

Sabra Health Care REIT, Inc.
Form 10-K
February 19, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

27-2560479
(I.R.S. Employer Identification No.)

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 No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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

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post such files). Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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, 2015, there were 59,233,904 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 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2014, 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 and the federal securities laws. 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 Tenant”) 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;
- 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”); 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.

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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 provided in this 10-K has been 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.

As of December 31, 2014, our investment portfolio consisted of 160 real estate properties held for investment (consisting of (i) 103 skilled nursing/transitional care facilities, (ii) 55 senior housing facilities, and (iii) two acute care hospitals), 14 investments in loans receivable (consisting of (i) four mortgage loans, (ii) three construction loans, (iii) two mezzanine loans, and (iv) five pre-development loans) and six preferred equity investments. Included in the 160 real estate properties held for investment is one 100% owned senior housing facility leased to a 50%/50% RIDEA-compliant joint venture tenant. As of December 31, 2014, our real estate properties held for investment had a total of 16,718 beds/units, spread across 34 states. As of December 31, 2014, all of our real estate properties were leased under triple-net operating leases with expirations ranging from two to 18 years.

We expect to continue to grow our portfolio primarily through the acquisition of assisted living, independent living and memory care facilities and with a secondary focus on acquiring skilled nursing and transitional care facilities. We have and will continue to opportunistically acquire other types of healthcare real estate (including acute care hospitals) and originate financing secured directly or indirectly by healthcare 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 senior housing through RIDEA-compliant structures, mezzanine and secured debt investments, and joint ventures for senior housing and skilled nursing/transitional care facilities.

With respect to our debt and preferred equity investments, 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 joint venture 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 purchase price 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. 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 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. 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.

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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. We invest primarily in the United States 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 United States Census Bureau, Americans over the age of 65 is projected to be the fastest growing segment of the population, growing at a compounded annual growth rate of 2.5% over the next five years and 2.4% over the next ten years. Additionally, according to the United States Census Bureau, life expectancy is expected to increase to 79.5 years in 2020 from 76.8 years in 2000. Furthermore, the National Investment Center for Seniors Housing and Care, a leading industry data provider, estimates that as of the fourth quarter of 2013, only 14.9% 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 Centers for Medicare & Medicaid Services, nursing home expenditures are projected to grow from approximately \$156 billion in 2013 to approximately \$271 billion in 2023, representing a compounded annual growth rate of 5.7%. 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 in the United States that offer a range of services including skilled nursing/transitional care, assisted and independent living, mental health and acute care. As of December 31, 2014, our investment portfolio consisted of 160 real estate properties held for investment, 14 investments in loans receivable and six preferred equity investments. Of our 160 properties held for investment as of December 31, 2014, we owned fee title to 154 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, 2014:

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

- 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.

- 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.

- 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, 2014 (dollars in thousands):

Distribution of Beds/Units

State	Total Number of Properties	Bed/Unit Type			Total	% of Total	
		Skilled Nursing / Transitional Care	Senior Housing	Acute Care Hospitals			
Texas	18	845	794	124	1,763	10.5	%
New Hampshire	16	1,470	203	—	1,673	10.0	
Connecticut	11	1,350	140	—	1,490	8.9	
Florida	11	767	618	—	1,385	8.3	
Kentucky	15	1,020	128	—	1,148	6.9	
Ohio	8	897	—	—	897	5.4	
Nebraska	6	380	291	—	671	4.0	
Oklahoma	7	496	83	—	579	3.5	
Michigan	10	—	571	—	571	3.4	
Colorado	4	509	48	—	557	3.3	
Other (24 states)	54	3,602	2,382	—	5,984	35.8	
	160	11,336	5,258	124	16,718	100.0	%
% of Total beds/units		67.8	% 31.5	% 0.7	% 100.0	%	

Geographic Concentration — Property Type

State	Skilled Nursing/Transitional Care	Senior Housing	Acute Care Hospitals	Total	% of Total	
Texas	7	9	2	18	11.3	%
New Hampshire	14	2	—	16	10.0	
Kentucky	13	2	—	15	9.4	
Florida	6	5	—	11	6.9	
Connecticut	9	2	—	11	6.9	
Michigan	—	10	—	10	6.3	
Ohio	8	—	—	8	5.0	
Oklahoma	6	1	—	7	4.4	
Nebraska	4	2	—	6	3.8	
California	3	1	—	4	2.5	
Other (24 states)	33	21	—	54	33.5	
Total	103	55	2	160	100.0	%
% of Total properties	64.4	% 34.4	% 1.2	% 100.0	%	

Geographic Concentration — Investment⁽¹⁾

State	Total Number of Properties	Skilled Nursing/Transitional Care	Senior Housing	Acute Care Hospitals	Total	% of Total	
Texas	18	\$ 79,508	\$ 167,084	\$ 175,807	\$ 422,399	23.1	%
Connecticut	11	116,587	29,174	—	145,761	8.0	
Florida	11	39,503	92,707	—	132,210	7.2	
Delaware	4	95,780	—	—	95,780	5.2	
Nebraska	6	63,088	28,296	—	91,384	5.0	
New Hampshire	16	75,563	12,492	—	88,055	4.8	
North Carolina	3	9,538	67,272	—	76,810	4.2	
Michigan	10	—	74,013	—	74,013	4.0	
Kentucky	15	57,238	9,621	—	66,859	3.7	
Oklahoma	7	57,309	5,641	—	62,950	3.4	
Other (24 states)	59	257,138	318,175	—	575,313	31.4	
Total	160	\$ 851,252	\$ 804,475	\$ 175,807	\$ 1,831,534	100.0	%
% of Total investments		46.5	% 43.9	% 9.6	% 100.0	%	

⁽¹⁾ Represents the undepreciated book value of our real estate held for investment as of December 31, 2014.

Loans Receivable and Other Investments

As of December 31, 2014 and 2013, the Company's loans receivable and other investments consisted of the following (dollars in thousands):

Investment	Quantity	Facility Type	Principal Balance as of December 31, 2014	Book Value as of December 31, 2014	Book Value as of December 31, 2013	Weighted Average Contractual Interest Rate / Rate of Return	Weighted Average Annualized Effective Interest Rate / Rate of Return	Maturity Date
Loans Receivable:								
Mortgage	4	Skilled Nursing / Senior Housing / Acute Care Hospital	\$ 144,033	\$ 144,383	\$ 149,450	8.3 %	8.2 %	10/13/15 - 1/31/18
Construction	3	Acute Care Hospital / Senior Housing	65,242	65,525	14,283	7.5 %	7.4 %	9/30/16 - 10/31/18
Mezzanine	2	Skilled Nursing / Senior Housing	21,432	21,491	12,410	11.3 %	11.1 %	6/27/15 - 8/31/17
Pre-development	5	Senior Housing	3,652	3,777	1,366	9.0 %	7.8 %	8/16/15 - 9/09/17
	14		234,359	235,176	177,509	8.3 %	8.2 %	
Other Investments:								
Preferred Equity	6	Skilled Nursing/Senior Housing	16,125	16,407	7,784	12.5 %	12.4 %	N/A
Total	20		\$ 250,484	\$ 251,583	\$ 185,293	8.6 %	8.5 %	

Significant Credit Concentrations

The following table provides information regarding relationships that represent more than 10% of our annualized revenues as of December 31, 2014:

Tenant	Number of Investments	% of Total Investments, Gross	% of Annualized Revenues
Genesis Healthcare, Inc.	81	24.6	% 36.2
Holiday AL Holdings LP	21	26.0	17.8

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 and 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 (including through our 2014 ATM Program (as defined below)), 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.

Competitive Strengths

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

Geographically Diverse and Stable Property Portfolio

Our portfolio of 160 properties held for investment as of December 31, 2014, comprising 16,718 beds/units, is broadly diversified by location across 34 states. Our properties in any one state did not account for more than 11% of our total beds/units as of December 31, 2014. 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 properties remained stable over the last three years at

between 88.1% and 89.5% for our skilled nursing/transitional care facilities and between 90.3% and 88.9% for our senior housing facilities.

Long-Term, Triple-Net Lease Structure

All of our real estate properties are leased under triple-net operating leases with expirations ranging from two to 18 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, 2014, the leases had a weighted-average remaining term of 11 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 related parties. 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 \$0.4 million and \$1.6 million as of December 31, 2014 and 2013, 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. 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 skilled nursing facilities and other healthcare facilities, 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 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 and with a secondary focus on acquiring skilled nursing and transitional care facilities. We have and will continue to opportunistically acquire other types of healthcare real estate (including acute care hospitals) and originate financing secured directly or indirectly by healthcare facilities.

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, 2014, we had approximately \$443.7 million in liquidity, consisting of unrestricted cash and cash equivalents of \$61.7 million (excluding cash and cash equivalents associated with our RIDEA-compliant joint venture), and available borrowings under our Revolving Credit Facility of \$382.0 million. 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 (including through our at-the-market common stock offering program ("2014 ATM Program")), we expect will fund the growth of our operations. As of December 31, 2014, we had \$76.5 million available under our 2014 ATM Program. 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 29 as of December 31, 2014. 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.

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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 senior housing through RIDEA-compliant structures, mezzanine and secured debt investments, and joint ventures for senior housing and skilled nursing/transitional care facilities.

Our Employees

As of December 31, 2014, we employed 10 full-time employees (including our executive officers) and one part-time employee, 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 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 and mental health centers are licensed under applicable state law, and are certified or approved as providers under the Medicare and Medicaid programs. State and local agencies survey all skilled nursing 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 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, 2014, our subsidiaries owned 14 healthcare facilities (11 skilled nursing/transitional care facilities and 3 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."

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.

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.

We generate 36.2% of our annualized revenues from leases to subsidiaries of Genesis, with Genesis guaranteeing the obligations under these 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 Tenant 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.

We generate 17.8% of our annualized revenues from a lease with Holiday Tenant, 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 Tenant is not able to satisfy its obligations to us, we would be entitled, among other remedies, to use the letter of credit of Holiday Tenant then held by us as security for Holiday Tenant's performance of its obligations (approximately \$15.1 million as of December 31, 2014) 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, 2014, the Guarantor has guaranteed, or agreed to guarantee, significant lease obligations of various other of its subsidiaries in addition to its guarantee of Holiday Tenants' 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 Tenant 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. 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, 2014, our indebtedness consisted of \$700.0 million of senior unsecured notes, including \$500 million total aggregate principal amount of 5.5% senior unsecured notes due 2021 (the "2021 Notes") and \$200 million aggregate principal amount of 5.375% senior notes due 2023 (the "2023 Notes" and, together with the 2021 Notes, the "Senior Notes"), a \$200.0 million term loan, \$68.0 million outstanding under our Revolving Credit Facility and aggregate mortgage indebtedness to third parties of \$124.0 million on certain of our properties, and we had \$382.0 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 Revolving Credit Facility, on commercially reasonable terms or at all. In particular, our Revolving 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 Revolving 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 Revolving 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 Revolving 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 existing and future debt and could adversely affect our stock price.

If interest rates increase, so could our interest costs for portions of our existing debt 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.

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 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 Medicare and Medicaid programs, or other measures reducing reimbursements for services provided by our tenants, has resulted, and may continue to 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 legislative and regulatory proposals could impose additional limitations on government and private payments to healthcare providers. 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.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, along with the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act"). The passage of the Affordable Care Act has resulted in comprehensive reform legislation that expanded health care coverage to millions of previously uninsured people beginning in 2014 and is expected to provide for significant changes to the U.S. healthcare system over the next ten years. To help fund this expansion, the Affordable Care Act outlines certain reductions in Medicare reimbursement rates for various healthcare providers, including long-term acute care hospitals and skilled nursing facilities, as well as certain other changes to Medicare payment methodologies. This comprehensive health care legislation provides for extensive future rulemaking by regulatory authorities, and also may be altered or amended. We cannot accurately predict whether any pending legislative proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our tenants and, thus, our business. Similarly, while we can anticipate that some of the rulemaking that will be promulgated by regulatory authorities will affect our tenants and the manner in which they are reimbursed by the federal health care programs, we cannot accurately predict today the impact of those regulations on our tenants and thus on our business.

In addition to the Affordable Care Act and related rulemaking, other legislation that could also affect Medicare reimbursement rates includes the enactment of the Consolidated Appropriations Act of 2014 and Congressional consideration of legislation pertaining to the federal debt ceiling, tax reform, and entitlement programs, including reimbursement rates for physicians. These legislative changes could have a material adverse effect on our tenants' liquidity, financial condition or results of operations. In particular, funding for entitlement programs such as Medicare and Medicaid may result in increased costs and fees for programs such as Medicare Advantage Plans and reductions in reimbursements to providers; Congressional action related to the federal debt ceiling may have an impact on credit markets; and tax reform may impact corporate and individual tax rates as well as impact retirement plans. Additionally, amendments to the Affordable Care Act, implementation of the Affordable Care Act by the Administration, and decisions by the Centers for Medicare and Medicaid Services could impact the delivery of services and benefits under Medicare, Medicaid or Medicare Advantage Plans. Such changes 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. Further, because Sabra owns appreciated assets that were held before Sabra elected to be treated as a REIT, if Sabra sells any such property in a taxable transaction within the ten-year period following Sabra's qualification as a REIT, Sabra will generally be subject to corporate tax on that gain to the extent of the built-in gain in that property at the time Sabra became a REIT. The amount of corporate tax that Sabra would pay will vary depending on the actual amount of net built-in gain or loss present in those assets as of the time Sabra became a REIT. As of January 1, 2011, the effective time of our REIT election, the built-in-gains tax associated with our properties totaled approximately \$145.8 million assuming a 40% corporate tax rate. 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.

Real estate is a competitive business and this competition may make it difficult for us to identify and purchase suitable healthcare properties.

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. If we cannot identify and purchase a sufficient quantity of healthcare properties at favorable prices or if we are unable to finance acquisitions on commercially favorable terms, 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, 2014, we employed 10 full-time employees, including our executive officers, and one part-time employee. Accordingly, the impact we may feel from the loss of one of our full-time 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 Revolving 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 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 could be subject to tax on any unrealized net built-in gains in the assets held before electing to be treated as a REIT.

We own appreciated assets that were held before we elected to be treated as a REIT. If such appreciated assets are disposed of in a gain recognition transaction within the 10-year period following our qualification as a REIT, we will generally be subject to corporate tax on that gain to the extent of the built-in gain in those assets at the time we became a REIT. The total amount of gain on which we can be taxed is limited to our net built-in gain at the time we became a REIT, i.e., the excess of the aggregate fair market value of our assets at the time we became a REIT over the adjusted tax bases of those assets at that time. We would be subject to this tax liability even if we qualify and maintain our status as a REIT. Any recognized built-in gain will retain its character as ordinary income or capital gain and will be taken into account in determining REIT taxable income and our distribution requirement. Any tax on the recognized built-in gain will reduce REIT taxable income. We may choose not to dispose of appreciated assets we might otherwise dispose of during the 10-year period in which the built-in gain tax applies in order to avoid the built-in gain tax. However, there can be no assurances that such a disposition will not occur. If we dispose of such assets in a gain recognition transaction, the amount of corporate tax that we will pay will vary depending on the actual amount of net built-in gain or loss present in those assets as of the effective time of our REIT election. The amount of tax could be significant. As of January 1, 2011, the effective time of our REIT election, the built-in-gains tax associated with our properties totaled approximately \$145.8 million assuming 40% corporate tax rate.

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 taxable REIT subsidiaries (“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. 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, 2014, our investment portfolio consisted of 160 real estate properties held for investment (consisting of (i) 103 skilled nursing/transitional care facilities, (ii) 55 senior housing facilities, and (iii) two acute care hospitals), 14 investments in loans receivable (consisting of (i) four mortgage loans, (ii) three construction loans, (iii) two mezzanine loans, and (iv) five pre-development loans) and six preferred equity investments. Included in the 160 real estate properties held for investment is one 100% owned senior housing facility leased to a 50%/50% RIDEA-compliant joint venture tenant.

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, 2014 by year and facility type (dollars in thousands) and, in each case, without giving effect to any renewal options:

	2015 - 2019	2020	2021	2022	2023	2024	2025	Thereafter	Total
Skilled Nursing/Transitional Care									
Properties	1	27	30	12	—	9	4	20	103
Beds/Units	120	3,025	3,508	869	—	1,036	575	2,203	11,336
Annualized Revenues	\$850	\$27,061	\$30,814	\$10,302	\$—	\$13,533	\$5,141	\$28,618	\$116,319
Senior Housing									
Properties ⁽¹⁾	—	2	3	13	—	9	1	26	54
Beds/Units	—	251	197	747	—	662	114	3,227	5,198
Annualized Revenues	—	1,974	1,501	8,975	—	7,075	837	43,350	63,712
Acute Care Hospitals									
Properties	—	—	—	—	—	—	—	2	2
Beds/Units	—	—	—	—	—	—	—	124	124
Annualized Revenues	—	—	—	—	—	—	—	18,809	18,809
Total Properties	1	29	33	25	—	18	5	48	159
Total Beds/Units	120	3,276	3,705	1,616	—	1,698	689	5,554	16,658
Total Annualized Revenues	\$850	\$29,035	\$32,315	\$19,277	\$—	\$20,608	\$5,978	\$90,777	\$198,840
% of Revenue	0.4 %	14.6 %	16.3 %	9.7 %	— %	10.4 %	3.0 %	45.6 %	100.0 %

⁽¹⁾ Excludes one senior housing facility that is part of the consolidated RIDEA-compliant joint venture.

Occupancy Trends

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

Occupancy % ⁽¹⁾

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	Year Ended December 31,				
	2014	2013	2012		
Skilled Nursing/Transitional Care	88.1	% 88.2	% 89.5		%
Senior Housing	90.3	% 87.9	% 88.9		%

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(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 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 strategic disposition candidates and facilities leased to RIDEA-compliant joint venture tenants. The Company includes occupancy percentage for stabilized facilities acquired beginning in the quarter subsequent to the acquisition date and only for periods when the property was operated subject to a lease with the Company. Occupancy percentage for facilities with new tenants/operators are only included in periods subsequent to the Company's acquisition of the facilities. 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 160 properties held for investment, 14 are subject to mortgage indebtedness to third parties that, as of December 31, 2014, totaled approximately \$124.0 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, 2014 and 2013, our mortgage notes payable consisted of the following (dollars in thousands):

Interest Rate Type	Book Value as of December 31, 2014	Book Value as of December 31, 2013	Weighted Average Effective Interest Rate at December 31, 2014	Maturity Date
Fixed Rate	\$124,022	\$54,688	3.96	% May 2031 - August 2051
Variable Rate	—	86,640	—	N/A
	\$124,022	\$141,328	3.96	%

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
2013			
First Quarter	\$29.14	\$22.08	\$0.34
Second Quarter	\$32.40	\$23.81	\$0.34
Third Quarter	\$28.54	\$21.55	\$0.34
Fourth Quarter	\$27.77	\$22.50	\$0.34
2014			
First Quarter	\$29.33	\$25.25	\$0.36
Second Quarter	\$31.17	\$27.63	\$0.38
Third Quarter	\$29.50	\$24.01	\$0.38
Fourth Quarter	\$31.34	\$24.25	\$0.39

At February 17, 2015, we had approximately 2,352 stockholders of record.

We did not repurchase any shares of our common stock during the year ended December 31, 2014.

On January 12, 2015, our board of directors declared a quarterly cash dividend of \$0.39 per share of common stock. The dividend will be paid on February 27, 2015 to stockholders of record as of February 13, 2015.

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 Revolving 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,		
	2014	2013	2012
Common Stock			
Non-qualified ordinary dividends	\$0.5206	\$0.4672	\$0.7992
Long-term capital gains	0.0854	—	—
Non-dividend distributions	0.9040	0.8928	0.5208
	\$1.5100	\$1.3600	\$1.3200
	Year Ended December 31,		
	2014	2013	
Preferred Stock			
Non-qualified ordinary dividends	\$1.5303	\$1.2370	
Long-term capital gains	0.2510	—	
	\$1.7813	\$1.2370	

Stock Price Performance Graph

The following graph compares the cumulative total stockholder return of our common stock for the period from November 16, 2010, the first trading date after the Separation Date, through December 31, 2014. The graph assumes that \$100 was invested at the close of market on November 15, 2010 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 2011 through 2014. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations":

	As of December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Balance sheet data:					
Total real estate investments, net	\$1,645,805	\$915,418	\$827,135	\$653,377	\$476,973
Loans receivable and other investments, net	\$251,583	\$185,293	\$12,017	\$—	\$—
Cash and cash equivalents	\$61,793	\$4,308	\$17,101	\$42,250	\$74,233
Total assets	\$2,064,892	\$1,173,623	\$892,670	\$724,110	\$573,259
Mortgage notes	\$124,022	\$141,328	\$152,322	\$153,942	\$156,913
Revolving credit facility	\$68,000	\$135,500	\$92,500	\$—	\$—
Term loan	\$200,000	\$—	\$—	\$—	\$—
Senior unsecured notes	\$699,272	\$414,402	\$330,666	\$225,000	\$225,000
Total liabilities	\$1,123,069	\$713,459	\$587,182	\$397,537	\$395,726
Total Sabra Health Care REIT, Inc. stockholders' equity	\$941,866	\$460,164	\$305,488	\$326,573	\$177,533
	Year Ended December 31,				Separation Date
	2014	2013	2012	2011	through December 31, 2010
	(Dollars in thousands, except per share data)				
Operating data:					
Total revenues	\$183,518	\$134,780	\$103,170	\$84,225	\$8,795
Net income attributable to common stockholders	\$36,710	\$25,749	\$19,513	\$12,842	\$7
Net income per common share—basic	\$0.79	\$0.69	\$0.53	\$0.43	\$—
Net income per common share—diluted	\$0.78	\$0.68	\$0.52	\$0.43	\$—
Other data:					
Cash flows provided by operations	\$85,337	\$62,099	\$56,252	\$44,705	\$6,592
Cash flows (used in) provided by investing activities	\$(826,472)	\$(297,509)	\$(218,650)	\$(204,586)	\$67,118
Cash flows provided by financing activities	\$798,620	\$222,617	\$137,249	\$127,898	\$523
Dividends declared and paid per common share	\$1.51	\$1.36	\$1.32	\$0.96	\$—
Weighted-average number of common shares outstanding, basic	46,351,544	37,514,637	37,061,111	30,109,417	25,110,936
Weighted-average number of common shares outstanding, diluted—net income and FFO	46,889,531	38,071,926	37,321,517	30,171,225	25,186,988
	47,147,722	38,364,727	37,829,421	30,399,132	25,645,131

Weighted-average number of common shares
outstanding, diluted—AFFO

FFO ⁽¹⁾	\$76,128	\$59,030	\$52,257	\$39,433	\$3,141
Diluted FFO per common share ⁽¹⁾	\$1.62	\$1.55	\$1.40	\$1.31	\$0.12
AFFO ⁽¹⁾	\$77,223	\$57,942	\$60,287	\$47,142	\$3,704
Diluted AFFO per common share ⁽¹⁾	\$1.64	\$1.51	\$1.59	\$1.55	\$0.14

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 (“FFO”), as defined in accordance with the definition used by the National Association of Real Estate Investment Trusts (“NAREIT”), and adjusted funds from operations (“AFFO”) (and related per share amounts) are important non-GAAP supplemental measures of our operating performance for a REIT. We consider FFO and AFFO to be useful

⁽¹⁾ measures for reviewing comparative operating and financial performance because, by excluding gains or losses from real estate dispositions, impairment charges, and real estate depreciation and amortization, and for AFFO, by excluding non-cash revenues (including, but not limited to, straight-line rental income adjustments and write-offs and non-cash interest income adjustments), non-cash expenses (including, but not limited to, stock-based compensation expense, amortization of deferred financing costs and amortization of debt premiums/discounts), acquisition pursuit costs and changes in fair value of contingent consideration,

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.”

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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.

Our investment portfolio is primarily comprised of skilled nursing/transitional care facilities, senior housing facilities, acute care hospitals, debt investments and preferred equity investments.

Acquisitions and Investments

We made investments of \$868.6 million during the year ended December 31, 2014. These investments consisted of: (i) \$787.1 million of real estate investments and additions, including the acquisition of the Holiday Portfolio, a portfolio of 21 independent living facilities located in 15 states that we acquired from Holiday for a total cash purchase price of \$550.0 million; (ii) \$15.3 million of preferred equity investments; and (iii) \$66.2 million of investments in loans receivable. These investments reduced our exposure to Genesis and skilled nursing/transitional care facilities from 51.0% and 69.5%, respectively, of our annualized revenues as of December 31, 2013 to 36.2% and 53.5%, respectively, of our annualized revenues as of December 31, 2014. In addition, we increased the percentage of our annualized revenues derived from non-governmental sources from 40.8% as of December 31, 2013 to 53.9% as of December 31, 2014.

Dispositions

On December 31, 2014, we completed the sale of three skilled nursing facilities for \$27.3 million. The carrying values of these facilities was \$23.4 million, which resulted in a \$3.9 million gain.

Capital Market Activity

During the year ended December 31, 2014, we completed: (i) an underwritten public offering of \$350.0 million aggregate principal amount of 2021 Notes on January 23, 2014; (ii) an underwritten public offering of 8.1 million newly issued shares of our common stock on May 12, 2014, resulting in net proceeds (before expenses) to us of \$219.1 million; (iii) an underwritten public offering of 6.9 million newly issued shares of our common stock on October 3, 2014, resulting in net proceeds (before expenses) to us of \$160.6 million; and (iv) an underwritten public offering of an additional \$150.0 million aggregate principal amount of 2021 Notes on October 10, 2014. During the year ended December 31, 2014, we also established the \$200.0 million 2014 ATM Program and sold approximately

5.0 million shares of our common stock under our

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prior ATM program and the 2014 ATM Program, generating gross proceeds of approximately \$140.4 million, before \$2.8 million of commissions. See Note 7, "Debt," and Note 10, "Equity," in the Notes to Consolidated Financial Statements for additional information concerning these offerings.

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.

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 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 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, 2014, we determined we were the primary beneficiary of one senior housing facility and have consolidated the operations of the facility in the accompanying consolidated financial statements. As of December 31, 2014, we determined that the operations of the facility 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, 2014, none of our 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. We assess 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 we reassess 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. We also apply this guidance to managing member interests in limited liability companies.

Real Estate Investments and Rental Revenue Recognition

Real Estate Acquisition Valuation

We account for the acquisition of income-producing real estate, or real estate that will be used for the production of income, as a business combination. 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 are expensed as incurred, and 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, 2014, 2013 and 2012, we acquired 42, 2, and 23 real estate properties, respectively, and expensed \$3.1 million, \$1.5 million and \$1.7 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.

Depreciation and Amortization

Real estate costs related to the acquisition and improvement of properties are capitalized and amortized over the lesser of the lease term, the expected useful life of the asset on a straight-line basis and the remaining lease term of any ground leases. 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. We consider 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 consolidated statements of operations. We anticipate the estimated useful lives of our 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

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. 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. We recorded a \$2.5 million impairment loss during the year ended December 31, 2012 related to an asset held for sale. We did not record any impairment losses on our real estate investments during the years ended December 31, 2014 or 2013.

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. If the lease provides for tenant improvements, we determine whether the tenant improvements, for accounting purposes, are owned by the tenant or by us. When we are the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term.

We make estimates of the collectibility 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. Our collectibility estimates for straight-line rent revenues include an assessment at the individual or master lease level as well as at an

overall portfolio level.

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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.

We review on a quarterly basis 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. Our loans receivable are evaluated for impairment at each balance sheet date. 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 present value of payments expected to be received, observable market prices, the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) or amounts expected to be received in satisfaction of a loan are lower than the carrying value of that loan. As of December 31, 2014, all of our loans were performing and none were considered to be impaired.

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.

Stock-Based Compensation

Stock-based compensation expense for stock-based awards granted to our employees and our non-employee directors are recognized in the statement of income based on their estimated 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 our estimate of the ultimate value of such award after considering our expectation of future performance.

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 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.

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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

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (“ASU No. 2014-08”), which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major

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effect on an entity's operations and financial results. The standard no longer precludes presentation as a discontinued operation if (i) there are operations and cash flows of the component that have not been eliminated from the reporting entity's ongoing operations, or (ii) there is significant continuing involvement with a component after its disposal.

ASU No. 2014-08 is effective for public entities for interim and annual periods beginning after December 15, 2014 with early adoption permitted. We adopted ASU 2014-08 on October 1, 2014 on a prospective basis. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance specifically notes that lease contracts with customers are a scope exception. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2016, and early adoption is not permitted. We are currently in the process of evaluating the impact the adoption of ASU 2014-09 will have on our financial position or results of operations.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the annual period ended December 31, 2016 and for annual periods and interim periods thereafter with early adoption permitted. The adoption of ASU 2014-15 is not expected to materially impact our consolidated financial statements.

Results of Operations

As of December 31, 2014, our investment portfolio consisted of 160 real estate properties held for investment, 14 investments in loans receivable and six preferred equity investments. As of December 31, 2013, our investment portfolio consisted of 121 real estate properties held for investment, 10 investments in loans receivable and two preferred equity investments. As of December 31, 2012, our investment portfolio consisted of 119 real estate properties held for investment, one asset held for sale and two mortgage loan 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 the increase in acquisition activity.

Comparison of results of operations for the years ended December 31, 2014 and 2013 (dollars in thousands):

	For the Year Ended		Increase / (Decrease)	Percentage Difference	Increase (Decrease) due to Acquisitions and Originations ⁽¹⁾	Remaining Increase (Decrease) ⁽²⁾
	2014	2013				
Revenues:						
Rental income	\$ 161,483	\$ 128,988	\$ 32,495	25	% \$34,709	\$(2,214)
Interest and other income	22,035	5,792	16,243	280	% 13,576	2,667
Expenses:						
Depreciation and amortization	43,332	33,281	10,051	30	% 11,489	(1,438)
Interest	46,958	40,460	6,498	16	% —	6,498
General and administrative	29,339	16,423	12,916	79	% 2,272	10,644
Other income (expense):						

Loss on extinguishment of debt	(22,454	)	(10,101	)	(12,353	)	(122	)%	—	(12,353)
Other income (expense)	1,560		(800	)	2,360		295	%	—	2,360	
Gain on sale of real estate	3,914		—		3,914		100	%	—	3,914	

⁽¹⁾ Represents the dollar amount increase (decrease) for the year ended December 31, 2014 compared to the year ended December 31, 2013 as a result of investments made after January 1, 2013.

⁽²⁾ Represents the dollar amount increase (decrease) for the year ended December 31, 2014 compared to the year ended December 31, 2013 that is not a direct result of investments made after January 1, 2013.

Rental Income

During the year ended December 31, 2014, we recognized \$161.5 million of rental income compared to \$129.0 million for the year ended December 31, 2013. The \$32.5 million increase in rental income is due to an increase of \$34.7 million from properties acquired after January 1, 2013. The increase is partially offset by a decrease in rental income from properties acquired before January 1, 2013. The decrease is primarily due to a \$1.6 million decrease related to the transition of operations on three facilities and the resulting modification of the lease terms and a \$0.8 million decrease due to the senior housing facility that became part of our RIDEA-compliant joint venture on January 1, 2014 after being included in rental income beginning on December 15, 2012. The rental revenue related to the senior housing facility that is part of our RIDEA-compliant joint venture is eliminated upon consolidation. Amounts due under the terms of all of our lease agreements are subject to contractual increases, and there is no contingent rental income that may be derived from our properties.

Interest and Other Income

During the year ended December 31, 2014, we recognized \$22.0 million of interest and other income compared to \$5.8 million for the year ended December 31, 2013. Interest and other income during the year ended December 31, 2014 primarily consisted of income earned on our 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 dividends on six preferred equity investments, two of which were repaid in August 2014. Our investments in loans receivable and preferred equity investments had a combined book value of \$251.6 million as of December 31, 2014. Interest and other income during the year ended December 31, 2013 primarily consisted of income earned on 10 investments in loans receivable and preferred dividends on our two preferred equity investments. These investments had a combined book value of \$185.3 million as of December 31, 2013. Interest and other income during the year ended December 31, 2014 also includes \$2.7 million of operating revenues associated with the consolidation of our RIDEA-compliant joint venture. As a result of consolidation, we reflect the joint venture's operating revenues in our consolidated statements of income beginning as of January 1, 2014.

Depreciation and Amortization

During the year ended December 31, 2014, we incurred \$43.3 million of depreciation and amortization expense compared to \$33.3 million for the year ended December 31, 2013. The \$10.1 million net increase in depreciation and amortization was primarily due to an increase of \$11.5 million from properties acquired after January 1, 2013, partially offset by a decrease of \$1.4 million related to assets that have been fully depreciated.

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, 2014, we incurred \$47.0 million of interest expense compared to \$40.5 million for the year ended December 31, 2013. The \$6.5 million net increase is primarily related to (i) a \$21.3 million increase in interest expense and amortization of deferred financing costs related to the January 2014 and October 2014 issuances of the \$350.0 million and \$150.0 million, respectively, aggregate principal amounts of 2021 Notes, (ii) a \$4.5 million increase in interest expense and amortization of deferred financing costs related to the May 2013 issuance of the \$200.0 million aggregate principal amount of 2023 Notes (as defined below), (iii) a \$2.1 million increase in interest expense related to the borrowings outstanding on the Revolving Credit Facility (as defined below) during the year ended December 31, 2014 and (iv) \$1.1 million of interest expense related to the term loan, partially offset by (x) a \$20.8 million net decrease in interest expense, amortization of deferred financing costs and issuance premium related to the redemption of the then-outstanding 2018 Notes (as defined below) completed in February 2014 and (y) a \$1.7 million decrease in interest expense primarily due to decreased interest rates on refinanced mortgage notes and the repayment of a \$29.8 million existing variable rate mortgage note. See Note 7, "Debt," in the Notes to Consolidated Financial Statements for additional information concerning the 2021 Notes, the 2023 Notes and the Revolving Credit Facility.

General and Administrative Expenses

General and administrative expenses include compensation-related expenses as well as professional services, office costs, facility operating expenses associated with the consolidation of our RIDEA-compliant joint venture and other costs associated with acquisition pursuit activities and asset management. During the year ended December 31, 2014,

general and administrative expenses were \$29.3 million compared to \$16.4 million for the year ended December 31, 2013. The \$12.9 million net increase is primarily related to (i) a \$3.0 million straight-line rental income write-off 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, (ii) a \$1.0 million increase in legal, audit and professional fees due to the increase in financing and acquisition activity, (iii) a \$0.2 million holdback fee expense related to the Forest Park - Frisco contingent consideration, (iv) a \$0.2 million increase in payroll expenses, (v) a \$0.6 million portfolio-based allowance for doubtful accounts recorded against our straight-line rent receivables,

(vi) \$3.7 million of facility operating expenses (including expenses of \$1.7 million associated with transitioning two assets to new operators), (vii) a \$1.6 million increase in acquisition pursuit costs, from \$1.5 million during the year ended December 31, 2013 to \$3.1 million during the year ended December 31, 2014, and (viii) a \$2.0 million increase in stock-based compensation. The increase in acquisition pursuit costs is primarily related to our acquisition of the Holiday Portfolio. The increase in stock-based compensation expense, from \$7.8 million during the year ended December 31, 2013 to \$9.9 million during the year ended December 31, 2014, is primarily the result of meeting certain performance criteria under the terms of our performance-based stock units. We expect acquisition pursuit costs to fluctuate from period to period depending on acquisition activity. 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.

Loss on Extinguishment of Debt

During the year ended December 31, 2014, we recognized \$22.5 million of loss on debt extinguishment. 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 Revolving Credit Facility. During the year ended December 31, 2013, we recognized \$10.1 million of loss on debt extinguishment. Of this amount, \$9.8 million related to the write-offs of deferred financing costs and issuance premium and the redemption fee paid in connection with the June 2013 redemption of \$113.8 million in aggregate principal amount of the then-outstanding 2018 Notes and \$0.3 million related to the write-offs of deferred financing costs in connection with the Prior Revolving Credit Facility (as defined below).

Other Income (Expense)

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 (see Note 4, "Real Estate Properties Held for Investment" in the Notes to Consolidated Financial Statements for further details). During the year ended December 31, 2013, we recognized \$0.8 million in other expense as a result of adjusting the fair value of our contingent consideration liability related to the Stoney River Marshfield facility acquisition.

Gain on Sale of Real Estate

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.

Comparison of results of operations for the years ended December 31, 2013 and 2012 (dollars in thousands):

	For the Year Ended December 31,		Increase / (Decrease)	Percentage Difference	Increase (Decrease) due to Acquisitions and Originations ⁽¹⁾	Remaining Increase (Decrease) ⁽²⁾
	2013	2012				
Revenues:						
Rental income	\$ 128,988	\$ 101,742	\$ 27,246	27	% \$ 18,015	\$ 9,231
Interest and other income	5,792	1,428	4,364	306	% 5,107	(743)
Expenses:						
Depreciation and amortization	33,281	30,263	3,018	10	% 4,663	(1,645)
Interest	40,460	34,335	6,125	18	% —	6,125
General and administrative	16,423	16,104	319	2	% (188)	507
Impairment	—	2,481	(2,481)	(100)	)% —	(2,481)
Other income (expense):						
Loss on extinguishment of debt	(10,101)	(2,670)	(7,431)	278	% —	(7,431)

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Other income (expense) (800) 2,196 (2,996) (136)% — (2,996)

⁽¹⁾ Represents the dollar amount increase (decrease) for the year ended December 31, 2013 compared to the year ended December 31, 2012 as a result of investments made after January 1, 2012.

⁽²⁾ Represents the dollar amount increase (decrease) for the year ended December 31, 2013 compared to the year ended December 31, 2012 that is not a direct result of investments made after January 1, 2012.

Rental Income

During the year ended December 31, 2013, we recognized \$129.0 million of rental income compared to \$101.7 million for the year ended December 31, 2012. The \$27.2 million increase in rental income is due to an increase of \$18.0 million from properties acquired after January 1, 2012 and an increase of \$9.2 million due to straight-line rental income adjustments recognized on Genesis properties that did not have fixed rent escalators until December 2012 and therefore did not have straight-line rental income adjustments as of December 31, 2012. Under our original lease agreements with subsidiaries of Sun, the annual rent escalator was equal to the product of (a) the lesser of the percentage change in the Consumer Price Index (but not less than zero) or 2.5%, and (b) the prior year's rent. Effective December 1, 2012 with the acquisition of Sun by Genesis, these lease agreements were amended to fix the annual rent escalators at 2.5%. Amounts due under the terms of all of our lease agreements are subject to contractual increases, and there is no contingent rental income that may be derived from our properties.

Interest and Other Income

During the year ended December 31, 2013, we recognized \$5.8 million of interest and other income, which consisted primarily of interest income earned on our 10 loans receivable investments and preferred dividends on our two preferred equity investments. These investments had a combined book value of \$185.3 million as of December 31, 2013. During the year ended December 31, 2012, we recognized \$1.4 million of interest income, which consisted mostly of interest income earned on three loans receivable investments, one of which was repaid in November 2012 when we exercised our option to acquire the properties securing the loan. These investments had a combined book value of \$12.0 million as of December 31, 2012.

Depreciation and Amortization

During the year ended December 31, 2013, we incurred \$33.3 million of depreciation and amortization expense compared to \$30.3 million for the year ended December 31, 2012. The \$3.0 million net increase in depreciation and amortization was primarily due to an increase of \$4.7 million from properties acquired after January 1, 2012, partially offset by a decrease of \$1.6 million related to assets that have been fully depreciated.

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, 2013, we incurred \$40.5 million of interest expense compared to \$34.3 million for the year ended December 31, 2012. The \$6.1 million net increase is primarily related to (i) a \$6.8 million increase in interest expense and amortization of deferred financing costs related to the May 2013 issuance of the \$200.0 million aggregate principal amount of 2023 Notes (as defined below) and (ii) a \$1.7 million increase in interest expense, unused facility fees and amortization of deferred financing costs related to the amounts outstanding and increase in capacity under our Prior Revolving Credit Facility (as defined below) from \$230.0 million to \$375.0 million. The increases were offset by (i) a \$0.4 million net decrease in interest expense, amortization of deferred financing costs and premium primarily related to the \$113.8 million in aggregate principal amount of the outstanding 2018 Notes that were redeemed and (ii) a \$2.0 million decrease in interest expense and amortization of deferred financing costs primarily due to decreased interest rates on refinanced mortgage notes and a 50 basis point reduction in the interest rate spread on certain floating rate mortgage notes.

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. During the year ended December 31, 2013, general and administrative expenses were \$16.4 million compared to \$16.1 million for the year ended December 31, 2012. The \$0.3 million net increase is primarily related to a \$0.5 million net increase in payroll expenses, offset by a \$0.2 million decrease in acquisition pursuit costs, from \$1.7 million for the year ended December 31, 2012 to \$1.5 million for the year ended December 31, 2013. The \$0.5 million net increase in payroll expenses includes a \$1.0 million increase in payroll expenses due in part to increased staffing and annual pay increases, offset by a \$0.5 million decrease in stock-based compensation expense. The decrease in stock-based compensation expense, from \$8.3 million for the year ended December 31, 2012 to \$7.8 million for the year ended December 31, 2013, is primarily related to the change in our stock price during the year ended December 31, 2013 (an increase of \$4.42 per share) compared to the year ended December 31, 2012 (an increase of \$9.63 per share) associated with annual stock bonuses.

We issued stock to employees who had 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.

Impairment Charges

We did not recognize any impairment charges during the year ended December 31, 2013. During the year ended December 31, 2012, we recognized a \$2.5 million impairment charge on one asset held for sale. The impairment charge

was a result of the asset being held for sale and the resulting adjustment of its net book value to estimated fair value, less estimated costs to sell.

Loss on Extinguishment of Debt

During the year ended December 31, 2013, we recognized \$10.1 million of loss on debt extinguishment. Of this amount, \$9.8 million related to the redemption fee paid and the write-offs of deferred financing costs and issuance premium in connection with the June 2013 redemption of \$113.8 million in aggregate principal amount of the then-outstanding 2018 Notes and \$0.3 million related to the write-offs of deferred financing costs in connection with amending and restating the Prior Revolving Credit Facility. During the year ended December 31, 2012, we recognized \$2.7 million of debt extinguishment loss due to prepayment penalty fees and the write-offs of unamortized deferred financing costs and issuance premiums associated with mortgage debt refinancing.

Other Income (Expense)

During the year ended December 31, 2013, we recognized \$0.8 million in other expense as a result of adjusting the fair value of our contingent consideration liability. Of this amount, \$0.6 million was related to the acquisition of the Stoney River Marshfield facility and \$0.2 million was related to the acquisition of the Forest Park - Frisco facility. During the year ended December 31, 2012, we recognized other income of \$2.2 million related to the granting of a consent to our tenant to close the facility designated as held for sale.

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 (“FFO”), as defined in accordance with the definition used by the National Association of Real Estate Investment Trusts (“NAREIT”), and adjusted funds from operations (“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 impairment charges. AFFO is defined as FFO excluding non-cash revenues (including, but not limited to, straight-line rental income adjustments and write-offs and non-cash interest income adjustments), non-cash expenses (including, but not limited to, stock-based compensation expense, amortization of deferred financing costs and amortization of debt premiums/discounts), acquisition pursuit costs and changes in fair value of contingent consideration. 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, 2014, 2013 and 2012, 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,		
	2014	2013	2012
Net income attributable to common stockholders	\$36,710	\$25,749	\$19,513
Depreciation and amortization of real estate assets	43,332	33,281	30,263
Gain on sale of real estate	(3,914) —	—
Impairment	—	—	2,481
FFO	76,128	59,030	52,257
Acquisition pursuit costs	3,095	1,455	1,654
Stock-based compensation expense	9,851	7,819	8,279
Straight-line rental income adjustments	(19,821	) (14,709	) (4,893
Amortization of deferred financing costs	4,045	3,280	2,685
Amortization of debt premium and discounts	(10	) (671	) (347
Change in fair value of contingent consideration	(1,560	) 800	—
Non-cash portion of loss on extinguishment of debt	1,576	859	628
Non-cash interest income adjustments	325	79	24
Straight-line rental income provision	600	—	—
Write-off of straight-line rental income	2,994	—	—
AFFO	\$77,223	\$57,942	\$60,287
FFO per diluted common share	\$1.62	\$1.55	\$1.40
AFFO per diluted common share	\$1.64	\$1.51	\$1.59
Weighted average number of common shares outstanding, diluted:			
FFO	46,889,531	38,071,926	37,321,517
AFFO	47,147,722	38,364,727	37,829,421

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, 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 outstanding 2018 Notes and \$0.8 million of write-offs associated with unamortized deferred financing and premium costs, (ii) \$0.6 million in write-offs of deferred financing costs in connection with our mortgage debt refinancing and (iii) \$0.2 million related to the write-offs of deferred financing costs in connection with amending our Revolving Credit Facility. The entire \$22.5 million of the 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. See Note 3, "Recent

Real Estate Acquisitions” and Note 4, “Real Estate 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, 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 nonrecurring 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.

During year ended December 31, 2013, we incurred \$10.1 million of loss on extinguishment of debt. This amount includes \$0.3 million related to write-offs of deferred financing costs in connection with amending our Revolving Credit Facility and \$9.3 million for the cash payment made to noteholders for early redemption of \$113.8 million in aggregate principal amount of the outstanding 2018 Notes and \$0.5 million for the write-off of unamortized deferred financing costs and issuance premiums. This entire amount of the loss on extinguishment of debt is included in FFO for the year ended December 31, 2013, and the \$9.3 million early redemption premium is included in AFFO for the year ended December 31, 2013.

During year ended December 31, 2013, we incurred \$0.8 million of other expense as a result of adjusting the fair value of our contingent consideration liability related to the Stoney River Marshfield facility and Forest Park - Frisco facility. This entire amount is included in FFO for the year ended December 31, 2013.

During the year ended December 31, 2012, we recognized other income of \$2.2 million related to the granting of a consent to our tenant to close the facility designated as held for sale. This entire amount is included in FFO and AFFO for the year ended December 31, 2012.

During the year ended December 31, 2012, we incurred \$2.7 million of loss on extinguishment of debt. The \$2.7 million includes \$0.7 million of debt extinguishment loss due to the write-offs of unamortized deferred financing costs and \$2.0 million due to prepayment penalty fees related to the mortgage notes that were refinanced during the year ended December 31, 2012. This entire amount is included in FFO and AFFO for the year ended December 31, 2012.

Liquidity and Capital Resources

As of December 31, 2014, we had approximately \$443.7 million in liquidity, consisting of unrestricted cash and cash equivalents of \$61.7 million (excluding cash and cash equivalents associated with our RIDEA-compliant joint venture), and available borrowings under our Revolving Credit Facility of \$382.0 million.

We have filed a shelf registration statement with the SEC that expires in May 2016, 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.

During the year ended December 31, 2014 we completed an underwritten public offering of \$350.0 million aggregate principal amount of 2021 Notes on January 23, 2014, an underwritten public offering of 8.1 million newly issued shares of our common stock on May 12, 2014, resulting in net proceeds (before expenses) to us of \$219.1 million, an underwritten public offering of 6.9 million newly issued shares of our common stock on October 3, 2014, resulting in net proceeds (before expenses) to us of \$160.6 million, an underwritten public offering of an additional \$150.0 million aggregate principal amount of 2021 Notes on October 10, 2014, and entered into the 2014 Sales Agreements (defined below) to establish the 2014 ATM Program (defined below) on December 1, 2014. See Note 7, "Debt," and Note 10, "Equity," in the Notes to Consolidated Financial Statements for additional information concerning these offerings. The Revolving Credit Facility provides for a borrowing capacity of \$650.0 million and provides 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. On October 10, 2014, the Operating Partnership exercised its option to convert \$200.0 million of the outstanding borrowings under the Revolving Credit Facility to a term loan, subject to terms and conditions. Concurrent with the term loan conversion, we entered into a \$200.0 million notional amount five-year interest rate cap contract that caps LIBOR at 2.0%.

On December 1, 2014, we entered into a sales agreement (the "2014 Sales Agreements") with each of Barclays Capital Inc., Cantor Fitzgerald & Co., Credit Agricole Securities (USA) Inc., Jefferies LLC, J.P. Morgan Securities LLC, MLV & Co. LLC, Raymond James & Associates, Inc., RBC Capital Markets, LLC, Stifel, Nicolaus & Company, Incorporated, SunTrust Robinson Humphrey, Inc. and Wells Fargo Securities, LLC (individually, a "Sales Agent" and together, the "Sales Agents") to sell shares of our common stock having aggregate gross proceeds of up to \$200.0 million from time to time through the Sales Agents (the "2014 ATM Program"). The 2014 Sales Agreements supersede and replace our previous sales agreements. During the quarter ended December 31, 2014, we sold 4.4 million shares, all under the 2014 ATM Program, for aggregate gross proceeds of \$123.5 million before \$2.5 million of commissions. As of December 31, 2014, we had \$76.5 million available under the 2014 ATM Program.

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 (including through our 2014 ATM Program), 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 \$85.3 million for the year ended December 31, 2014. 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, early redemption payments on our outstanding debt and payment of general and administrative expenses. Net cash provided by operating activities during the year ended December 31, 2014, includes \$20.9 million in payments made to noteholders and legal fees for early redemption of the then-outstanding 2018 Notes. 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, 2014, net cash used in investing activities was \$826.5 million and consisted of \$771.5 million used in the acquisition of 10 skilled nursing/transitional care facilities and 32 senior housing facilities, \$66.4 million used to originate five loans receivable and provide additional funding for existing loans receivable, \$15.5 million used for six preferred equity investments and \$1.5 million used for tenant improvements, partially offset by \$27.3 million in net proceeds from the sale of three real estate assets and a \$1.1 million partial repayment of one loan receivable.

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, 2014, net cash provided by financing activities was \$798.6 million and consisted of \$499.3 million in proceeds from the January 2014 and October 2014 offerings of 2021 Notes and \$510.1 million in net proceeds from the May 2014 and October 2014 equity offerings and shares sold through the 2013 ATM Program and 2014 ATM Program, partially offset by the redemption of \$211.3 million in aggregate principal amount of the then-outstanding 2018 Notes, \$81.5 million of dividends paid to stockholders, a net decrease in mortgage borrowings resulting from the repayment of \$31.4 million in mortgage indebtedness and \$19.1 million of payments for deferred financing costs primarily related to the issuance of the 2021 Notes and the Revolving Credit Facility. In addition, during the year ended December 31, 2014, we borrowed a net \$132.5 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.

2018 Notes. On October 27, 2010 and July 26, 2012, the Issuers issued \$225.0 million and \$100.0 million aggregate principal amount of 8.125% senior unsecured notes due 2018 (the “2018 Notes”), respectively. Following two exchange

offers, a redemption and a tender offer, the 2018 Notes were fully redeemed on February 11, 2014. See Note 7, "Debt," in the Notes to Consolidated Financial Statements for additional information concerning the 2021 Notes, the 2023 Notes and the 2018 Notes, including information regarding restrictive covenants and events of default in the

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indentures governing the Senior Notes (the “Senior Notes Indentures”). As of December 31, 2014, we were in compliance with all applicable financial covenants under the Senior Notes Indentures.

Revolving Credit Facility. On September 10, 2014, the Operating Partnership entered into a second amended and restated unsecured revolving credit facility (the “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 Revolving Credit Facility amends and restates the amended and restated secured revolving credit facility (the “Prior Revolving Credit Facility”) that the Operating Partnership and certain subsidiaries of the Operating Partnership entered into on July 29, 2013 and amended on October 15, 2013. The Revolving Credit Facility provides for a borrowing capacity of \$650.0 million and provides 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 has an option to convert up to \$200.0 million of the 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 Revolving Credit Facility to a term loan. Concurrent with the term loan conversion, we entered into a \$200.0 million notional amount five-year interest rate cap contract that caps LIBOR at 2.0%.

The obligations of the Operating Partnership under the Revolving Credit Facility are guaranteed by us and certain of our subsidiaries. See Note 7, “Debt,” in the Notes to Consolidated Financial Statements for additional information concerning the Revolving Credit Facility, including information regarding covenants contained in the Revolving Credit Facility. As of December 31, 2014, we were in compliance with all applicable financial covenants under the Revolving Credit Facility.

Mortgage Indebtedness

Of our 160 properties held for investment, 14 are subject to mortgage indebtedness to third parties that, as of December 31, 2014, totaled approximately \$124.0 million. As of December 31, 2014 and December 31, 2013, our mortgage notes payable consisted of the following (dollars in thousands):

Interest Rate Type	Book Value as of December 31, 2014	Book Value as of December 31, 2013	Weighted Average Effective Interest Rate at December 31, 2014	Maturity Date
Fixed Rate	\$ 124,022	\$ 54,688	3.96	% May 2031 - August 2051
Variable Rate	—	86,640	—	N/A
	\$ 124,022	\$ 141,328	3.96	%

Capital Expenditures

For the years ended December 31, 2014, 2013 and 2012, our aggregate capital expenditures were \$1.5 million, \$0.8 million, and \$1.0 million, respectively. The capital expenditures for the years ended December 31, 2014 and 2012 include \$11,000 and \$14,000, 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 \$6.0 million, and that such expenditures will principally be for improvements to our facilities and result in incremental rental income.

Dividends

We paid dividends of \$81.5 million on our common and preferred stock during the year ended December 31, 2014. On January 12, 2015, our board of directors declared a quarterly cash dividend of \$0.39 per share of common stock. The dividend will be paid on February 27, 2015 to stockholders of record as of February 13, 2015. Also, on January 12, 2015, 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 27, 2015 to stockholders of record as of the close of business on February 13, 2015.

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 160 real estate properties held for investment as of December 31, 2014 is diversified by location across 34 states.

As of December 31, 2014, our two largest tenants, Genesis and Holiday, represented 36.2% and 17.8%, respectively, of our annualized revenues. The obligations under both master leases are guaranteed by their respective parent entities.

Skilled Nursing Facility Reimbursement Rates

As of December 31, 2014, 53.5% of our annualized revenues is derived 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 the Centers for Medicare & Medicaid Services (“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, 2014, CMS released final fiscal year 2015 Medicare rates for skilled nursing facilities providing a net increase of 2.0% over fiscal year 2014 payments (comprised of a market basket increase of 2.5% and less the productivity adjustment of 0.5%).

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, 2014 (in thousands):

	Total	Payments Due During the Years Ending December 31,					
		2015	2016	2017	2018	2019	After 2019
Mortgage indebtedness ⁽¹⁾	\$199,647	\$7,171	\$7,171	\$7,171	\$7,171	\$7,171	\$163,792
Revolving Credit Facility ^{(2) (3)}	78,796	2,921	2,929	2,921	70,025	—	—
Term loan ⁽³⁾	217,020	4,605	4,618	4,605	203,192	—	—
Senior Notes ⁽⁴⁾	1,116,147	37,171	37,171	37,171	37,171	37,171	930,292
Contingent consideration	3,900	—	—	3,900	—	—	—
Operating lease	91	91	—	—	—	—	—
Total	\$1,615,601	\$51,959	\$51,889	\$55,768	\$317,559	\$44,342	\$1,094,084

(1) Mortgage indebtedness includes principal payments and interest payments through the maturity dates. Total interest on mortgage indebtedness, based on contractual rates, is \$75.6 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.

(3) Subject to a one-year extension option.

(4) Senior Notes includes interest payments through the maturity dates. Total interest on the Senior Notes is \$216.5 million

In addition to the above, we have committed to provide up to \$90.8 million of funding related to four investments in loans receivable and two preferred equity investments. As of December 31, 2014, we had funded \$69.8 million. The investments in loans receivable have maturity dates ranging from 2016 through 2018.

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.

Off-Balance Sheet Arrangements

None.

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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, 2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating data				
Total revenues	\$40,850	\$42,973	\$43,984	\$55,711
Net (loss) income attributable to common stockholders	(9,864)	12,241	14,643	19,690
Net (loss) income per common share-basic	(0.25)	0.28	0.31	0.36
Net (loss) income per common share-diluted	(0.25)	0.28	0.31	0.35
Other data				
Cash flows provided by operations	\$1,207	\$27,714	\$42,318	\$14,098
Cash flows used in investing activities	(128,139)	(35,864)	(629,296)	(33,173)
Cash flows provided by financing activities	126,910	18,949	597,372	55,389
Weighted-average number of common shares outstanding, basic	38,968,403	43,655,292	47,359,949	55,232,721
Weighted-average number of common shares outstanding, diluted:				
Net (loss) income and FFO	38,968,403	44,096,297	47,877,202	55,844,007
AFFO	39,795,847	44,335,381	48,038,179	56,002,777
FFO ⁽¹⁾	\$(514)	\$21,996	\$24,405	\$30,241
FFO per diluted common share ⁽¹⁾	(0.01)	0.50	0.51	0.54
AFFO ⁽¹⁾	324	23,527	24,622	28,750
AFFO per diluted common share ⁽¹⁾	0.01	0.53	0.51	0.51
Reconciliation of FFO and AFFO				
Net (loss) income attributable to common stockholders	\$(9,864)	\$12,241	\$14,643	\$19,690
Add:				
Depreciation of real estate assets	9,350	9,755	9,762	14,465
Gain on sale of real estate	—	—	—	(3,914)
FFO	(514)	21,996	24,405	30,241
Acquisition pursuit costs	392	187	2,038	478
Stock-based compensation	2,513	2,279	1,545	3,514
Straight-line rental income adjustments	(4,186)	(4,247)	(4,641)	(6,747)
Amortization of deferred financing costs	945	927	940	1,233
Amortization of debt premium and discounts	(33)	—	—	23
Change in fair value of contingent consideration	(300)	(660)	100	(700)
Non-cash portion of loss on extinguishment of debt	1,338	80	158	—
Non-cash interest income adjustments	70	70	77	108
Straight-line rental income provision	—	—	—	600
Write-off of straight-line rental income	99	2,895	—	—

AFFO	\$324	\$23,527	\$24,622	\$28,750
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For the Year Ended December 31, 2013

First Quarter Second Quarter Third Quarter Fourth Quarter

Operating data				
Total revenues	\$32,022	\$32,275	\$32,926	\$37,557
Net income (loss) attributable to common stockholders	9,253	(3,185)	9,242	10,439
Net income (loss) per common share-basic	0.25	(0.09)	0.25	0.27
Net income (loss) per common share-diluted	0.25	(0.09)	0.24	0.27
Other data				
Cash flows provided by operations	\$21,603	\$1,383	\$26,225	\$12,888
Cash flows used in investing activities	(15,311)	(19,270)	(2,791)	(260,137)
Cash flows provided by (used in) financing activities	30,172	57,092	(19,563)	154,916
Weighted-average number of common shares outstanding, basic	37,286,121	37,357,112	37,358,334	38,050,301
Weighted-average number of common shares outstanding, diluted:				
Net income (loss)	37,739,964	37,357,112	37,828,573	38,680,409
FFO	37,739,964	37,834,496	37,828,573	38,680,409
AFFO	38,134,659	38,190,891	38,065,299	38,882,963
FFO ⁽¹⁾	\$17,499	\$5,037	\$17,500	\$18,994
FFO per diluted common share ⁽¹⁾	0.46	0.13	0.46	0.49
AFFO ⁽¹⁾	16,559	5,644	16,261	19,478
AFFO per diluted common share ⁽¹⁾	0.43	0.15	0.43	0.50
Reconciliation of FFO and AFFO				
Net income (loss) attributable to common stockholders	\$9,253	\$(3,185)	\$9,242	\$10,439
Add:				
Depreciation of real estate assets	8,246	8,222	8,258	8,555
FFO	17,499	5,037	17,500	18,994
Acquisition pursuit costs	197	229	281	748
Stock-based compensation	2,474	1,459	1,276	2,610
Straight-line rental income adjustments	(3,683)	(3,617)	(3,536)	(3,873)
Amortization of deferred financing costs	766	823	806	885
Amortization of debt premium and discounts	(199)	(202)	(134)	(136)
Change in fair value of contingent consideration	(500)	1,400	(300)	200
Non-cash portion of loss on extinguishment of debt	—	508	351	—
Non-cash interest income adjustments	5	7	17	50
AFFO	\$16,559	\$5,644	\$16,261	\$19,478

⁽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 (“FFO”), as defined in accordance with the definition used by the National Association of Real Estate Investment Trusts (“NAREIT”), and adjusted funds from operations (“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, impairment charges, and real estate depreciation and amortization, and for AFFO, by excluding non-cash revenues (including, but not limited to, straight-line rental income adjustments and write-offs and non-cash interest income adjustments), non-cash expenses (including, but not limited to, stock-based compensation expense, amortization of deferred financing costs and amortization of debt premiums/discounts), acquisition pursuit costs and changes in fair value of contingent consideration, 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure is interest rate risk with respect to our indebtedness. As of December 31, 2014, this indebtedness included \$699.3 million aggregate principal amount of Senior Notes outstanding, \$124.0 million of mortgage indebtedness to third parties on certain of the properties that our subsidiaries own, a \$200.0 million term loan and \$68.0 million outstanding under the Revolving Credit Facility. As of December 31, 2014, we had \$268.0 million of outstanding variable rate indebtedness. In addition, as of December 31, 2014, we had \$382.0 million available for borrowing under our Revolving Credit Facility.

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 assuming no change in our outstanding debt balance as of December 31, 2014, interest expense would increase by \$2.7 million for the twelve months following December 31, 2014. As of December 31, 2014, the index underlying our variable rate mortgages was below 100 basis points and if this index was reduced to zero during the twelve months following December 31, 2014, interest expense on our variable rate debt would decrease by \$0.5 million.

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 cap or swap agreements. On October 10, 2014, the Operating Partnership converted \$200.0 million of the outstanding borrowings under the Revolving Credit Facility to a term loan and, concurrent with that conversion, we entered into a \$200.0 million notional amount five-year interest rate cap contract that caps LIBOR at 2.0%.

The table below summarizes the book values and the weighted-average interest rates of our indebtedness by type as of December 31, 2014 based on the maturity dates (dollars in thousands):

	Maturity						Total Book Value ⁽¹⁾	Total Fair Value
	2015	2016	2017	2018	2019	Thereafter		
Mortgage Indebtedness								
Fixed rate	\$2,823	\$2,917	\$3,013	\$3,114	\$3,218	\$108,937	\$124,022	\$122,131
Weighted average effective interest rate	3.54	% 3.55	% 3.56	% 3.56	% 3.57	% 3.81	% 3.96	%
Revolving Credit Facility	\$—	\$—	\$—	\$68,000	\$—	\$—	\$68,000	\$68,000
Weighted average effective interest rate	—	% —	% —	% 2.27	% —	% —	% 2.27	%
Term Loan	\$—	\$—	\$—	\$200,000	\$—	\$—	\$200,000	\$200,000
Weighted average effective interest rate	—	% —	% —	% 2.27	% —	% —	% 2.27	%
Senior Unsecured Notes	\$—	\$—	\$—	\$—	\$—	\$700,000	\$700,000	\$723,625
Weighted average effective interest rate	—	% —	% —	% —	% —	% 5.47	% 5.47	%

⁽¹⁾ Total book value for Senior Notes does not include discount of \$0.7 million as of December 31, 2014.

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.”

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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, 2014 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, 2014. The effectiveness of our internal control over financial reporting as of December 31, 2014 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, 2014 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, 2014 in connection with our 2015 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, 2014 in connection with our 2015 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, 2014 in connection with our 2015 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, 2014 in connection with our 2015 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, 2014 in connection with our 2015 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-38 through F-45 of this report:

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
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).
- 4.3 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).
- 10.3 Form of Master Lease Agreement entered into between subsidiaries of SHG Services, Inc. (which has been 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).

- 10.3.1 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).
- 10.4 Form of Guaranty entered into by Genesis HealthCare LLC in favor of subsidiaries of Sabra Health Care REIT, Inc., as landlords under the Master Lease Agreements, dated December 1, 2012 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on December 6, 2012).
- 10.5 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).
- 10.6 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).
- 10.7 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).
- 10.7.1 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).
- 10.8 Second Amended and Restated Credit Agreement, dated September 10, 2014, among Sabra Health Care Limited Partnership, as Borrower; 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; Barclays Bank, PLC, Citibank, N.A., Royal Bank of Canada, Wells Fargo Bank, N.A., J.P. Morgan Chase Bank, N.A., and Suntrust Bank, 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 Arranger (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on September 11, 2014).
- 10.9 Loan Agreement, dated as of October 22, 2013, by and among Forest Park Realty Partners III, LP, BT Forest Park Realty Partners, LP, and Sabra Texas Holdings, L.P. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on October 22, 2013).

- 10.10 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).
- 10.11+ 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).
- 10.12+ 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).
- 10.13+ 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).
- 10.14+ 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).
- 10.14.1+ Form of Notice and Terms and Conditions of Stock Unit Award (Time-Based Stock Units) (incorporated by reference to Exhibit 10.10.1 of the Registration Statement on Form S-4 (File No. 333-171820-26) filed by Sabra Health Care REIT, Inc. on January 21, 2011).

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- 10.14.2+ Form of Notice and Terms and Conditions of Stock Unit Award (FFO Units) (incorporated by reference to Exhibit 10.10.2 of the Registration Statement on Form S-4 (File No. 333-171820-26) filed by Sabra Health Care REIT, Inc. on January 21, 2011).
- 10.14.3+ Form of Notice and Terms and Conditions of Stock Unit Award (TSR Units) (incorporated by reference to Exhibit 10.10.3 of the Registration Statement on Form S-4 (File No. 333-171820-26) filed by Sabra Health Care REIT, Inc. on January 21, 2011).
- 10.14.4+ 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).
- 10.14.5+ 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).
- 10.15+ Sabra Health Care REIT, Inc. 2004 Equity Incentive Plan (incorporated by reference to Exhibit 4.2 of the Registration Statement on Form S-8 (File No. 333-171350) filed by Sabra Health Care REIT, Inc. on December 22, 2010).
- 10.16+ Sabra Health Care REIT, Inc. Directors' Compensation Policy, effective June 24, 2014 (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed by Sabra Health Care REIT, Inc. on August 4, 2014).
- 10.17+ Sabra Health Care REIT, Inc. 2014 Bonus Plan (incorporated by reference to Exhibit 10.16 of the Annual Report on Form 10-K filed by Sabra Health Care REIT, Inc. on February 28, 2014).
- 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.

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† 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.

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Schedule III—Real Estate Assets and Accumulated Depreciation F-38

Schedule IV—Mortgage Loans on Real Estate F-45

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

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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 accompanying index present fairly, in all material respects, the financial position of Sabra Health Care REIT, Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 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, 2014, 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 19, 2015

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

	December 31, 2014	2013
Assets		
Real estate investments, net of accumulated depreciation of \$185,994 and \$151,078 as of December 31, 2014 and 2013, respectively	\$ 1,645,805	\$915,418
Loans receivable and other investments, net	251,583	185,293
Cash and cash equivalents	61,793	4,308
Restricted cash	7,024	5,352
Prepaid expenses, deferred financing costs and other assets	98,687	63,252
Total assets	\$2,064,892	\$1,173,623
Liabilities		
Mortgage notes	\$ 124,022	\$ 141,328
Revolving credit facility	68,000	135,500
Term loan	200,000	—
Senior unsecured notes	699,272	414,402
Accounts payable and accrued liabilities	31,775	22,229
Total liabilities	1,123,069	713,459
Commitments and contingencies (Note 16)		
Equity		
Preferred stock, \$.01 par value; 10,000,000 shares authorized, 5,750,000 shares issued and outstanding as of December 31, 2014 and 2013	58	58
Common stock, \$.01 par value; 125,000,000 shares authorized, 59,047,001 and 38,788,745 shares issued and outstanding as of December 31, 2014 and 2013, respectively	590	388
Additional paid-in capital	1,053,601	534,639
Cumulative distributions in excess of net income	(110,841	) (74,921
Accumulated other comprehensive loss	(1,542) —
Total Sabra Health Care REIT, Inc. stockholders' equity	941,866	460,164
Noncontrolling interests	(43) —
Total equity	941,823	460,164
Total liabilities and equity	\$2,064,892	\$1,173,623
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,		
	2014	2013	2012
Revenues:			
Rental income	\$ 161,483	\$ 128,988	\$ 101,742
Interest and other income	22,035	5,792	1,428
Total revenues	183,518	134,780	103,170
Expenses:			
Depreciation and amortization	43,332	33,281	30,263
Interest	46,958	40,460	34,335
General and administrative	29,339	16,423	16,104
Impairment	—	—	2,481
Total expenses	119,629	90,164	83,183
Other income (expense):			
Loss on extinguishment of debt	(22,454	) (10,101	) (2,670
Other income (expense)	1,560	(800	) 2,196
Gain on sale of real estate	3,914	—	—
Total other income (expense)	(16,980	) (10,901	) (474
Net income	46,909	33,715	19,513
Net loss attributable to noncontrolling interests	43	—	—
Net income attributable to Sabra Health Care REIT, Inc.	46,952	33,715	19,513
Preferred stock dividends	(10,242	) (7,966) —
Net income attributable to common stockholders	\$36,710	\$25,749	\$19,513
Net income attributable to common stockholders, per:			
Basic common share	\$0.79	\$0.69	\$0.53
Diluted common share	\$0.78	\$0.68	\$0.52
Weighted average number of common shares outstanding, basic	46,351,544	37,514,637	37,061,111
Weighted average number of common shares outstanding, diluted	46,889,531	38,071,926	37,321,517

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Net income	\$46,909	\$33,715	\$19,513
Other comprehensive loss:			
Unrealized loss on cash flow hedge	(1,542) —	—
Total comprehensive income	\$45,367	\$33,715	\$19,513

See accompanying notes to consolidated financial statements.

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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 Interest	Total Equity
	Shares	Amount	Shares	Amounts						
Balance, December 31, 2011	—	\$—	36,891,712	\$369	\$344,995	\$(18,791)	\$—	\$326,573	\$—	\$326,573
Net income	—	—	—	—	—	19,513	—	19,513	—	19,513
Amortization of stock-based compensation	—	—	—	—	8,817	—	—	8,817	—	8,817
Common stock issuance	—	—	207,497	2	49	—	—	51	—	51
Common dividends (\$1.32 per share)	—	—	—	—	—	(49,466)	—	(49,466)	—	(49,466)
Balance, December 31, 2012	—	—	37,099,209	371	353,861	(48,744)	—	305,488	—	305,488
Net income	—	—	—	—	—	33,715	—	33,715	—	33,715
Amortization of stock-based compensation	—	—	—	—	8,707	—	—	8,707	—	8,707
Preferred stock issuance	5,750,000	58	—	—	138,192	—	—	138,250	—	138,250
Common stock issuance	—	—	1,689,536	17	33,879	—	—	33,896	—	33,896
Preferred dividends	—	—	—	—	—	(7,966)	—	(7,966)	—	(7,966)
Common dividends (\$1.36 per share)	—	—	—	—	—	(51,926)	—	(51,926)	—	(51,926)
Balance, December 31, 2013	5,750,000	58	38,788,745	388	534,639	(74,921)	—	460,164	—	460,164
Net income	—	—	—	—	—	46,952	—	46,952	(43)	46,909
Other comprehensive	—	—	—	—	—	—	(1,542)	(1,542)	—	(1,542)

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loss										
Amortization of stock-based compensation	—	—	—	—	11,234	—	—	11,234	—	11,234
Common stock issuance	—	—	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

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	\$46,909	\$33,715	\$19,513
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	43,332	33,281	30,263
Non-cash interest income adjustments	325	79	24
Amortization of deferred financing costs	4,045	3,280	2,685
Stock-based compensation expense	9,851	7,819	8,279
Amortization of premium	(10)	(671)	(347)
Loss on extinguishment of debt	1,576	859	628
Straight-line rental income adjustments	(19,821)	(14,709)	(4,893)
Provision for doubtful accounts	600	—	—
Impairment charge	—	—	2,481
Change in fair value of contingent consideration	(1,560)	200	—
Write-off of straight-line rental income	2,994	—	—
Gain on sale of real estate	(3,914)	—	—
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	(7,993)	(3,459)	(82)
Accounts payable and accrued liabilities	12,635	5,430	1,321
Restricted cash	(3,632)	(3,725)	(3,620)
Net cash provided by operating activities	85,337	62,099	56,252
Cash flows from investing activities:			
Acquisitions of real estate	(771,479)	(125,955)	(205,424)
Origination and fundings of loans receivable	(66,397)	(165,960)	(22,180)
Preferred equity investments	(15,486)	(7,038)	—
Additions to real estate	(1,471)	(764)	(1,046)
Repayment of loans receivable	1,097	—	10,000
Net proceeds from sale of real estate	27,264	2,208	—
Net cash used in investing activities	(826,472)	(297,509)	(218,650)
Cash flows from financing activities:			
Proceeds from issuance of senior unsecured notes	499,250	200,000	106,000
Principal payments on senior unsecured notes	(211,250)	(113,750)	—
Net proceeds (repayments) from revolving credit facility	132,500	43,000	92,500
Proceeds from mortgage notes	57,703	—	56,651
Principal payments on mortgage notes	(89,110)	(10,994)	(62,226)
Payments of deferred financing costs	(19,131)	(8,954)	(6,800)
Payment of contingent consideration	—	(1,300)	—
Issuance of preferred stock	—	138,249	—
Issuance of common stock	510,147	34,517	53
Dividends paid on common and preferred stock	(81,489)	(58,151)	(48,929)
Net cash provided by financing activities	798,620	222,617	137,249
Net increase (decrease) in cash and cash equivalents	57,485	(12,793)	(25,149)
Cash and cash equivalents, beginning of period	4,308	17,101	42,250

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Cash and cash equivalents, end of period	\$61,793	\$4,308	\$17,101
Supplemental disclosure of cash flow information:			
Interest paid	\$34,468	\$38,541	\$32,613
Supplemental disclosure of non-cash transactions:			
Assumption of mortgage indebtedness	\$14,102	\$—	\$—
Decrease in preferred equity investment/increase in loans receivable	\$6,949	\$—	\$—
Decrease in loans receivables/increase in real estate	\$16,832	\$—	\$—

See accompanying notes to consolidated financial statements.

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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. (“Old Sun”) and commenced operations on November 15, 2010, following the Company's separation from Old 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 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, or by subsidiaries of the Operating Partnership. The Company’s investment portfolio is primarily comprised of skilled nursing/transitional care facilities, senior housing facilities, acute care hospitals, 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, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012. 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, 2014, the Company determined it was the primary beneficiary of one senior housing facility and has consolidated the operations of the facility in the accompanying consolidated financial statements. As of December 31, 2014, the Company determined that operations of the facility 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, 2014 and 2013, none of the Company's investments in loans are accounted for as real estate joint ventures.

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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, consolidated statements of income, consolidated statements of cash flows and footnote disclosures for all periods presented.

Real Estate Investments and Rental Revenue Recognition

Real Estate Acquisition Valuation

The Company accounts for the acquisition of income-producing real estate or real estate that will be used for the production of income as a business combination. 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 are expensed as incurred and 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, 2014, 2013 and 2012, the Company acquired 42, 2, and 23 real estate properties, respectively, and expensed \$3.1 million, \$1.5 million and \$1.7 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 over the lesser of the lease term, the expected useful life of the asset on a straight-line basis and the remaining lease term of any property subject to a ground lease. 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

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Company will recover the carrying value of its real estate investments through its undiscounted future cash flows and the eventual disposition of the investment. 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. The Company recorded a \$2.5 million impairment loss during the year ended December 31, 2012 related to one asset held for sale. The Company did not record any impairment losses on its real estate investments during the years ended December 31, 2014 or 2013.

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. If the lease provides for tenant improvements, the Company determines whether the tenant improvements, for accounting purposes, are owned by the tenant or by the Company. When the Company is the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term.

The Company makes estimates of the collectibility 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. The Company's collectibility estimates for straight-line rent revenues 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, 2014 and 2013, 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.

On December 31, 2014, the Company completed the sale of three skilled nursing facilities for \$27.3 million. The carrying values of the assets and liabilities of these facilities was \$23.4 million, which resulted in a \$3.9 million gain. The sales of these facilities did not meet the criteria set forth in the newly-adopted guidance for reporting discontinued operations (See "Recently Issued Accounting Standards Update.") As such, the results of operations attributable to these three facilities have remained in continuing operations. During the years ended December 31, 2014, 2013 and 2012, the Company recognized \$2.3 million (excluding the gain on sale), \$2.3 million and \$1.4 million of net income, respectively, from these facilities.

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 real estate loan receivable is the outstanding unpaid principal balance, net of unamortized costs and fees directly associated with the origination of the loan.

The Company reviews on a quarterly basis 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 Company's loans receivable are evaluated for impairment at each balance sheet date. The Company considers a loan to be impaired when, based upon current information and events, it believes

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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 Company's expectation that it 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 present value of payments expected to be received, observable market prices, the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) or amounts expected to be received in satisfaction of a loan are lower than the carrying value of that loan. As of December 31, 2014 and 2013, all of the Company's loans were performing and none were considered to be impaired.

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 is probable, the Company will resume the accrual of interest. As of December 31, 2014 and 2013, no loan investments have been placed on nonaccrual status.

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, 2014. 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 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 sheet. As of December 31, 2014 and 2013, restricted cash totaled \$7.0 million and \$5.4 million, respectively, and restricted cash obligations totaled \$4.9 million and \$3.5 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. As of December 31, 2014 and 2013, the Company's deferred financing costs were included in prepaid expenses, deferred financing costs and other assets on the accompanying consolidated balance sheets and totaled \$25.8 million and \$15.4 million, respectively, net of amortization.

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

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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.

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.

In 2013, the Financial Accounting Standards Board ("FASB") issued accounting guidance impacting ASC Topic 740, Income Taxes, which requires that unrecognized tax benefits be classified as an offset to deferred tax assets to the extent of any net operating loss carryforwards, similar tax loss carryforwards, or tax credit carryforwards available at the reporting date in the applicable tax jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. An exception would apply if the tax law of the tax jurisdiction does not require the Company to use, and it does not intend to use, the deferred tax asset for such purpose. The guidance became effective for fiscal years beginning after December 15, 2013 and allows for either prospective or retroactive adoption. The Company elected to adopt the new guidance on a retroactive basis; however, the Company did not appropriately adopt the standard until December 31, 2014. Accordingly, the tax liability of \$24.2 million previously reflected on the consolidated balance sheet is now fully offset by the net operating loss deferred tax asset of \$24.2 million. There are no other financial statement line items or footnote disclosures impacted by the adoption of this standard. Management evaluated the impact on the financial statements for the periods ended March 31, June 30 and September 30, 2014 and concluded that such previously issued financial statements are not materially misstated.

Derivative Instruments

To manage interest rate risk related to its variable-rate borrowings, the Company purchased an interest rate cap, effective on October 10, 2014, which under GAAP is considered a derivative instrument. 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. Based on the Company's assessment, the interest rate cap at inception met, and continues to meet, the requirements for hedge accounting.

The Company records the interest rate cap at fair value on the accompanying consolidated balance sheets. The change in fair value of the effective portion of the interest rate cap is recognized in accumulated other comprehensive income (loss), whereas the change in fair value of the ineffective portion is recognized in earnings. If the Company's interest rate cap were to no longer qualify for hedge accounting, changes in the fair value of the interest rate cap would be recognized in earnings.

The Company formally documented the relationship between the interest rate cap and the variable-rate borrowings the interest rate cap was intended to hedge, as well as its risk-management objectives and strategy for undertaking this hedge transaction. The Company also assesses and documents, both at inception of the hedging relationship and on a quarterly basis thereafter, whether the interest rate cap is highly effective in its hedging objectives. If it is determined that the interest rate cap ceases to be highly effective as a hedge, or that it is probable the underlying transaction will not occur or is not expected to continue occurring, the Company would discontinue hedge accounting prospectively and records the appropriate adjustment to earnings based on the current fair value of the interest rate cap.

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;

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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 shares 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 13, "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.

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Recently Issued Accounting Standards Update

In April 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (“ASU No. 2014-08”), which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. The standard no longer precludes presentation as a discontinued operation if (i) there are operations and cash flows of the component that have not been eliminated from the reporting entity’s ongoing operations, or (ii) there is significant continuing involvement with a component after its disposal. ASU No. 2014-08 is effective for public entities for interim and annual periods beginning after December 15, 2014 with early adoption permitted. The Company adopted ASU 2014-08 on October 1, 2014 on a prospective basis. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance specifically notes that lease contracts with customers are a scope exception. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2016, and early adoption is not permitted. The Company is currently in the process of evaluating the impact the adoption of ASU 2014-09 will have on the Company’s financial position or results of operations.

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the annual period ended December 31, 2016 and for annual periods and interim periods thereafter with early adoption permitted. The adoption of ASU 2014-15 is not expected to materially impact the Company’s consolidated financial statements.

3. RECENT REAL ESTATE ACQUISITIONS

During the year ended December 31, 2014, the Company acquired 10 skilled nursing/transitional care facilities and 32 senior housing facilities. During the year ended December 31, 2013, the Company acquired one senior housing facility and one acute care hospital. The consideration was allocated as follows (in thousands):

	Year Ended December 31,	
	2014	2013
Land	\$66,688	\$5,563
Building and Improvements	725,822	114,666
Tenant Origination and Absorption Costs	9,546	2,196
Tenant Relationship	3,612	349
Total Consideration	\$805,668	\$122,774

In connection with the acquisitions during the year ended December 31, 2014, the Company assumed a HUD-insured mortgage with an outstanding principal balance of approximately \$14.1 million and an annual interest rate of 4.84%. 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 13

years and 23 years, respectively.

For the year ended December 31, 2014, the Company recognized \$23.7 million and \$12.9 million of total revenues and net income attributable to common stockholders, respectively, from these properties.

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Holiday Portfolio

On September 25, 2014, the Company acquired a portfolio of 21 independent living facilities (the “Holiday Portfolio”), located in 15 states, from affiliates of Holiday Acquisition Holdings Corp. (“Holiday”) for a total cash purchase price of \$550.0 million. Concurrently with the acquisition, certain wholly owned subsidiaries of the Company entered into a triple-net master lease agreement with certain wholly owned subsidiaries of Holiday AL Holdings LP (collectively, “Holiday Tenant”), an affiliate of Holiday. The master lease has an initial term of 15 years with two five-year renewal options and provides for base rent in the first year of approximately \$30.3 million, with annual rent increases of 4.0% in years two and three and the greater of 3.5% or the change in the Consumer Price Index during the remainder of the lease term. The master lease is expected to generate annual lease revenues determined in accordance with GAAP of \$39.3 million.

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, 2014

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	103	11,336	\$851,252	\$(151,978)	\$699,274
Senior Housing	55	5,258	804,475	(22,487)	781,988
Acute Care Hospitals	2	124	175,807	(11,324)	164,483
	160	16,718	1,831,534	(185,789)	1,645,745
Corporate Level			265	(205)	60
			\$1,831,799	\$(185,994)	\$1,645,805

As of December 31, 2013

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	96	10,826	\$737,188	\$(132,068)	\$605,120
Senior Housing	23	1,518	153,247	(13,337)	139,910
Acute Care Hospitals	2	124	175,807	(5,520)	170,287
	121	12,468	1,066,242	(150,925)	915,317
Corporate Level			254	(153)	101
			\$1,066,496	\$(151,078)	\$915,418

	December 31, 2014	December 31, 2013
Building and improvements	\$1,551,548	\$879,926
Furniture and equipment	82,812	50,567
Land improvements	3,646	4,392
Land	193,793	131,611
	1,831,799	1,066,496
Accumulated depreciation	(185,994)	(151,078)
	\$1,645,805	\$915,418

Contingent Consideration Liability

On February 14, 2014, the Company acquired four skilled nursing facilities and two senior housing facilities for \$90.0 million. The Company may pay an earn-out based on incremental portfolio value created through the improvement of current operations as well as through expansion and conversion projects associated with these facilities. The earn-out amount will be determined based on portfolio performance following the third anniversary of the Company's entry into the master lease. To determine the value of the contingent consideration, the Company used significant inputs not observable in the market to estimate the earn-out, made assumptions regarding the probability of the portfolio

achieving the incremental value and then

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applied an appropriate discount rate. The Company estimated a contingent consideration liability of \$3.2 million at the time of purchase. As of December 31, 2014, based on the potential future performance of the facilities, the contingent consideration liability is estimated at \$3.9 million and is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet. During the year ended December 31, 2014, the Company recorded an adjustment to increase the contingent consideration liability by \$0.7 million and included this amount in other income (expense) on the accompanying consolidated statements of income.

On October 22, 2013, the Company purchased one acute care hospital for \$119.8 million, of which approximately \$10.5 million was to be held in escrow for up to 20 months. The amount ultimately released from escrow is contingent on the tenant achieving certain performance hurdles. The seller will be paid a fee of \$0.5 million per annum during the escrow period. As of October 22, 2013, the amount the Company expected to release from escrow was valued at \$7.3 million and is treated as contingent consideration. During the second quarter of 2014, \$5.3 million was released from escrow to the seller as a result of the facility achieving certain of its performance hurdles. The remaining \$5.2 million remains in escrow with its release contingent on the facility meeting additional performance hurdles and is included in prepaid expenses, deferred financing costs and other assets in the accompanying consolidated balance sheets. As of December 31, 2014, based on the performance of the facility the contingent consideration liability is estimated at zero. During the year ended December 31, 2014, the Company recorded an adjustment to the contingent consideration liability of \$2.3 million and reduced its liability to \$0. The adjustment is included in other income (expense) on the accompanying consolidated statements of income.

Operating Leases

As of December 31, 2014, all of the Company's real estate properties were leased under triple-net operating leases with expirations ranging from two to 18 years. As of December 31, 2014, the leases had a weighted-average remaining term of 11 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 \$0.4 million and \$1.6 million as of December 31, 2014 and 2013, respectively. As of December 31, 2014, 81 of the Company's 160 real estate properties held for investment were leased to subsidiaries of Genesis.

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 facility 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 determine trends and the operational and financial impact of the environment in the industry (including the impact of government reimbursement) and 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, 2014, the future minimum rental payments from the Company's properties under non-cancelable operating leases was as follows (in thousands):

2015	\$ 175,839
2016	180,879
2017	185,729

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2018	190,587
2019	196,137
Thereafter	1,236,968
	\$2,166,139

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5. TENANT ORIGINATION AND ABSORPTION COSTS AND TENANT RELATIONSHIP ASSETS

As of December 31, 2014 and 2013, 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,			
	2014	2013	2014	2013
Cost	\$17,621	\$8,884	\$5,341	\$1,900
Accumulated amortization	(1,576	) (837	) (225	) (106
Net amount	\$16,045	\$8,047	\$5,116	\$1,794

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, 2014, 2013 and 2012 are as follows (in thousands):

	Tenant Origination and Absorption Costs			Tenant Relationship		
	For the Year Ended December 31,					
	2014	2013	2012	2014	2013	2012
Amortization	\$(1,109	) \$(493	) \$(269	) \$(192	) \$(68	) \$(31

The remaining unamortized balance for these outstanding intangible assets and liabilities as of December 31, 2014 will be amortized for the years ending December 31 as follows (dollars in thousands):

	Tenant Origination and Absorption Costs	Tenant Relationship
2015	\$1,293	\$229
2016	1,293	229
2017	1,293	229
2018	1,293	229
2019	1,293	229
Thereafter	9,580	3,971
	\$16,045	\$5,116
Weighted-Average Remaining Amortization Period	13.1 years	22.7 years

6. LOANS RECEIVABLE AND OTHER INVESTMENTS

As of December 31, 2014 and 2013, the Company's loans receivable and other investments consisted of the following (dollars in thousands):

Investment	Quantity	Facility Type	Principal Balance as of December 31, 2014	Book Value as of December 31, 2014	Book Value as of December 31, 2013	Weighted Average Contractual Interest Rate / Rate of Return	Weighted Average Annualized Effective Interest Rate / Rate of Return	Maturity Date
Loans Receivable:								
Mortgage	4	Skilled Nursing / Senior Housing / Acute Care Hospital Acute Care	\$144,033	\$144,383	\$149,450	8.3 %	8.2 %	10/13/15 - 1/31/18
Construction	3	Hospital / Senior Housing	65,242	65,525	14,283	7.5 %	7.4 %	9/30/16 - 10/31/18
Mezzanine	2	Skilled Nursing / Senior Housing	21,432	21,491	12,410	11.3 %	11.1 %	6/27/15 - 8/31/17
Pre-development	5	Senior Housing	3,652	3,777	1,366	9.0 %	7.8 %	8/16/15 - 9/09/17
	14		234,359	235,176	177,509	8.3 %	8.2 %	
Other Investments:								
Preferred Equity	6	Skilled Nursing/Senior Housing	16,125	16,407	7,784	12.5 %	12.4 %	N/A
Total	20		\$250,484	\$251,583	\$185,293	8.6 %	8.5 %	

Onion Creek Option Exercise

On October 21, 2014, the Company exercised its option to purchase one skilled nursing facility securing a related mortgage loan for \$14.0 million. At the closing of the acquisition, \$11.0 million of the sales proceeds were used to repay a portion of the mortgage loan, resulting in the Company funding an additional \$3.0 million for the acquisition.

Meridian Mezzanine Loan

On August 15, 2014, the Company originated a \$15.5 million mezzanine loan (the "Meridian Mezzanine Loan") with affiliates of Meridian ALZ Investors, LLC ("Meridian") in connection with the Company's previously announced pipeline agreement with Meridian. The proceeds of the mezzanine loan were used to repay the Company's existing preferred equity investment in an affiliate of Meridian totaling \$8.3 million (including accrued and unpaid preferred returns), resulting in a net investment by the Company of \$7.2 million. The Meridian Mezzanine Loan has a three-year term and bears interest at a fixed rate of 11.0% per annum. It is secured by Meridian's equity interest in two memory care facilities and a skilled nursing facility.

Chai Acquisition Option Exercise

On March 5, 2014, the Company exercised its option to purchase two skilled nursing facilities indirectly securing a related mezzanine loan for \$24.5 million.

At the closing of the acquisition, \$5.8 million of the sales proceeds were used to repay a portion of the mezzanine loan, resulting in the Company funding an additional \$18.7 million for the acquisition and leaving \$6.5

million outstanding under the mezzanine loan. The Company continues to have an option to purchase up to an additional \$25.5 million of the remaining ten properties securing the mezzanine loan.

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7. 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, 2014	Book Value as of December 31, 2013	Weighted Average Effective Interest Rate at December 31, 2014	Maturity Date
Fixed Rate	\$ 124,022	\$ 54,688	3.96	% May 2031 - August 2051
Variable Rate	— \$ 124,022	86,640 \$ 141,328	— 3.96	% N/A

Mortgage Debt Refinancing. On January 21, 2014, the Company refinanced \$44.8 million of existing variable rate mortgage indebtedness due August 2015 with mortgages guaranteed by the United States Department of Housing and Urban Development ("HUD") at an interest rate of 4.25% with maturities between 2039 and 2044. In addition, on April 8, 2014, the Company refinanced \$11.6 million of variable rate mortgage indebtedness that was previously repaid with funds from its Revolving Credit Facility (defined below). This new \$11.6 million mortgage loan is guaranteed by HUD, has an interest rate of 4.10% and matures in 2044. In connection with these refinancings, the Company wrote off \$0.5 million in unamortized deferred financing costs during the year ended December 31, 2014 and included this amount in loss on extinguishment of debt on the accompanying consolidated statements of income.

Mortgage Debt Repayment. On May 1, 2014, the Company repaid \$29.8 million of existing variable rate mortgage indebtedness, having an interest rate of 5.0% per annum, with proceeds from its Revolving Credit Facility. In connection with this repayment, the Company wrote off \$0.1 million in unamortized deferred financing costs during the year ended December 31, 2014 and included this amount in loss on extinguishment of debt on the accompanying consolidated statements of income.

Senior Unsecured Notes

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. A portion of these proceeds was used to (i) fund a tender offer for the then-outstanding 2018 Notes, (ii) fund the redemption price for then-outstanding 2018 Notes that were not retired in the tender offer, (iii) acquire a portfolio of six senior housing campuses, and (iv) repay \$4.5 million outstanding under the Prior Revolving Credit Facility as of December 31, 2013. 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 Company used the proceeds from this offering to repay borrowings outstanding under the Revolving Credit Facility. 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. In addition, prior to February 1, 2017, the Issuers may redeem all or a portion of the 2021 Notes at a redemption price equal to 100% of the principal amount of the 2021 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 February 1, 2017, the Issuers may redeem up to 35% of the principal amount of the 2021 Notes, using the proceeds of specific kinds of equity offerings, at a redemption price of 105.5% of the principal

amount to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. Assuming the 2021 Notes are not redeemed, the 2021 Notes 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

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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.

8.125% Notes due 2018. On October 27, 2010 and July 26, 2012, the Issuers issued \$225.0 million and \$100.0 million aggregate principal amount of 8.125% senior unsecured notes due 2018 (the “2018 Notes”), respectively. Pursuant to exchange offers completed on March 14, 2011 and November 14, 2012, the Issuers exchanged the 2018 Notes that were issued in October 2010 and July 2012 for substantially identical 2018 Notes registered under the Securities Act of 1933, as amended. The 2018 Notes accrued interest at a rate of 8.125% per annum payable semiannually on May 1 and November 1 of each year.

On June 24, 2013, pursuant to the terms of the indenture governing the 2018 Notes (the “2018 Notes Indenture”), the Issuers redeemed \$113.8 million in aggregate principal amount of the outstanding 2018 Notes, representing 35% of the aggregate principal amount of the 2018 Notes outstanding. The 2018 Notes were redeemed at a redemption price of 108.125% of the principal amount redeemed, plus accrued and unpaid interest up to the redemption date. The redemption resulted in a \$9.8 million loss on extinguishment of debt, including \$9.3 million in payments made to noteholders for early redemption and \$0.5 million of write-offs associated with unamortized deferred financing costs and issuance premium.

On January 8, 2014, the Company commenced a cash tender offer with respect to any and all of the outstanding \$211.3 million of the 2018 Notes. Pursuant to the tender offer, the Company retired \$210.9 million of the 2018 Notes at a premium of 109.837%, plus accrued and unpaid interest, on January 23, 2014. Pursuant to the terms of the 2018 Notes Indenture, the remaining \$0.4 million of the 2018 Notes were called and were retired on February 11, 2014 at a redemption price of 109.485% plus accrued and unpaid interest. The tender offer and redemption resulted in \$21.7 million of tender offer and redemption related costs and write-offs for the year ended December 31, 2014, including \$20.9 million in payments made to noteholders and legal fees for early redemption and \$0.8 million of write-offs associated with unamortized deferred financing and premium costs. These amounts are included in loss on extinguishment of debt on the accompanying consolidated statements of income.

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 14, “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, 2014.

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Revolving Credit Facility

On September 10, 2014, the Operating Partnership entered into a second amended and restated unsecured revolving credit facility (the "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 Revolving Credit Facility amends and restates the amended and restated secured revolving credit facility (the "Prior Revolving Credit Facility") that the Operating Partnership and certain subsidiaries of the Operating Partnership entered into on July 29, 2013 and amended on October 15, 2013.

The Revolving Credit Facility provides for a borrowing capacity of \$650.0 million and provides 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 has an option to convert up to \$200.0 million of the 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 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%.

While the Prior Revolving Credit Facility was secured by pledges of equity by the Company's wholly owned subsidiaries that own certain of the Company's real estate assets, the Revolving Credit Facility is unsecured. The Revolving Credit Facility, including amounts that are converted into a term loan, has a maturity date of September 10, 2018, and includes a one year extension option. As of December 31, 2014, there was \$68.0 million outstanding under the Revolving Credit Facility and \$382.0 million available for borrowing.

In connection with the Revolving Credit Facility, the Company wrote off \$0.2 million of unamortized deferred financing costs during the year ended December 31, 2014. These amounts are included in loss on extinguishment of debt on the accompanying consolidated statements of income.

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% (referred to as the "Base Rate"). The applicable percentage for borrowings will vary based on the Consolidated Leverage Ratio, as defined in the credit agreement for the Revolving Credit Facility, and will range 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. As of December 31, 2014, the interest rate on the Revolving Credit Facility was 2.27%. In addition, the Operating Partnership is 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 Revolving Credit Facility. During the year ended December 31, 2014, the Company incurred \$3.3 million in interest expense on amounts outstanding under the Revolving Credit Facility and \$1.4 million of unused facility fees.

In the event that Sabra achieves at least two investment grade ratings from 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 for the Revolving Credit Facility, and will range from 0.90% to 1.70% per annum for LIBOR based borrowings and 0.00% to 0.70% per annum for borrowings at the Base Rate. 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 Operating Partnership under the Revolving Credit Facility are guaranteed by Sabra and certain subsidiaries of Sabra.

The Revolving Credit Facility contains customary covenants that include restrictions or limitations on the ability to make acquisitions and other investments, make distributions, 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 Revolving 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, 2014, the Company was in compliance with all applicable financial covenants under the Revolving Credit Facility.

Interest Expense

During the years ended December 31, 2014, 2013 and 2012, the Company incurred interest expense of \$47.0 million, \$40.5 million and \$34.3 million, respectively. Included in interest expense for the years ended December 31, 2014, 2013 and 2012, was \$4.0 million, \$3.3 million and \$2.7 million, respectively, of deferred financing costs amortization. As of

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December 31, 2014 and 2013, the Company had \$13.2 million and \$4.7 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, 2014 (in thousands):

	Mortgage Indebtedness	Senior Notes ⁽¹⁾	Revolving Credit Facility and Term Loan ⁽²⁾	Total
2015	\$2,823	\$—	\$—	\$2,823
2016	2,917	—	—	2,917
2017	3,013	—	—	3,013
2018	3,114	—	268,000	271,114
2019	3,218	—	—	3,218
Thereafter	108,937	700,000	—	808,937
	\$124,022	\$700,000	\$268,000	\$1,092,022

⁽¹⁾ Outstanding principal balance for Senior Notes does not include discount of \$0.7 million as of December 31, 2014.

⁽²⁾ Subject to a one-year extension option.

8. DERIVATIVE INSTRUMENTS

The Company purchased an interest rate cap for \$6.2 million, which was effective October 10, 2014, to hedge the future payments on the first \$200.0 million of variable rate borrowings for a period of time from October 10, 2014 through September 10, 2019. The primary goal of the Company's risk management practices related to interest rate risk is to prevent changes in interest rates from adversely impacting the Company's ability to achieve its earnings objectives. The Company does not enter into the derivatives for speculative purposes.

At inception, the interest rate cap was deemed to be highly effective in achieving offsetting cash flows attributable to the variability in the interest rate during the term of the hedge. As of December 31, 2014, the Company had over \$200.0 million of variable rate borrowings and the interest rate cap was deemed to be highly effective. During the year ended December 31, 2014, the Company recorded a \$1.5 million fair value adjustment related to the interest rate cap and included this amount in unrealized loss on cash flow hedge on the accompanying consolidated statements of comprehensive income. As of December 31, 2014, the fair value of the interest rate cap was \$4.6 million and this amount is included in prepaid expenses, deferred financing costs and other assets on the accompanying consolidated balance sheets. Approximately \$24,000 of losses, which are included in accumulated other comprehensive income, are expected to be reclassified into earnings in the next 12 months.

The following table illustrates the effect on the fair value of the interest rate cap as a result of movements in the interest rate market (dollars in thousands):

Effects of Change in Interest Rates

+50 Basis Points	-50 Basis Points	+100 Basis Points	-100 Basis Points
\$2,546	\$(2,051)	) \$5,521	\$(3,535)

9. FAIR VALUE DISCLOSURES

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 Revolving Credit Facility and Term Loan 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:

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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.

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.

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 interest rate cap, using the assistance of a third party using level two inputs which includes forward yield curves and other relevant information. As such, the Company classifies these inputs as Level 2 inputs.

Senior Notes: The fair values of the Senior Notes were determined using third-party market quotes derived from orderly trades.

Mortgage indebtedness: 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. The following are the face values, carrying amounts and fair values of the Company's financial instruments as of December 31, 2014 and December 31, 2013 whose carrying amounts do not approximate their fair value (in thousands):

	December 31, 2014			December 31, 2013		
	Face Value ⁽¹⁾	Carrying Amount ⁽²⁾	Fair Value	Face Value ⁽¹⁾	Carrying Amount ⁽²⁾	Fair Value
Financial assets:						
Loans receivable	\$234,359	\$235,176	\$234,227	\$176,558	\$177,509	\$176,985
Preferred equity investments	16,125	16,407	17,115	7,695	7,784	7,950
Financial liabilities:						
Senior Notes	700,000	699,272	723,625	411,250	414,402	421,122
Mortgage indebtedness	124,022	124,022	122,131	141,328	141,328	130,622

⁽¹⁾ Face value represents amounts contractually due under the terms of the respective agreements.

⁽²⁾ Carrying amounts represent the book value of financial instruments and include unamortized premiums (discounts). The Company determined the fair value of financial instruments as of December 31, 2014 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	\$234,227	\$—	\$—	\$234,227
Preferred equity investments	17,115	—	—	17,115
Financial liabilities:				
Senior Notes	723,625	—	723,625	—
Mortgage indebtedness	122,131	—	—	122,131

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.

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During the year ended December 31, 2014, 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:				
Interest rate cap	\$4,618	\$—	\$4,618	\$—
Contingent consideration liability	3,900	—	—	3,900

The Company's contingent consideration liability is the result of two 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 liability, the Company used significant inputs not observable in the market to estimate the liability. 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 tenant and the resulting payout from these scenarios. As of December 31, 2014, the total contingent consideration liability was valued at \$3.9 million. The following reconciliation provides the details of activity for contingent consideration liability recorded at fair value using Level 3 inputs:

Balance as of December 31, 2012	\$ 1,300	
New contingent liability	7,300	
Increase in contingent liability	800	
Payment of contingent liability	(1,900)
Balance as of December 31, 2013	\$ 7,500	
New contingent liability	\$ 3,200	
Decrease in contingent liability	(1,560)
Payment of contingent liability	(5,240)
Balance as of December 31, 2014	\$ 3,900	

A corresponding amount equal to the decrease in contingent consideration liability was included as other income on the accompanying consolidated statements of income for the year ended December 31, 2014.

10. 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, 2014, 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 May 12, 2014, the Company completed an underwritten public offering of 8.1 million newly issued shares of its common stock pursuant to an effective registration statement. The Company received net proceeds, before expenses, of \$219.1 million from the offering, after giving effect to the issuance and sale of all 8.1 million shares of common stock (which included 1.1 million shares sold to the underwriters upon exercise of their option to purchase additional shares), at a price to the public of \$28.35 per share. A portion of these proceeds was used to repay borrowings outstanding under the Prior Revolving Credit Facility.

On October 3, 2014, the Company completed an underwritten public offering of 6.9 million newly issued shares of its common stock pursuant to an effective registration statement. The Company received net proceeds, before expenses, of \$160.6 million from the offering, after giving effect to the issuance and sale of all 6.9 million shares of common stock (which included 0.9 million shares sold to the underwriters upon exercise of their option to purchase additional shares), at a price to the public of \$24.25 per share. These proceeds were used to repay borrowings outstanding under the Revolving Credit Facility.

At-The-Market Common Stock Offering Program (“ATM Program”)

On December 1, 2014, the Company entered into a sales agreement (the “2014 Sales Agreements”) with each of Barclays Capital Inc., Cantor Fitzgerald & Co., Credit Agricole Securities (USA) Inc., Jefferies LLC, J.P. Morgan Securities LLC, MLV & Co. LLC, Raymond James & Associates, Inc., RBC Capital Markets, LLC, Stifel, Nicolaus & Company, Incorporated, SunTrust Robinson Humphrey, Inc. and Wells Fargo Securities, LLC (individually, a “Sales Agent” and together, the “Sales Agents”) to sell shares of its common stock, \$0.01 par value per share, having aggregate gross proceeds of up to \$200.0 million from time to time through the Sales Agents (the “2014 ATM Program”).

Pursuant to the terms of the 2014 Sales Agreements, the shares may be sold by any method permitted by law deemed to be an “at-the-market” offering, including without limitation sales made directly on the NASDAQ Global Select Market, on any other existing trading market for our common stock or to or through a market maker. In addition, with the Company’s prior consent, the Sales Agents may also sell shares in privately negotiated transactions. The Company will pay each Sales Agent a commission equal to 2% of the gross proceeds from the sales of shares sold pursuant to the applicable 2014 Sales Agreement. The offering of shares pursuant to any 2014 Sales Agreement will terminate upon the earlier of (i) the sale of the maximum aggregate amount of shares subject to the 2014 Sales Agreements, or (ii) termination of such 2014 Sales Agreement as permitted therein. The Company is not obligated to sell and the Sales Agents are not obligated to buy or sell any shares under the 2014 Sales Agreements.

The 2014 Sales Agreements supersede and replace the sales agreements previously entered into by the Company on March 18, 2013 with each of Barclays Capital Inc., Cantor Fitzgerald & Co., Credit Agricole Securities (USA) Inc., RBC Capital Markets, LLC, RBS Securities Inc. and Wells Fargo Securities, LLC (the “2013 Sales Agreements”), which were terminated prior to entry into the 2014 Sales Agreements. During the term of the 2013 Sales Agreements, the Company sold 2.0 million shares of our common stock through or to the sales agents party thereto for aggregate gross proceeds of \$55.2 million and net proceeds of \$54.1 million after commissions and other transaction costs (the “2013 ATM Program”).

During the year ended December 31, 2014, the Company sold 5.0 million shares of its common stock under the 2013 ATM Program and the 2014 ATM Program, at an average price of \$28.18 per share, generating gross proceeds of approximately \$140.4 million, before \$2.8 million of commissions. During the year ended December 31, 2013, the Company sold 1.4 million shares of its common stock under the 2013 ATM Program, at an average price of \$27.01 per share, generating gross proceeds of approximately \$38.3 million, before \$0.7 million of commissions.

Other Common Stock Issuances

The following is a summary of the Company’s other common stock issuances during the years ended December 31, 2014 and 2013:

	Year Ended December 31,	
	2014	2013
Exercise of stock options	11,515	33,935
Vesting of common stock units	315,117	239,088

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 year ended December 31, 2014, pursuant to advance elections made by certain participants, the Company incurred \$8.1 million in tax withholding obligations that were satisfied through a reduction in the number of shares delivered to those participants.

11. 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 Old 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

A summary of the option activity is presented in the following table (dollars in thousands, except per share amounts):

	Range of Per Share Exercise Price	Shares Under Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2013	\$17.17 - \$17.31	64,286	\$ 17.22	2.9	\$574
Granted	—	—	—		
Exercised	\$17.17 - \$17.31	(64,286)	17.22		
Forfeited	—	—	—		
Outstanding as of December 31, 2014	N/A	—	\$ —	N/A	\$—

The total intrinsic value of stock options exercised was \$0.7 million, \$1.8 million and \$0.2 million during the years ended December 31, 2014, 2013 and 2012, respectively. The Company received \$0.5 million for the stock options exercised during the year ended December 31, 2012. The exercise price for the stock options exercised during the years ended December 31, 2014 and 2013 was paid through the withholding of shares. The total fair value of stock options that vested during the years ended December 31, 2014, 2013 and 2012 was \$0.2 million, \$0.3 million and \$0.6 million, respectively.

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, each performance-based restricted stock unit is convertible into one share of common stock. 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 150% 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.

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The following table summarizes additional information concerning restricted stock units at December 31, 2014:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Unit
Unvested as of December 31, 2013	664,214	\$19.39
Granted	346,281	25.88
Vested	(485,436)	19.73
Dividends reinvested	37,367	19.55
Unvested as of December 31, 2014	562,426	\$23.26

As of December 31, 2014, the weighted average remaining vesting period of restricted stock units was 2.4 years. The weighted average fair value per share at the date of grant for restricted stock units for the years ended December 31, 2014, 2013 and 2012 was \$25.88, \$18.52 and \$18.34, respectively. The total fair value of units vested during the years ended December 31, 2014, 2013 and 2012 was \$9.6 million, \$10.7 million and \$2.1 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:

	2014	2013	2012
Risk Free Interest Rate	1.07% - 1.09%	0.37% - 0.67%	0.38 % - 0.40%
Expected Stock Price Volatility	24.14% - 24.22%	33.36% - 36.11%	36.41% - 48.05%
Expected Service Period	3.0 years	3.0 years	3.0 years
Expected Dividend Yield (assuming full reinvestment)	—	% —	% —

During the years ended December 31, 2014, 2013 and 2012, the Company recognized \$9.9 million, \$7.8 million and \$8.3 million, respectively, of stock-based compensation expense. As of December 31, 2014, there was \$8.2 million of total unrecognized stock-based compensation expense related to unvested awards, which is expected to be recognized over a weighted average period of 2.7 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, 2014, 2013 and 2012, the Company's matching contributions were approximately \$51,000, \$44,000 and \$25,000, respectively.

12. 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 and, therefore, the Company did not incur any income tax expense during the years ended December 31, 2014, 2013 and 2012. Taxable income generated during the period preceding this election is subject to federal and state 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 Old Sun during the first ten 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 10 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.

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The following is a reconciliation of the Company's beginning and ending unrecognized tax benefits (in thousands):

Balance at December 31, 2012	\$24,212
Additions (reductions) based on prior years' tax positions	—
Additions (reductions) based on 2013 tax positions	—
Balance at December 31, 2013	\$24,212
Additions (reductions) based on prior years' tax positions	—
Additions (reductions) based on 2014 tax positions	—
Balance at December 31, 2014	\$24,212

The Company does not anticipate that the balance in unrecognized tax benefits will change materially in fiscal year 2015. During the period from the Separation Date through December 31, 2014, neither the Company nor its subsidiaries were assessed interest or penalties by any major tax jurisdictions. There would be no effect on the Company's tax rate if the unrecognized tax benefits were to result in additional taxes owed due to the availability of net operating loss ("NOL") carryforwards. The NOL carryforwards are recorded as deferred tax assets and have expiration dates from 2019 through 2027. With certain exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations for years before 2011. However, the years before 2011 remain open to adjustment by the taxing authorities due to net operating losses being carried forward into open tax years. For the years before 2009, these jurisdictions can, however, adjust NOL carryforwards from earlier years.

13. EARNINGS PER COMMON SHARE

The following table illustrates the computation of basic and diluted earnings per share for the years ended December 31, 2014, 2013 and 2012 (in thousands, except share and per share amounts):

	Year Ended December 31,		
	2014	2013	2012
Numerator			
Net income attributable to common stockholders	\$36,710	\$25,749	\$19,513
Denominator			
Basic weighted average common shares and common equivalents	46,351,544	37,514,637	37,061,111
Dilutive stock options and restricted stock units	537,987	557,289	260,406
Diluted weighted average common shares	46,889,531	38,071,926	37,321,517
Net income attributable to common stockholders, per:			
Basic common share	\$0.79	\$0.69	\$0.53
Diluted common share	\$0.78	\$0.68	\$0.52

Certain restricted stock units are considered participating securities because dividend payments are not forfeited even if the underlying award does not vest. Accordingly, the Company uses the two-class method when computing basic and diluted earnings per share. During the years ended December 31, 2014, 2013 and 2012, approximately 54,000, 46,000 and 27,000 restricted stock units, respectively, were not included because they were anti-dilutive. During the

year ended December 31, 2012, approximately 60,000 stock options were not included because they were anti-dilutive. No stock options were considered anti-dilutive during the years ended December 31, 2014 and 2013.

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14.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.

The Guarantors were also subject to the guarantees described above while the 2018 Notes were outstanding, but such guarantees were released following the redemption of all of the remaining 2018 Notes in the first quarter of the year ended December 31, 2014. As of December 31, 2014, no 2018 Notes were outstanding.

Pursuant to Rule 3-10 of Regulation S-X, the following summarized condensed 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 condensed consolidating statement of cash flows.

Condensed 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, 2014

(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	\$60	\$—	\$1,505,974	\$139,771	\$—	\$1,645,805
Loans receivable and other investments, net	—	—	251,583	—	—	251,583
Cash and cash equivalents	58,799	—	—	2,994	—	61,793
Restricted cash	—	—	160	6,864	—	7,024
Prepaid expenses, deferred financing costs and other assets	586	27,803	62,325	7,973	—	98,687
Intercompany	444,499	757,676	—	—	(1,202,175)	—
Investment in subsidiaries	447,916	642,611	25,057	—	(1,115,584)	—
Total assets	\$951,860	\$1,428,090	\$1,845,099	\$157,602	\$(2,317,759)	\$2,064,892
Liabilities						
Mortgage notes	\$—	\$—	\$—	\$124,022	\$—	\$124,022
Revolving credit facility	—	68,000	—	—	—	68,000
Term loan	—	200,000	—	—	—	200,000
Senior unsecured notes	—	699,272	—	—	—	699,272
Accounts payable and accrued liabilities	9,994	12,902	7,422	1,457	—	31,775
Intercompany	—	—	1,198,779	3,396	(1,202,175)	—
Total liabilities	9,994	980,174	1,206,201	128,875	(1,202,175)	1,123,069
Total Sabra Health Care REIT, Inc. stockholders' equity						
Noncontrolling interests	—	—	—	(43)	—	(43)
Total equity	941,866	447,916	638,898	28,727	(1,115,584)	941,823
Total liabilities and equity	\$951,860	\$1,428,090	\$1,845,099	\$157,602	\$(2,317,759)	\$2,064,892

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CONSOLIDATING BALANCE SHEET

December 31, 2013

(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	\$101	\$—	\$751,771	\$163,546	\$—	\$915,418
Loans receivable and other investments, net	—	—	185,293	—	—	185,293
Cash and cash equivalents	3,551	—	—	757	—	4,308
Restricted cash	—	—	121	5,231	—	5,352
Prepaid expenses, deferred financing costs and other assets	1,217	9,207	46,694	6,134	—	63,252
Intercompany	333,125	270,194	—	42,637	(645,956)	—
Investment in subsidiaries	128,640	267,505	25,205	—	(421,350)	—
Total assets	\$466,634	\$546,906	\$1,009,084	\$218,305	\$(1,067,306)	\$1,173,623
Liabilities						
Mortgage notes	\$—	\$—	\$—	\$141,328	\$—	\$141,328
Secured revolving credit facility	—	—	135,500	—	—	135,500
Senior unsecured notes	—	414,402	—	—	—	414,402
Accounts payable and accrued liabilities	6,470	3,864	11,008	887	—	22,229
Intercompany	—	—	645,956	—	(645,956)	—
Total liabilities	6,470	418,266	792,464	142,215	(645,956)	713,459
Total equity	460,164	128,640	216,620	76,090	(421,350)	460,164
Total liabilities and equity	\$466,634	\$546,906	\$1,009,084	\$218,305	\$(1,067,306)	\$1,173,623

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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	2,669	—	22,035
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
General and administrative	18,522	2	8,555	2,260	—	29,339
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 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
Weighted-average number of common shares outstanding, basic	46,351,544
Weighted-average number of common shares outstanding, diluted	46,889,531

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CONSOLIDATING STATEMENT OF INCOME

For the Year Ended December 31, 2013

(in thousands, except share and per share amounts)

	Parent Company Issuers		Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	\$ —	\$—	\$99,711	\$29,277	\$—	\$128,988
Interest and other income	86	—	5,706	—	—	5,792
Total revenues	86	—	105,417	29,277	—	134,780
Expenses:						
Depreciation and amortization	51	—	25,664	7,566	—	33,281
Interest	—	28,767	4,444	7,249	—	40,460
General and administrative	15,040	4	1,294	85	—	16,423
Total expenses	15,091	28,771	31,402	14,900	—	90,164
Other income (expense):						
Loss on extinguishment of debt	—	(9,750)	(351)	—	—	(10,101)
Other (expense) income	—	—	(800)	—	—	(800)
Total other income (expense)	—	(9,750)	(1,151)	—	—	(10,901)
Income in subsidiary	48,720	87,241	3,889	—	(139,850)	—
Net income	33,715	48,720	76,753	14,377	(139,850)	33,715
Preferred dividends	(7,966)	—	—	—	—	(7,966)
Net income attributable to common stockholders	\$ 25,749	\$48,720	\$76,753	\$14,377	\$(139,850)	\$25,749
Net income attributable to common stockholders, per:						
Basic common share						\$0.69
Diluted common share						\$0.68
Weighted-average number of common shares outstanding, basic						37,514,637
Weighted-average number of common shares outstanding, diluted						38,071,926

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CONSOLIDATING STATEMENT OF INCOME

For the Year Ended December 31, 2012

(in thousands, except share and per share amounts)

	Parent Company Issuers		Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	\$ —	\$—	\$75,606	\$26,136	\$—	\$101,742
Interest and other income	18	—	1,410	—	—	1,428
Total revenues	18	—	77,016	26,136	—	103,170
Expenses:						
Depreciation and amortization	49	—	22,061	8,153	—	30,263
Interest	—	22,392	2,724	9,219	—	34,335
General and administrative	14,631	3	1,392	78	—	16,104
Impairment	—	—	—	2,481	—	2,481
Total expenses	14,680	22,395	26,177	19,931	—	83,183
Other income (expense):						
Loss on extinguishment of debt	—	—	—	(2,670)	)—	(2,670)
Other income	—	—	—	2,196	—	2,196
Total other income (expense)	—	—	—	(474)	) —	(474)
Income (loss) in subsidiary	34,175	56,570	(3,693)	) —	(87,052)) —
Net income attributable to common stockholders	\$ 19,513	\$34,175	\$47,146	\$5,731	\$(87,052)	) \$19,513
Net income attributable to common stockholders, per:						
Basic common share						\$0.53
Diluted commons share						\$0.52
Weighted-average number of common shares outstanding, basic						37,061,111
Weighted-average number of common shares outstanding, diluted						37,321,517

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 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 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 (repayments) 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)

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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

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CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

(in thousands)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination	Consolidated
Net cash provided by operating activities	\$ 47,810	\$—	\$—	\$14,289	\$—	\$62,099
Cash flows from investing activities:						
Acquisitions of real estate	—	—	(125,955)	—	—	(125,955)
Origination and fundings of loans receivable	—	—	(165,960)	—	—	(165,960)
Preferred equity investments	—	—	(7,038)	—	—	(7,038)
Additions to real estate	—	—	(764)	—	—	(764)
Net proceeds from the sale of real estate	—	—	—	2,208	—	2,208
Distribution from Subsidiary	4,066	4,066	—	—	(8,132)	—
Intercompany financing	(178,015)	(258,819)	—	—	436,834	—
Net cash (used in) provided by investing activities	(173,949)	(254,753)	(299,717)	2,208	428,702	(297,509)
Cash flows from financing activities:						
Proceeds from issuance of senior unsecured notes	—	200,000	—	—	—	200,000
Principal payments on senior unsecured notes	—	(113,750)	—	—	—	(113,750)
Net proceeds (repayments) from secured revolving credit facility	—	—	43,000	—	—	43,000
Principal payments on mortgage notes	—	—	—	(10,994)	—	(10,994)
Payments of deferred financing costs	—	(5,446)	(3,010)	(498)	—	(8,954)
Payment of contingent consideration	—	—	(1,300)	—	—	(1,300)
Issuance of preferred stock	138,249	—	—	—	—	138,249
Issuance of common stock	34,517	—	—	—	—	34,517
	(58,151)	—	—	—	—	(58,151)

Dividends paid on common and preferred stock							
Distribution to Parent	—	(4,066	) —	(4,066	) 8,132	—
Intercompany financing	—	178,015	261,027	(2,208	) (436,834) —	
Net cash provided by (used in) financing activities	114,615	254,753	299,717	(17,766	) (428,702	) 222,617
Net decrease in cash and cash equivalents	(11,524) —	—	(1,269) —	(12,793)
Cash and cash equivalents, beginning of period	15,075	—	—	2,026	—	17,101	
Cash and cash equivalents, end of period	\$ 3,551	\$—	\$—	\$757	\$—	\$4,308	

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CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2012

(in thousands)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination	Consolidated
Net cash provided by operating activities	\$ 53,584	\$—	\$—	\$2,668	\$—	\$56,252
Cash flows from investing activities:						
Acquisitions of real estate	—	—	(205,424)	—	—	(205,424)
Origination and fundings of loans receivable	—	—	(22,180)	—	—	(22,180)
Additions to real estate	(14)	—	(1,032)	—	—	(1,046)
Repayment of loans receivable	—	—	10,000	—	—	10,000
Investment in Subsidiary	(7,191)	(7,191)	—	—	14,382	—
Distribution from Subsidiary	1,751	1,751	—	—	(3,502)	—
Intercompany financing	(25,915)	(128,721)	—	—	154,636	—
Net cash used in investing activities	(31,369)	(134,161)	(218,636)	—	165,516	(218,650)
Cash flows from financing activities:						
Proceeds from the issuance of senior unsecured notes	—	106,000	—	—	—	106,000
Net proceeds (repayments) from secured revolving credit facility	—	—	92,500	—	—	92,500
Proceeds from mortgage notes	—	—	—	56,651	—	56,651
Principal payments on mortgage notes	—	—	—	(62,226)	—	(62,226)
Payments of deferred financing costs	—	(3,194)	(2,585)	(1,021)	—	(6,800)
Issuance of common stock	53	—	—	—	—	53
Dividends paid	(48,929)	—	—	—	—	(48,929)
Contribution from Parent	—	7,191	—	7,191	(14,382)	—
Distribution to Parent	—	(1,751)	—	(1,751)	3,502	—
Intercompany financing	—	25,915	128,721	—	(154,636)	—
Net cash (used in) provided by financing activities	(48,876)	134,161	218,636	(1,156)	(165,516)	137,249

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Net (decrease) increase in cash and cash equivalents	(26,661)	—	—	1,512	—	(25,149)
Cash and cash equivalents, beginning of period	41,736		—	—	514	—	42,250	
Cash and cash equivalents, end of period	\$ 15,075		\$—	\$—	\$2,026	\$—	\$17,101	

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15. 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, 2014 and 2013. During the year ended December 31, 2014, the Company acquired 10 skilled nursing/transitional care facilities and 32 senior housing facilities. During the year ended December 31, 2013, the Company acquired one senior housing facility and one acute care hospital. The following unaudited pro forma information has been prepared to give effect to all 2014 acquisitions and to the acquisition of Forest Park - Frisco as if the acquisitions occurred on January 1, 2013. This pro forma information does not purport to represent what the actual results of operations of the Company would have been had this acquisition occurred on this date, 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,	
	2014	2013
Revenues	\$223,139	\$208,817
Depreciation and amortization	57,872	59,227
Net income attributable to common stockholders	64,477	71,515
Net income attributable to common stockholders, per:		
Basic common share	1.39	1.91
Diluted common share	1.38	1.88
Weighted average number of common shares outstanding, basic	46,351,544	37,514,637
Weighted average number of common shares outstanding, diluted	46,889,531	38,071,926

16. 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. Compliance with existing environmental laws is not expected to have a material adverse effect on the Company's financial condition and results of operations as of December 31, 2014.

Income Taxes

As a result of the Company's separation from Sun Healthcare Group, Inc. ("Old 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. Old 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, Old Sun was acquired by Genesis HealthCare LLC ("Genesis"). As a result of its acquisition of Old Sun, Genesis became successor to the obligations of Old Sun described above.

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.

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17. SUBSEQUENT EVENTS

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

Dividend Declaration

On January 12, 2015, the Company announced that its board of directors declared a quarterly cash dividend of \$0.39 per share of common stock. The dividend will be paid on February 27, 2015 to stockholders of record as of the close of business on February 13, 2015.

Also on January 12, 2015, 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 27, 2015 to stockholders of record as of the close of business on February 13, 2015.

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SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION

December 31, 2014

(dollars in thousands)

Description	Location	Ownership Percentage	Initial Cost to Company			Gross Amount at Cost Carried at Capitalized Period			Accumulated Depreciation and Amortization	Original Date of Construction/Renovation	Date Acquired	Life Which Expires in Last Income Statement
			Encumbered Land	Building and Improvements ⁽¹⁾	Total	Subsequent Land Acquisitions	Building and Improvements ⁽¹⁾⁽³⁾	Total				
Skilled Nursing/Transitional Care Facilities												
New Martinsville	New Martinsville, WV	100%	-\$475	\$10,543	\$11,018	-\$475	\$10,423	\$10,898	\$(3,557)	1982	11/15/10	39
Glenville Renaissance Terrace	Glenville, WV	100%	-484	2,839	3,323	-484	2,773	3,257	(624)	1982	11/15/10	40
Greenwood Pawtuxet Village	Harriman, TN	100%	-76	4,459	4,535	-76	4,047	4,123	(1,669)	1985/1989, 2008	11/15/10	38
Forest Hills (SNF)	Warwick, RI	100%	-2,066	1,178	12,244	-2,066	9,840	11,906	(3,347)	1964/2009	11/15/10	24
Seminole Estates	Warwick, RI	100%	-1,275	6,602	7,877	-1,275	6,166	7,441	(2,154)	1968	11/15/10	24
Bryan Care	Broken Arrow, OK	100%	(²)1,653	11,259	12,912	-1,653	11,010	12,663	(3,290)	1994/2008, 2009, 2010	11/15/10	40
Sylvania	Seminole, OK	100%	-655	3,527	4,182	-655	3,278	3,933	(676)	1987	11/15/10	32
Point Place	Bryan, OH	100%	-1,278	8,477	7,755	-1,278	8,112	7,390	(1,689)	1976	11/15/10	30
Perrysburg	Sylvania, OH	100%	-942	5,627	6,569	-942	5,226	6,168	(1,856)	1967/1974, 1986, 1995, 2008, 2009	11/15/10	24
Forest View	Toledo, OH	100%	-1,089	5,364	6,453	-1,089	5,127	6,216	(1,170)	1995/2011	11/15/10	36
New Lebanon	Perrysburg, OH	100%	-987	5,358	6,345	-987	5,007	5,994	(1,360)	1984	11/15/10	32
Lexington	Dayton, OH	100%	-819	4,214	5,033	-819	3,956	4,775	(1,336)	1968	11/15/10	24
Twin Rivers	New Lebanon, OH	100%	-784	4,243	5,027	-784	3,825	4,609	(1,145)	1979	11/15/10	28
San Juan	New Lexington, OH	100%	-63	3,487	3,550	-63	3,287	3,350	(1,922)	1981	11/15/10	20
McKinley Care	Defiance, OH	100%	-280	3,004	3,284	-280	2,780	3,060	(803)	1980	11/15/10	30
Bedford Hills	Farmington, NM	100%	1,097	7,163	4,962	3,799	3,999	4,798	(1,278)	1963/1993	11/15/10	24
Exeter on Hampton	Gallup, NM	100%	540	1,865	2,274	440	1,796	2,205	(547)	1968	11/15/10	24
	Bedford, NH	100%	6,650	12,245	14,156	-1,911	11,513	13,424	(2,947)	1992/2010	11/15/10	36
	Exeter, NH	100%	-2,365	2,350	4,715	-2,365	2,136	4,501	(1,443)	1976/2011	11/15/10	40

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Pheasant Wood	Petersborough, NH	100%	-625	3,986	4,611	-625	3,511	4,136	(1,163)	1975	11/15/10	28
Westwood	Keene, NH	100%	-699	3,823	4,522	-699	3,404	4,103	(1,305)	1965/2010	11/15/10	24
Colonial Hill	Rochester, NH	100%	-412	3,960	4,372	-412	3,709	4,121	(1,291)	1986/2010	11/15/10	44
Crestwood Care	Milford, NH	100%	-557	3,441	3,998	-557	3,081	3,638	(1,074)	1972	11/15/10	28
Applewood	Winchester, NH	100%	-348	3,075	3,423	-348	2,703	3,051	(780)	1987	11/15/10	32
The Elms Care	Milford, NH	100%	-312	1,679	1,991	-312	1,525	1,837	(675)	1890/2005	11/15/10	20
Woodland Hill	Asheboro, NC	100%	-1,706	8,053	9,759	-1,706	7,833	9,539	(2,008)	1987/2009	11/15/10	32
Missouri River	Great Falls, MT	100%	12,023	16,967	18,990	-2,023	16,748	18,771	(5,572)	1960/1990, 2010	11/15/10	30
Butte Care	Butte, MT	100%	-1,092	12,654	13,746	-1,092	12,521	13,613	(3,515)	1974/2012	11/15/10	35
Whitefish Care	Whitefish, MT	100%	-651	6,339	6,990	-651	6,237	6,888	(1,831)	1973/2012	11/15/10	35
Deer Lodge	Deer Lodge, MT	100%	4,978	3,032	3,222	2190	2,984	3,174	(1,056)	1973	11/15/10	30

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Description	Location	Ownership Percentage	Encumbrances	Initial Cost to Company	Cost Capitalized Subsequent to Acquisition	Gross Amount Carried at Close of Period	Accumulated Depreciation and Amortization	Original Date Construction/Retirement	Date Acquired	Life on Which Depreciation in Latest Income Statement is Computed	
											Building and Land Improvements ⁽¹⁾
Twin Oaks	Danvers, MA	100%	—	885,100	1,985	885,443	3,332,429	1969	11/15/10	24	
Maplewood	Amesbury, MA	100%	—	774,550	3,324	773,737	7,508,179	1968/2010	11/15/10	24	
Saugus	Saugus, MA	100%	—	285,643	928	285,044	3,298	1967	11/15/10	24	
Kensington Manor	Elizabethtown, KY	100%	—	1,864,223	387	1,864,038	9,671,794	2001/2010	11/15/10	37	
Regency Care	Louisville, KY	100%	—	1,569,821	158,577	1,769,988	2,599,889	1960/2014	11/15/10	25	
Paducah Care	Paducah, KY	100%	—	1,636,533	769	1,638,088	8,444,199	1974/2008	11/15/10	28	
Countryside Care	Bardwell, KY	100%	—	239,790	1,029	239,474	4,710,073	1993/2010	11/15/10	35	
Bradford Square	South Frankfort, KY	100%	—	773,848	622	773,474	4,243,143	1960/1990	11/15/10	25	
Hillside Villa	Madisonville, KY	100%	—	274,272	549	273,824	2,099,291	1962/1978, 1997	11/15/10	25	
Klondike Care	Louisville, KY	100%	—	763,576	340	763,250	4,019,979	1994, 1995, 2008	11/15/10	28	
Colonial Manor	Bowling Green, KY	100%	—	792,050	842	792,763	5,538	1963	11/15/10	25	
Hopkins Care	Woodburn, KY	100%	—	592,272	869	592,024	6,166	1960	11/15/10	25	
Bridge Point	Florence, KY	100%	—	2,273	278	1,751	7,538	1969/2008, 2009, 2010	11/15/10	20	
Magnolia Village	Bowling Green, KY	100%	—	146	296	143	403	54(205)	1991	11/15/10	29
Decatur Township	Indianapolis, IN	100%	—	673,730	403	673,488	8,169	1985	11/15/10	32	
Gooding/Bennett Hills	Gooding, ID	100%	—	1,731	734	1,729	7,299	1968/2009	11/15/10	40	
Fountain City	Columbus, GA	100%	—	253,793	1,050	253,393	2,646,452	1970/2012	11/15/10	40	
Etowah Landing	Rome, GA	100%	—	438	428	437	975	2(416)	1973/1977, 1987	11/15/10	40
Oakhurst	Ocala, FL	100%	—	1,474	12,686	1,473	99,062	2,083	1984/2010	11/15/10	32
Orchard Ridge	New Port Richey, FL	100%	—	535,685	224	535,295	5,831,445	1983/1995, 2012	11/15/10	32	
Bay Tree	Palm Harbor, FL	100%	—	786,870	1,656	786,363	3,149,326	1981	11/15/10	32	
West Bay	Oldsmar, FL	100%	—	775,660	435	775,147	9,221,189	1982/2010	11/15/10	32	

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Sunset Point	Clearwater, FL	100%	—	706,375,076	706,964,671,221	1983	11/15/10	32
Arden House	Hamden, CT	100%	20,032,250	216,066	2,220,868,168	1973/2008, 2010	11/15/10	28
Pope John Paul	Danbury, CT	100%	—	13,702,702	12,684,682	1983/2009	11/15/10	32
St. Camillus	Stamford, CT	100%	—	12,523,528	11,581,581	1987/2008	11/15/10	32
Madison House	Madison, CT	100%	—	4,337,642,501	4,338,242,161	1994/2009, 2010	11/15/10	36
Willows (CT)	Woodbridge, CT	100%	—	1,838,611,799	1,838,021,120	1989/2011	11/15/10	32
The Reservoir	West Hartford, CT	100%	—	1,204,570,661	1,204,760,380	1995/2009, 2011	11/15/10	36
Glen Hill	Danbury, CT	100%	—	918,017,935	918,567,478	1963/2009	11/15/10	24

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Description	Location	Ownership Percentage	Encumbrances	Initial Cost to Company		Gross Amount at which Carried at Close of Subsequent Period	Accumulated Depreciation and Amortization	Original Date Construction/ Renovation	Date Acquired	Life on Which Depreciation in Latest Income Statement is Computed
				Land	Total Improvements ⁽¹⁾					
Governor's House	Simsbury, CT	100%	—	5,756,750	—	5,239,232	2,054	1895/2008, 2010	11/15/10	20
Elms Haven	Thornton, CO	100%	15,303,718	18,423,190	—	3,718,043	1,760,867	1997, 2007, 2008	11/15/10	40
Sable	Aurora, CO	100%	—	1,272,968,863	—	1,272,586,730	1,647	1973	11/15/10	35
Carmichael	Carmichael, CA	100%	—	1,741,741	—	1,458,458	891	1960/1976, 2010	11/15/10	40
Willows (CA)	Willows, CA	100%	—	137,426,563	—	137,292,426	613	1969/2010	11/15/10	40
Washington Care	San Leandro, CA	100%	9,872	1,331,337	—	1,221,221	477	1969/2010	11/15/10	40
Lake Drive	Henryetta, OK	100%	—	166,497,099	—	166,454,614	(379)	1968	11/15/10	10
Boise	Boise, ID	100%	—	289,289	—	205,205	(122)	1991	11/15/10	40
Langdon Place of Dover	Dover, NH	100%	4,648,010	10,036,837	—	809,497	10,228,670	1987/2009	11/15/10	42
Clipper Harbor	Portsmouth, NH	100%	—	846,638,478	—	846,284,813	2,623	1986/2009	11/15/10	43
Mineral Springs	North Conway, NH	100%	—	413,353,769	—	413,106,523	1,571	1988/2009	11/15/10	43
Wolfeboro	Wolfeboro, NH	100%	—	454,534,985	—	454,317,477	11,230	1984/1986, 1987, 2009	11/15/10	41
Langdon Place of Keene	Keene, NH	100%	5,119,903	9,992,296	—	303,735	4,031,313	1995	11/15/10	46
Edmondson Care	Brownsville, KY	100%	—	446,083,533	—	446,564,501	1,165	1994/2009	11/15/10	35
Heartland Villa	Lewisport, KY	100%	—	532,024,557	—	532,676,420	809	1994/2009	11/15/10	35
Meridian Care	Meridian, ID	100%	—	848,342,182	—	848,128,968	2,926	1997/2009	11/15/10	39
St. Joseph's	Trumbull, CT	100%	—	21,828,878	—	20,800,806	824	1959	11/15/10	24
Oak Brook Health Care	Whitehouse, TX	100%	—	1,486,431,076	—	1,486,441,077	1,115	1987	06/30/11	40
Broadmeadow Healthcare	Middletown, DE	100%	—	1,650,730,380	—	1,650,732,380	126	2005	08/01/11	40

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Capitol Healthcare	Dover, DE	100%	—	4,945,500,440	4,945,500,440	1996	08/01/11	40
Pike Creek Healthcare	Wilmington, DE	100%	—	2,460,247,700	2,460,247,700	2009	08/01/11	40
Renaissance Healthcare	Millsboro, DE	100%	—	1,620,620,260	1,620,620,260	2008	08/01/11	40
Manokin Manor Nursing & Rehabilitation Center	Princess Anne, MD	100%	—	1,958,19,764	1,958,19,764	1985/1987, 2013	09/30/11	40
Wesley Woods Alzheimer's Care Center	Abilene, TX	100%	—	885,619,504	885,619,504	2004	11/01/11	40
Windcrest Alzheimer's Care Center	Waco, TX	100%	—	802,575,379	802,575,379	1994/1999	11/01/11	40
Clara Burke	Plymouth Meeting, PA	100%	—	2,527,454,980	2,527,454,980	1927/1990, 2007	03/30/12	40
Warrington	Warrington, PA	100%	—	2,611,662,279	2,611,662,279	1958/2009	03/30/12	40
Ridgecrest	Duffield, VA	100%	—	509,018,527	509,597,106	1981	05/10/12	40

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Description	Location	Ownership Percentage	Encumbered Land	Initial Cost to Company	Gross Amount at which Cost Carried Capitalized Subject to Acquisition	Accumulated Depreciation and Amortization	Original Date of Construction/ Renovation	Date Acquired	Life on Which Depreciation in Latest Income Statement is Computed
Derry	Derry, NH	100%	—	768,239	768,239	219,761	1976/1994, 2000	06/01/12	40
Camden Care Center	Minneapolis, MN	100%	—	1,237,701	1,237,701	331,990	1990	11/30/12	40
Arbrook Plaza	Arlington, TX	100%	—	3,743,890	3,743,890	512,002	2002/2012	11/30/12	40
Northgate Plaza	Irving, TX	100%	—	4,901,920	4,901,920	520,035	2003/2012	11/30/12	40
Gulf Pointe Plaza	Rockport, TX	100%	—	1,062,833	1,062,833	302,002	2002/2012	11/30/12	40
Gateway Senior Living	Lincoln, NE	100%	—	6,266,287	6,266,287	219,627	1962/1996/2013	02/14/14	40
Legacy Pointe	Fremont, NE	100%	—	615,169	615,169	158,208	2008	02/14/14	40
Regency	Fremont, NE	100%	—	629,358	629,358	199,197	1970/1979/1983/1994	02/14/14	40
Laurel Pointe Health	South Sioux City, NE	100%	—	2,620,652	2,620,652	419,521	1954/1968/1975/2000/2004	02/14/14	40
Parkmoor Village	Fort Pierce, FL	100%	—	645,863	645,863	260,180	1980	03/05/14	40
Onion Creek	Colorado Springs, CO	100%	—	430,703	430,703	137,185	1985	03/05/14	40
Adams PARC	Austin, TX	100%	—	872,837	872,837	114,201	2011	10/21/14	40
PARCway	Barlesville, OK	100%	—	1,698,436	1,698,436	166,189	1989	10/29/14	40
Brookhaven Extensive Care	Oklahoma City, OK	100%	—	2,135,756	2,135,756	510,163	1963/1984	10/29/14	40
Senior Housing Monroe House	Norman, OK	100%	—	862,605	862,605	105,201	2001/2013	10/29/14	40
Forest Hills (ALF)				93,176,670	93,176,670	17,854,251	1978		
Senior Housing Monroe House	Moses Lake, WA	100%	—	182	182	57 (36)	1997	11/15/10	15
Forest Hills (ALF)	Broken Arrow, OK	100%	(2)	1,882,730	1,882,730	413,720	2000	11/15/10	30
	Exeter, NH	100%		3,747,118	3,747,118	724,039	1987	11/15/10	43

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Langdon Place of Exeter Langdon Place of Nashua	Nashua, NH	100%	—	5,654,54	5,212,193	1989	11/15/10	40
Heritage Place	Owensboro, KY	100%	—	684,160	681,835	2001	11/15/10	38
The Legacy Glen Crest Village at Northrise	Paducah, KY	100%	—	325,944	325,788	1999	11/15/10	35
	Danbury, CT	100%	—	1,656,22	1,599,617	1986	11/15/10	32
	Las Cruces, NM	100%	—	1,430,335	1,337,062	1998/1999, 2010	11/15/10	29
Age-Well Senior Living	Green Bay, WI	100%	—	262,318	259,566	2004/2011	11/22/11	40
New Dawn Memory Care	Aurora, CO	100%	—	2,824,903	2,824,903	2009	09/20/12	40
Independence Village at Frankenmuth	Frankenmuth, MI	100%	—	5,022,956	5,022,956	1982	09/21/12	40
Gulf Pointe Village	Rockport, TX	100%	—	780,396	780,396	1996	11/30/12	40

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Description	Location	Ownership Percentage	Encumbrances	Initial Cost to Company	Cost Capitalized Subsequent to Acquisition	Gross Amount Carried at Close of Period	Accumulated Depreciation and Amortization	Original Date Construction/ Acquisition	Life on Which Depreciation in Latest Income Statement is Computed
Aspen Ridge Retirement Village	Gaylord, MI	100%	—	2,062,467,494	—	2,062,467,494	(104)	2002	12/14/12 40
Acres of Cadillac Green	Cadillac, MI	100%	—	213,000	8,217	213,000	8,217	2001/2006	12/14/12 40
Acres of Greenville Green	Greenville, MI	100%	—	685,836	5,516	685,836	5,516	1999/2001, 2012, 2013	12/14/12 40
Acres of Manistee Green	Manistee, MI	100%	—	952,578	530	952,578	530	2002	12/14/12 40
Acres of Mason	Mason, MI	100%	—	198,134	3,329	198,134	3,329	2009/2012	12/14/12 40
Nottingham Place	Midland, MI	100%	—	744,742	3,489	744,742	3,489	1995	12/14/12 40
Royal View	Mecosta, MI	100%	—	302,472	7,784	302,472	7,784	2001	12/14/12 40
Tawas Village	East Tawas, MI	100%	—	258,713	9,745	258,713	9,745	2005	12/14/12 40
Turning Brook	Alpena, MI	100%	—	546,313	9,685	546,313	9,685	2006/2008, 2010	12/14/12 40
Stoney River	Marshfield, WI	100%	—	578,739	3,307	578,739	3,307	2010	12/18/12 40
Marshfield Greenfield of Woodstock	Woodstock, VA	100%	—	593,466	6,062	593,466	6,062	1996	06/28/13 40
Square The Meadows	Fremont, NE	100%	—	504,767	8,174	504,767	8,174	1989/2002	02/14/14 40
Park Place	Norfolk, NE	100%	—	219,906	6,123	219,906	6,123	1989/1991, 1994	02/14/14 40
Parkview In Allen	Fort Wayne, IN	100%	14,021	300,123	4,415	300,123	4,415	2011	04/30/14 40
The Atrium	Allen, TX	100%	—	2,480,767	9,957	2,480,767	9,957	2004	09/25/14 40
At Gainesville	Gainesville, FL	100%	—	2,480,786	9,928	2,480,786	9,928	1986	09/25/14 40
The Chateau	Mckinney, TX	100%	—	2,760,397	7,157	2,760,397	7,157	2006	09/25/14 40

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Gardens At Wakefield Plantation	Raleigh, NC	100%	—	2,374,500,850	2,374,500,850 (201)	2002	09/25/14	40
Las Brisas	San Luis Obispo, CA	100%	—	4,902,909,901	4,902,909,901 (223)	1987	09/25/14	40
Creekside Terrace	Winston-Salem, NC	100%	—	2,954,284,423	2,954,284,423 (180)	2001	09/25/14	40
Colonial Village	Longview, TX	100%	—	8036,498,303	8036,498,303 (192)	1985	09/25/14	40
Garden Village	Kansas City, MO	100%	—	1,325,520,835	1,325,520,835 (157)	1983	09/25/14	40
Desert Rose	Yuma, AZ	100%	—	5301,723,305	5301,723,305 (160)	1996	09/25/14	40
Windland South	Nashville, TN	100%	—	1,996,388,364	1,996,388,364 (152)	1986	09/25/14	40
Cedar Woods	Branford, CT	100%	—	2,408,821,224	2,408,821,224 (148)	1987	09/25/14	40
Virginian Monarch Estates	Richmond, VA Auburn, AL	100% 100%	— —	1,080,546,625 3,209,326,535	1,080,546,625 (145) 3,209,326,535 (152)	1989 2001	09/25/14	40
Village At The Falls	Menomonee Falls, WI	100%	—	1,478,778,255	1,478,778,255 (133)	2005/2006, 2007	09/25/14	40
Holiday At The Atrium	Glenville, NY	100%	—	9788,259,235	9788,259,235 (136)	2001	09/25/14	40
Lake Ridge Village	Eustis, FL	100%	—	1,152,528,675	1,152,528,675 (133)	1984/1988	09/25/14	40
Heritage Village	Mcallen, TX	100%	—	4,092,823,945	4,092,823,945 (109)	1988	09/25/14	40
Madison Meadows	Phoenix, AZ	100%	—	2,562,029,596	2,562,029,596 ()	1986	09/25/14	40

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Description	Location	Ownership Percentage	Encumbrances	Initial Cost to Company			Gross Amount at which Carried at Close of Period			
				Land	Building and Improvements ⁽¹⁾	Total	Cost Capitalized Subsequent to Acquisition	Land	Building and Improvements ⁽¹⁾⁽³⁾	Total
South Wind Heights	Jonesboro, AR	100%	—	1,782	11,244	13,026	—	1,782	11,244	13,026
Harrison Regent	Ogden, UT	100%	—	794	10,873	11,667	—	794	10,873	11,667
Avalon MC - Boat Club	Fort Worth, TX	100%	—	359	8,126	8,485	—	359	8,126	8,485
Avalon MC - 7200	Arlington, TX	100%	—	123	4,914	5,037	—	123	4,914	5,037
Avalon MC - 7204	Arlington, TX	100%	—	215	4,821	5,036	—	215	4,821	5,036
Avalon MC - 7140	Arlington, TX	100%	—	143	6,653	6,796	—	143	6,653	6,796
Delaney Creek Lodge	Brandon, FL	100%	—	1,283	8,424	9,707	—	1,283	8,424	9,707
Nature Coast Lodge	Lecanto, FL	100%	—	1,031	5,577	6,608	—	1,031	5,577	6,608
West Winds	Zephyrhills, FL	100%	—	2,477	23,766	26,243	—	2,477	23,766	26,243
Capital Place	Olympia, WA	100%	—	1,688	9,098	10,786	—	1,688	9,098	10,786
Tudor Heights	Baltimore, MD	100%	—	561	4,865	5,426	—	561	4,865	5,426
Acute Care Hospital Texas			17,752	74,713	731,134	805,847	1,076	74,713	729,762	804,475
Regional Medical Center	Sunnyvale, TX	100%	—	4,020	57,620	61,640	—	4,020	57,620	61,640
Forest Park - Frisco	Frisco, TX	100%	—	4,966	109,201	114,167	—	4,966	109,201	114,167
			—	8,986	166,821	175,807	—	8,986	166,821	175,807
Multi-property Indebtedness			12,932	—	—	—	—	—	—	—
			124,022	193,793	1,664,726	1,858,519	3,255	193,793	1,637,741	1,831,534
Corporate Assets			—	—	136	136	129	—	265	265

\$124,022 \$193,793 \$1,664,862 \$1,858,655 \$3,384 \$193,793 \$1,638,006 \$1,831,799 \$

- (1) Building and building improvements include land improvements and furniture and equipment.
- (2) Property serves as collateral for a mortgage loan totaling \$12.9 million as of December 31, 2014.
- (3) The aggregate cost of real estate for federal income tax purposes was \$1.9 billion.

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SABRA HEALTH CARE REIT, INC.
SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
(dollars in thousands)

	Year Ended December 31,		
	2014	2013	2012
Real estate:			
Balance at the beginning of the period	\$ 1,066,496	\$ 956,614	\$ 760,708
Acquisitions	792,510	120,229	202,458
Improvements	1,471	764	1,046
Sale of real estate	(23,265)	—	—
Purchase price allocation adjustment	—	—	(104)
Write-off of fully depreciated assets	(5,413)	(11,111)	(7,494)
Balance at the end of the year	\$ 1,831,799	\$ 1,066,496	\$ 956,614
Accumulated depreciation:			
Balance at the beginning of the period	\$(151,078)	\$(129,479)	\$(107,331)
Depreciation expense ⁽¹⁾	(42,021)	(32,710)	(29,642)
Sale of real estate	1,692	—	—
Write-off of fully depreciated assets	5,413	11,111	7,494
Balance at the end of the year	\$(185,994)	\$(151,078)	\$(129,479)

⁽¹⁾ Depreciation expense for the year ended December 31, 2012 excludes expense of \$0.3 million related to the asset held for sale.

SCHEDULE IV
MORTGAGE LOANS ON REAL ESTATE
December 31, 2014
(dollars in thousands)

Description	Contractual Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Principal Balance	Book Value	Principal Amount of Loans Subject to Delinquent Principal or Interest
Mortgages:							
Weston	9.0	% 2016	(1)	\$—	\$16,079	\$16,136	N/A
Sun City West	9.0	2018	(2)	—	13,394	13,440	N/A
Forest Park - Dallas	8.0	2016	(2)	—	110,000	110,223	N/A
Celebration Loan	10.0	2015	(3)	—	4,560	4,584	N/A
				—	144,033	144,383	
Construction Mortgages:							
Forest Park - Fort Worth	7.3	2016	(1) (4)	—	59,044	59,232	N/A
Other Construction Mortgages	10.0	2018	Various	—	6,198	6,293	N/A
				\$—	\$209,275	\$209,908	

(1) Interest for the first 12 months and principal is deferred and due at the maturity date. Interest after the first 12 months is due monthly.

(2) Interest is due monthly and principal is due at the maturity date.

(3) Interest and principal is due at the maturity date.

(4) The loan has a prepayment fee of 0.5% of the outstanding balance if prepaid before October 1, 2015.

Changes in mortgage loans for the years ended December 31, 2014, 2013 and 2012 are summarized as follows:

	Year Ended December 31,		
	2014	2013	2012
Balance at the beginning of the period	\$162,870	\$11,000	\$—
Additions during period:			
Draws	51,217	—	—
New mortgage loans	4,500	151,173	11,000
Interest income added to principal	1,781	697	—
Deductions during period:			

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Paydowns	(11,093) —	—
Balance at the end of the year	\$209,275	\$162,870	\$11,000

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Irvine, State of California, on February 19, 2015.

SABRA HEALTH CARE REIT, INC.

By: /S/ RICHARD K. MATROS
 Richard K. Matros
 Chairman, President and
 Chief Executive Officer

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

Name	Title	Date
/S/ RICHARD K. MATROS Richard K. Matros	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 19, 2015
/S/ HAROLD W. ANDREWS, JR. Harold W. Andrews, Jr. Harold W. Andrews, Jr.	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	February 19, 2015
/S/ CRAIG A. BARBAROSH Craig A. Barbarosh Craig A. Barbarosh	Director	February 19, 2015
/S/ ROBERT A. Ettl Robert A. Ettl Robert A. Ettl	Director	February 19, 2015
/S/ MICHAEL J. FOSTER Michael J. Foster Michael J. Foster	Director	February 19, 2015
/S/ MILTON J. WALTERS Milton J. Walters	Director	February 19, 2015