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)

x 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

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

Commission file number 001-34950

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

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

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

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

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

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

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

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

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

As of February 13, 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.

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 case 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<br>Skilled Nursing / Transitional Care | Senior Housing | Acute Care Hospitals | Total | % of Total |
|---|---|---|---|---|---|---|
| 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.

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]

| | 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 | % |

[(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, | | |
|---|---|---|---|
| Common Stock | 2014 | 2013 | 2012 |
| 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, | |
|---|---|---|
| Preferred Stock | 2014 | 2013 |
| Non-qualified ordinary dividends | $1.5303 | $1.2370 |
| Long-term capital gains | 0.2510 | — |
| | $1.7813 | $1.2370 |

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Stock Price Performance Graph
The following graph compares the cumulative total stockholder return of our common stock for the period from 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 through December 31, 2010 |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | |
| | (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 |

(1) We believe that net income attributable to common stockholders as defined by U.S. generally accepted accounting principles ("GAAP") is the most appropriate earnings measure. We also believe that funds from operations ("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 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.”

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 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.

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.

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 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 December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Increase / (Decrease) | Percentage Difference | Increase (Decrease) due to Acquisitions and Originations (1) | Remaining Increase (Decrease) (2) |
| 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, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Increase / (Decrease) | Percentage Difference | Increase (Decrease) due to Acquisitions and Originations [1] | Remaining Increase (Decrease) [2] |
| 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) |

| | | | | | | |
|---|---|---|---|---|---|---|
| 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

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):

| | | Payments Due During the Years Ending December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 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.

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 | | | | |