributable to common stockholders	$ 69,202	$95,690	$ 145,366	$ 8,945	$ (250,032)	$ 69,171
Net income attributable to common stockholders, per:						
Basic common share						$ 1.11
Diluted common share						$ 1.11
Weighted-average number of common shares outstanding, basic						62,235,014

Weighted-average number of common shares outstanding, diluted	62,460,239

CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2014
(in thousands, except share and per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	$ —	$—	$ 142,249	$ 19,234	$—	$ 161,483
Interest and other income	9	—	19,357	1	—	19,367
Resident fee and services	—	—	—	2,668	—	2,668
Total revenues	9	—	161,606	21,903	—	183,518
Expenses:						
Depreciation and amortization	52	—	37,645	5,635	—	43,332
Interest	—	37,129	4,642	5,187	—	46,958
Operating expenses	—	—	—	1,930	—	1,930
General and administrative	17,922	2	5,561	330	—	23,815
Provision for doubtful accounts and write-offs	600	—	2,994	—	—	3,594
Total expenses	18,574	37,131	50,842	13,082	—	119,629
Other income (expense):						
Loss on extinguishment of debt	—	(21,846)	(472)	(136)	—	(22,454)
Other income	—	—	1,560	—	—	1,560
Gain on sale of real estate	—	—	3,914	—	—	3,914
Total other income (expense)	—	(21,846)	5,002	(136)	—	(16,980)
Income in subsidiary	65,517	124,494	5,698	—	(195,709)	—
Net income	46,952	65,517	121,464	8,685	(195,709)	46,909
Net loss attributable to noncontrolling interest	—	—	—	43	—	43
Net income attributable to Sabra Health Care REIT, Inc.	46,952	65,517	121,464	8,728	(195,709)	46,952
Preferred stock dividends	(10,242)	—	—	—	—	(10,242)
Net income attributable to common stockholders	$ 36,710	$65,517	$ 121,464	$ 8,728	$(195,709)	$ 36,710
Net income attributable to common stockholders, per:						
Basic common share						$ 0.79
Diluted common share						$ 0.78
						46,351,544

Weighted-average number of common shares outstanding, basic	
Weighted-average number of common shares outstanding, diluted	46,889,531

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CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2016
(in thousands)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Net income	$ 70,494	$78,783	$ 134,234	$ 6,628	$(219,934)	$ 70,205
Other comprehensive income (loss):						
Foreign currency translation	—	(2,080)	364	82	—	(1,634)
Unrealized loss on cash flow hedge	—	7,169	—	—	—	7,169
Total other comprehensive loss	—	5,089	364	82	—	5,535
Comprehensive income	70,494	83,872	134,598	6,710	(219,934)	75,740
Comprehensive loss attributable to noncontrolling interest	—	—	—	71	—	71
Comprehensive income attributable to Sabra Health Care REIT, Inc.	$ 70,494	$83,872	$ 134,598	$ 6,781	$(219,934)	$ 75,811

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2015
(in thousands)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Net income	$ 79,444	$95,690	$145,366	$ 8,915	$(250,032)	$ 79,383
Other comprehensive income (loss):						
Foreign currency translation	—	5,530	(5,495)	(1,468)	—	(1,433)
Unrealized loss on cash flow hedge	—	(4,358)	—	—	—	(4,358)
Total other comprehensive income (loss)	—	1,172	(5,495)	(1,468)	—	(5,791)
Comprehensive income	79,444	96,862	139,871	7,447	(250,032)	73,592
Comprehensive loss attributable to noncontrolling interest	—	—	—	30	—	30
Comprehensive income attributable to Sabra Health Care REIT, Inc.	$ 79,444	$96,862	$139,871	$ 7,477	$(250,032)	$ 73,622

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2014
(in thousands)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Net income	$ 46,952	$ 65,517	$ 121,464	$ 8,685	$ (195,709)	$ 46,909
Other comprehensive income (loss):						
Unrealized loss on cash flow hedge	—	(1,542)	—	—	—	(1,542)
Total other comprehensive loss	—	(1,542)	—	—	—	(1,542)
Comprehensive income	46,952	63,975	121,464	8,685	(195,709)	45,367
Comprehensive loss attributable to noncontrolling interest	—	—	—	43	—	43
Comprehensive income attributable to Sabra Health Care REIT, Inc.	$ 46,952	$ 63,975	$ 121,464	$ 8,728	$ (195,709)	$ 45,410

CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016
(in thousands)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Net cash provided by operating activities	$153,577	$ —	$ 12,074	$ 11,088	$ —	$ 176,739
Cash flows from investing activities:						
Acquisitions of real estate	—	—	(133,797)	(19,782)	—	(153,579)
Origination and fundings of loans receivable	—	—	(9,675)	—	—	(9,675)
Origination and fundings of preferred equity investments	—	—	(7,348)	—	—	(7,348)
Additions to real estate	(124)	—	(502)	(377)	—	(1,003)
Repayment of loan receivable	—	—	215,962	—	—	215,962
Investment in Subsidiary	(200)	(200)	—	—	400	—
Net proceeds from sale of real estate	—	—	97,407	599	—	98,006
Distribution from Subsidiary	6,404	6,404	—	—	(12,808)	—
Intercompany financing	(23,484)	165,842	—	—	(142,358)	—
Net cash (used in) provided by investing activities	(17,404)	172,046	162,047	(19,560)	(154,766)	142,363
Cash flows from financing activities:						
Net repayment from revolving credit facility	—	(229,000)	—	—	—	(229,000)
Proceeds from term loan	—	45,000	24,360	—	—	69,360
Principal payments on mortgage notes	—	—	(10,766)	(4,002)	—	(14,768)
Payments of deferred financing costs	—	(5,326)	(611)	—	—	(5,937)
Issuance of common stock	(1,289)	—	—	—	—	(1,289)
Dividends paid on common and preferred stock	(119,264)	—	—	—	—	(119,264)
Contribution from Parent	—	200	—	200	(400)	—
Distribution to Parent	—	(6,404)	—	(6,404)	12,808	—
Intercompany financing	—	23,484	(184,957)	19,115	142,358	—
Net cash (used in) provided by financing activities	(120,553)	(172,046)	(171,974)	8,909	154,766	(300,898)
Net increase in cash and cash equivalents	15,620	—	2,147	437	—	18,204
Effect of foreign currency translation on cash and cash equivalents	—	—	72	(47)	—	25
Cash and cash equivalents, beginning of period	2,548	—	456	4,430	—	7,434
Cash and cash equivalents, end of period	$18,168	$ —	$ 2,675	$ 4,820	$ —	$ 25,663

CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015
(in thousands)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Net cash provided by operating activities	$112,291	$ —	$ 820	$ 7,990	$ —	$ 121,101
Cash flows from investing activities:						
Acquisitions of real estate	—	—	(450,082)	(11,248)	—	(461,330)
Origination and fundings of loans receivable	—	—	(49,687)	—	—	(49,687)
Preferred equity investments	—	—	(12,804)	—	—	(12,804)
Additions to real estate	(34)	—	(1,286)	(2,369)	—	(3,689)
Investment in Subsidiary	(414)	(414)	—	—	828	—
Distribution from Subsidiary	3,515	3,515	—	—	(7,030)	—
Intercompany financing	(200,884)	(387,652)	—	—	588,536	—
Repayment of note receivable	—	—	5,803	—	—	5,803
Release of contingent consideration held in escrow	—	—	5,240	—	—	5,240
Net proceeds from sale of real estate	—	—	27,241	—	—	27,241
Net cash (used in) provided by investing activities	(197,817)	(384,551)	(475,575)	(13,617)	582,334	(489,226)
Cash flows from financing activities:						
Net proceeds from revolving credit facility	—	187,000	—	—	—	187,000
Proceeds from term loan	—	—	73,242	—	—	73,242
Proceeds from mortgage notes	—	—	—	28,735	—	28,735
Principal payments on mortgage notes	—	—	—	(3,132)	—	(3,132)
Payments of deferred financing costs	—	(232)	(740)	(480)	—	(1,452)
Contributions by noncontrolling interest	—	—	—	179	—	179
Issuance of common stock	139,403	—	—	—	—	139,403
Dividends paid on common and preferred stock	(109,897)	—	—	—	—	(109,897)
Contribution from Parent	—	414	—	414	(828)	—
Distribution to Parent	—	(3,515)	—	(3,515)	7,030	—
Intercompany financing	—	200,884	402,745	(15,093)	(588,536)	—
Net cash provided by (in used) financing activities	29,506	384,551	475,247	7,108	(582,334)	314,078
Net (decrease) increase in cash and cash equivalents	(56,020)	—	492	1,481	—	(54,047)
Effect of foreign currency translation on cash and cash equivalents	(231)	—	(36)	(45)	—	(312)
Cash and cash equivalents, beginning of period	58,799	—	—	2,994	—	61,793
Cash and cash equivalents, end of period	$2,548	$ —	$ 456	$ 4,430	$ —	$ 7,434

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CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014
(in thousands)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Net cash provided by operating activities	$ 53,292	$ —	$ —	$ 32,045	$ —	$ 85,337
Cash flows from investing activities:						
Acquisitions of real estate	—	—	(763,378)	(8,101)	—	(771,479)
Origination and fundings of loans receivable	—	—	(66,397)	—	—	(66,397)
Preferred equity investments	—	—	(15,486)	—	—	(15,486)
Additions to real estate	(11)	—	(1,437)	(23)	—	(1,471)
Repayment of loans receivable	—	—	1,097	—	—	1,097
Net proceeds from the sale of real estate	—	—	27,264	—	—	27,264
Investment in Subsidiary	(12,147)	(12,147)	—	—	24,294	—
Distribution from Subsidiary	1,246	1,246	—	—	(2,492)	—
Intercompany financing	(415,790)	(958,970)	—	—	1,374,760	—
Net cash (used in) provided by investing activities	(426,702)	(969,871)	(818,337)	(8,124)	1,396,562	(826,472)
Cash flows from financing activities:						
Proceeds from issuance of senior unsecured notes	—	499,250	—	—	—	499,250
Principal payments on senior unsecured notes	—	(211,250)	—	—	—	(211,250)
Net proceeds (repayment) from revolving credit facility	—	268,000	(135,500)	—	—	132,500
Proceeds from mortgage notes	—	—	—	57,703	—	57,703
Principal payments on mortgage notes	—	—	—	(89,110)	—	(89,110)
Payments of deferred financing costs	—	(12,820)	(5,133)	(1,178)	—	(19,131)
Issuance of common stock	510,147	—	—	—	—	510,147
Dividends paid on common and preferred stock	(81,489)	—	—	—	—	(81,489)
Contribution from Parent	—	12,147	—	12,147	(24,294)	—
Distribution to Parent	—	(1,246)	—	(1,246)	2,492	—
Intercompany financing	—	415,790	958,970	—	(1,374,760)	—
Net cash provided by (used in) financing activities	428,658	969,871	818,337	(21,684)	(1,396,562)	798,620
Net increase in cash and cash equivalents	55,248	—	—	2,237	—	57,485
Cash and cash equivalents, beginning of period	3,551	—	—	757	—	4,308
Cash and cash equivalents, end of period	$ 58,799	$ —	$ —	$ 2,994	$ —	$ 61,793

16. PRO FORMA FINANCIAL INFORMATION (UNAUDITED)

The following table summarizes, on an unaudited pro forma basis, the consolidated results of operations of the Company for the years ended December 31, 2016 and 2015. During the year ended December 31, 2016, the Company acquired one skilled nursing/transitional care facility and three senior housing facilities that were accounted for as business combinations. During the year ended December 31, 2015, the Company acquired four skilled nursing/transitional care facilities and 20 senior housing facilities which were all accounted for as business combinations. The following unaudited pro forma information has been prepared to give effect to the acquisitions completed during the year ended December 31, 2016 and December 31, 2015 as if these acquisitions occurred on January 1, 2015 and 2014, respectively. This pro forma information does not purport to represent what the actual results of operations of the Company would have been had these acquisitions occurred on January 1, 2015 and 2014, nor does it purport to predict the results of operations for future periods (in thousands, except share and per share amounts):

	Year Ended December 31,	
	2016	2015
Revenues	$266,727	$ 276,978
Depreciation and amortization	70,316	74,101
Net income attributable to common stockholders	65,530	99,004
Net income attributable to common stockholders, per:		
Basic common share	1.00	1.59
Diluted common share	1.00	1.59
Weighted average number of common shares outstanding, basic	65,284,251	62,235,014
Weighted average number of common shares outstanding, diluted	65,520,672	62,460,239

Expensed acquisition pursuit costs of $1.1 million related to the acquisitions completed during year the ended December 31, 2016 are not expected to have a continuing impact and, therefore, have been excluded from the pro forma results for the year ended December 31, 2016.

17. COMMITMENTS AND CONTINGENCIES

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state and local governments. The Company is not aware of any environmental liability that could have a material adverse effect on its financial condition or results of operations. However, changes in applicable environmental laws and regulations, the uses and conditions of properties in the vicinity of the Company’s properties, the activities of its tenants and other environmental conditions of which the Company is unaware with respect to the properties could result in future environmental liabilities. As of December 31, 2016, the Company does not expect that compliance with existing environmental laws will have a material adverse effect on the Company’s financial condition and results of operations.

Income Taxes

As a result of the Company’s separation from Sun effective November 15, 2010 (the “Separation Date”), the Company is the surviving taxpayer for income tax purposes. Accordingly, tax positions taken prior to the Separation Date remained the Company’s obligations after the Separation Date. Sun agreed to indemnify the Company against, among other things, federal, state and local taxes (including penalties and interest) related to periods prior to the Separation Date to the extent the deferred tax assets allocated to the Company are not sufficient and/or cannot be utilized to satisfy these taxes.

Effective December 1, 2012, Sun was acquired by Genesis HealthCare LLC. As a result of its acquisition Sun, Genesis HealthCare LLC became successor to the obligations of Sun described above. Effective February 2, 2015, Genesis HealthCare LLC combined with Skilled Healthcare Group, Inc. and now operates under the name Genesis Healthcare, Inc.

Legal Matters

From time to time, the Company is party to legal proceedings that arise in the ordinary course of its business. Management is not aware of any legal proceedings where the likelihood of a loss contingency is reasonably possible and the amount or range of reasonably possible losses is material to the Company's results of operations, financial condition or cash flows.

18. SUBSEQUENT EVENTS

The Company evaluates subsequent events up until the date the consolidated financial statements are issued.

Dividend Declaration

On February 3, 2017, the Company announced that its board of directors declared a quarterly cash dividend of $0.42 per share of common stock. The dividend will be paid on February 28, 2017 to stockholders of record as of the close of business on February 15, 2017.

Also on February 3, 2017, the Company announced that its board of directors declared a quarterly cash dividend of $0.4453125 per share of Series A Preferred Stock. The dividend will be paid on February 28, 2017 to stockholders of record as of the close of business on February 15, 2017.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
December 31, 2016
(dollars in thousands)

	Balance at Beginning of Year	Charged to Earnings	Uncollectible Accounts Written-off	Foreign Currency Translation due to Charges	Balance at End of Year
Year ended December 31, 2016					
Allowance for doubtful accounts	$ 3,811	$ 235	$ (353)	$ —	$ 3,693
Straight-line rent receivable allowance	5,331	3,540	(5,191)	(12)	3,668
Loan loss reserves	4,300	1,768	(3,318)	—	2,750
	$ 13,442	$ 5,543	$ (8,862)	$ (12)	$ 10,111
Year ended December 31, 2015					
Allowance for doubtful accounts	$ —	$ 3,811	$ —	$ —	$ 3,811
Straight-line rent receivable allowance	600	4,731	—	—	5,331
Loan loss reserves	—	4,300	—	—	4,300
	$ 600	$ 12,842	$ —	$ —	$ 13,442
Year ended December 31, 2014					
Straight-line rent receivable allowance	—	600	—	—	600

SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
December 31, 2016
(dollars in thousands)

				Initial Cost to Company				Gross Amount at Which Carried at Close of Period						
Description	Location	Ownership Percentage	Encumbrances(1)	Land	Building and Improvements(1)	Total	Cost Capitalized Subsequent to Acquisition	Land	Building and Improvements(2)(3)	Total	Accumulated Depreciation and Amortization	Original Date of Construction/ Renovation	Date Acquired	Li W De in Inc Sta Co
Skilled Nursing/Transitional Care Facilities														
New Martinsville	New Martinsville, WV	100%	—	$475	$10,543	$11,018	—	$475	$10,355	$10,830	$(4,059)	1982	11/15/10	39
Glenville	Glenville, WV	100%	—	484	2,839	3,323	—	484	2,729	3,213	(754)	1982/2006/2015	11/15/10	40
Renaissance Terrace	Harriman, TN	100%	—	76	4,459	4,535	—	76	3,943	4,019	(1,905)	1985/1989, 2008	11/15/10	38
Greenwood	Warwick, RI	100%	—	2,066	10,178	12,244	—	2,066	9,810	11,876	(4,194)	1964/2009	11/15/10	24
Forest Hills (SNF)	Broken Arrow, OK	100%	(4)	1,653	11,259	12,912	—	1,653	10,951	12,604	(4,017)	1994/2008, 2009/2010, 2015	11/15/10	40
Seminole Estates	Seminole, OK	100%	—	655	3,527	4,182	—	655	3,259	3,914	(888)	1987	11/15/10	32
Bryan Care	Bryan, OH	100%	—	1,278	6,477	7,755	—	1,278	6,081	7,359	(2,102)	1976	11/15/10	30
Sylvania	Sylvania, OH	100%	—	942	5,627	6,569	—	942	5,178	6,120	(2,323)	1967/1974, 1986, 1995, 2008, 2009	11/15/10	24
Point Place	Toledo, OH	100%	—	1,089	5,364	6,453	—	1,089	5,109	6,198	(1,462)	1995/2011	11/15/10	36
Perrysburg	Perrysburg, OH	100%	—	987	5,358	6,345	—	987	4,996	5,983	(1,710)	1984	11/15/10	32
Forest View	Dayton, OH	100%	—	819	4,214	5,033	—	819	3,945	4,764	(1,681)	1968	11/15/10	24
New Lebanon	New Lebanon, OH	100%	—	784	4,243	5,027	—	784	3,797	4,581	(1,418)	1979	11/15/10	28
New Lexington	New Lexington, OH	100%	—	63	3,487	3,550	—	63	3,138	3,201	(2,095)	1981	11/15/10	20
Twin Rivers	Defiance, OH	100%	—	280	3,004	3,284	—	280	2,758	3,038	(1,000)	1980	11/15/10	30
San Juan	Farmington, NM	100%	9,709	799	4,163	4,962	3	799	3,866	4,665	(1,512)	1963/1993	11/15/10	24
McKinley Care	Gallup, NM	100%	5,506	409	1,865	2,274	4	409	1,768	2,177	(687)	1968	11/15/10	24
Bedford Hills	Bedford, NH	100%	6,316	1,911	12,245	14,156	—	1,911	11,391	13,302	(3,641)	1992/2010	11/15/10	36
Exeter on Hampton	Exeter, NH	100%	—	2,365	2,350	4,715	—	2,365	691	3,056	(373)	1976/2011	11/15/10	40

Pheasant Wood	Petersborough, NH	100%	—	625	3,986	4,611	—	625	3,479	4,104	(1,443)	1975/2016	11/15/10	28
Westwood	Keene, NH	100%	—	699	3,823	4,522	—	699	3,346	4,045	(1,623)	1965/2010	11/15/10	24
Colonial Hill	Rochester, NH	100%	—	412	3,960	4,372	—	412	3,644	4,056	(1,532)	1986/2010	11/15/10	44
Crestwood Care	Milford, NH	100%	—	557	3,441	3,998	—	557	3,007	3,564	(1,293)	1972	11/15/10	28
Applewood	Winchester, NH	100%	—	348	3,075	3,423	—	348	2,673	3,021	(963)	1987	11/15/10	32
The Elms Care	Milford, NH	100%	—	312	1,679	1,991	—	312	1,480	1,792	(801)	1890/2005	11/15/10	20
Woodland Hill	Asheboro, NC	100%	—	1,706	8,053	9,759	—	1,706	7,612	9,318	(2,378)	1987/2009	11/15/10	32
Missouri River	Great Falls, MT	100%	11,064	2,023	16,967	18,990	—	2,023	16,516	18,539	(6,741)	1960/1990, 2010	11/15/10	30
Butte Care	Butte, MT	100%	—	1,092	12,654	13,746	—	1,092	12,469	13,561	(4,308)	1974/2012	11/15/10	35
Whitefish Care	Whitefish, MT	100%	—	651	6,339	6,990	—	651	6,206	6,857	(2,230)	1973/2012	11/15/10	35

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Description	Location	Ownership Percentage	Encumbrances	Initial Cost to Company: Land	Initial Cost to Company: Building and Improvements[1]	Initial Cost to Company: Total	Cost Capitalized Subsequent to Acquisition	Gross Amount at which Carried at Close of Period: Land	Gross Amount at which Carried at Close of Period: Building and Improvements	Gross Amount at which Carried at Close of Period: Total [2][3]	Accumulated Depreciation and Amortization	Original Date of Construction/ Renovation	Date Acquired	Life on Which Depreciation in Latest Income Statement is Computed
Deer Lodge	Deer Lodge, MT	100%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1973	11/15/10	30
Twin Oaks	Danvers, MA	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1969	11/15/10	24
Maplewood	Amesbury, MA	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1968/2010	11/15/10	24
Saugus	Saugus, MA	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1967	11/15/10	24
Kensington Manor	Elizabethtown, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2001/2010	11/15/10	37
Regency Care	Louisville, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1960/2014	11/15/10	25
Countryside Care	Bardwell, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1993/2010	11/15/10	35
Bradford Square	South Frankfort, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1960/1990	11/15/10	25
Hillside Villa	Madisonville, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1962/1978, 1997	11/15/10	25
Klondike Care	Louisville, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1974/1980, 1994, 1995, 2008	11/15/10	28
Colonial Manor	Bowling Green, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1963	11/15/10	25
Barkley Center	Paducah, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1999/2014	11/15/10	35
Hopkins Care	Woodburn, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1960	11/15/10	25
Bridge Point	Florence, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1969/2008, 2009, 2010	11/15/10	20
Magnolia Village	Bowling Green, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1991	11/15/10	29
Decatur Township	Indianapolis, IN	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1985/2016	11/15/10	32
Gooding/Bennett Hills	Gooding, ID	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1968/2009	11/15/10	40
Fountain City	Columbus, GA	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1970/2012	11/15/10	40
Etowah Landing	Rome, GA	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1973/1977, 1987	11/15/10	40
Oakhurst	Ocala, FL	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1984/2010	11/15/10	32
Orchard Ridge	New Port Richey, FL	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1983/1995, 2012	11/15/10	32
Bay Tree		100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1981	11/15/10	32

	Palm Harbor, FL							
West Bay	Oldsmar, FL	100%	—	74,565,0435	74,51 10,881,5471	1982/2010	11/15/10	32
Sunset Point	Clearwater, FL	100%	—	70,635,0076	73,0 11,7602,1501	1983	11/15/10	32
Arden House	Hamden, CT	100%	19,2	2235,810,066	22,5836,08,642	1973/2008, 2010	11/15/10	28
Pope John Paul	Danbury, CT	100%	—	13,1702,702	12,6020,64,041	1983/2009	11/15/10	32
St. Camillus	Stamford, CT	100%	—	12,512,528	11,4113,41,345	1987/2008	11/15/10	32
Madison House	Madison, CT	100%	—	48,3164,501	47,3712,05,320	1994/2009, 2010	11/15/10	36
Willows (CT)	Woodbridge, CT	100%	—	19,8981,799	19,8130,0,26,873	1989/2011	11/15/10	32
The Reservoir	West Hartford, CT	100%	—	19,2450,7,661	19,2043,0,2,9784	1995/2009, 2011	11/15/10	36
Glen Hill	Danbury, CT	100%	—	97,817,935	96,8417,93,42,882	1963/2009	11/15/10	24

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Description	Location	Ownership Percentage	Encumbrances	Initial Cost to Company: Land	Initial Cost to Company: Building and Improvements[1]	Initial Cost to Company: Total	Cost Capitalized Subsequent to Acquisition	Gross Amount at which Carried at Close of Period: Land	Gross Amount at which Carried at Close of Period: Building and Improvements	Gross Amount at which Carried at Close of Period: Total[2][3]	Accumulated Depreciation and Amortization	Original Date of Construction/ Renovation	Date Acquired	Life on Which Depreciation in Latest Income Statement is Computed
Governor's House	Simsbury, CT	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1895/2008, 2010	11/15/10	20
Elms Haven	Thornton, CO	100%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1987/1989, 1997, 2007, 2008/2016	11/15/10	40
Sable	Aurora, CO	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1973	11/15/10	35
Carmichael	Carmichael, CA	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1960/1976, 2010	11/15/10	40
Willows (CA)	Willows, CA	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1969/2010, 2015	11/15/10	40
Washington Care	San Leandro, CA	100%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1969/2010	11/15/10	40
Lake Drive	Henryetta, OK	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1968	11/15/10	10
Mineral Springs	North Conway, NH	100%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1988/2009	11/15/10	43
Wolfeboro	Wolfeboro, NH	100%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1984/1986, 1987, 2009	11/15/10	41
Edmondson Care	Brownsville, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1994/2009	11/15/10	35
Heartland Villa	Lewisport, KY	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1994/2009	11/15/10	35
Meridian Care	Meridian, ID	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1997/2009	11/15/10	39
St. Joseph's	Trumbull, CT	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1959	11/15/10	24
Broadmeadow Healthcare	Middletown, DE	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2005	08/01/11	40
Capitol Healthcare	Dover, DE	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1996/2016	08/01/11	40
Pike Creek Healthcare	Wilmington, DE	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2009	08/01/11	40
Renaissance Healthcare	Millsboro, DE	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2008	08/01/11	40
Clara Burke	Plymouth Meeting, PA	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1927/1990, 2007/2016	03/30/12	40
Warrington	Warrington, PA	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1958/2009/2016	03/30/12	40
Ridgecrest	Duffield, VA	100%	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1981/2013	05/10/12	40

Camden Care Center	Minneapolis, MN	100%	—	[illegible]	1990	11/30/12	40
Arbrook Plaza	Arlington, TX	100%	—	[illegible]	[illegible]002/2012	11/30/12	40
Northgate Plaza	Irving, TX	100%	—	[illegible]	[illegible]003/2012, 2015	11/30/12	40
Gulf Pointe Plaza	Rockport, TX	100%	—	[illegible]	2002/2012	11/30/12	40
Gateway Senior Living	Lincoln, NE	100%	—	[illegible]	[illegible]962/1996/2013	02/14/14	40
Legacy	Fremont, NE	100%	—	[illegible]	[illegible]008	02/14/14	40
Pointe	Fremont, NE	100%	—	[illegible]	1970/1979/1983/1994	02/14/14	40
Regency	South Sioux City, NE	100%	—	[illegible]	1954/1968/1975/2000/2004	02/14/14	40

Description	Location	Ownership Percentage	Encum-brances[1]	Initial Cost to Company			Cost Capitalized Subsequent to Acquisition	Gross Amount at which Carried at Close of Period			Life on Which Depreciation in Latest Income Statement is Computed
				Land	Building and Improve-ments[1]	Total		Land	Building and Improve-ments[2][3]	Total	