Sabra Health Care REIT, Inc.
Form 10-Q
November 01, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
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)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

As of October 30, 2017, there were 178,232,213 shares of the registrant’s $0.01 par value Common Stock outstanding.

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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 Quarterly Report on Form 10-Q (this “10-Q”) contain “forward-looking” information as that term is defined by the Private Securities Litigation Reform Act of 1995. Any statements that do not relate to historical or current facts or matters are forward-looking statements. Examples of forward-looking statements include all statements regarding our expected future financial position, results of operations, cash flows, liquidity, financing plans, business strategy, tenants, 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:

- changes in healthcare regulation and political or economic conditions;
- the anticipated benefits of our merger with Care Capital Properties, Inc. (“CCP”) may not be realized;
- the anticipated and unanticipated costs, fees, expenses and liabilities related to our merger with CCP;
- our dependence on the operating success of our tenants;
- our ability to implement the previously announced rent repositioning program for certain of our tenants who were legacy tenants of CCP on the timing or terms we have previously disclosed;
- our ability to dispose of facilities currently leased to Genesis Healthcare, Inc. (“Genesis”) on the timing or terms we have previously disclosed;
- the significant amount of and our ability to service our indebtedness;
- covenants in our debt agreements that may restrict our ability to pay dividends, make investments, incur additional indebtedness and refinance indebtedness on favorable terms;
- increases in market interest rates;
- changes in foreign currency exchange rates;
- our ability to raise capital through equity and debt financings;
- the impact of required regulatory approvals of transfers of healthcare properties;
- the 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 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;
- the possibility that the conditions to closing the acquisition of a 49% equity interest in the Enlivant Joint Ventures (as defined below) may not be satisfied, such that the transaction will not close or that the closing may be delayed;
- the possibility that Sabra may not acquire the remaining majority interest in the Enlivant Joint Ventures;
- our ability to maintain our status as a real estate investment trust (“REIT”);
- changes in tax laws and regulations affecting REITs;
- compliance with REIT requirements and certain tax and tax regulatory matters related to our status as a REIT; and
- the ownership limits and anti-takeover defenses in our governing documents and Maryland law, which may restrict change of control or business combination opportunities.

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 Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016 (our "2016 Annual Report on Form 10-K") and in Part II, Item 1A, "Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, 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 (the "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-Q 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-Q or to reflect the occurrence of unanticipated events, unless required by law to do so.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
SABRA HEALTH CARE REIT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Real estate investments, net of accumulated depreciation of $336,689 and $282,812 as of September 30, 2017 and December 31, 2016, respectively	$ 5,972,785	$ 2,009,939
Loans receivable and other investments, net	149,766	96,036
Cash and cash equivalents	30,873	25,663
Restricted cash	12,489	9,002
Lease intangible assets, net	262,817	26,250
Accounts receivable, prepaid expenses and other assets, net	159,577	99,029
Total assets	$ 6,588,307	$ 2,265,919
Liabilities		
Secured debt, net	$ 257,571	$ 160,752
Revolving credit facility	251,000	26,000
Term loans, net	1,190,887	335,673
Senior unsecured notes, net	1,305,996	688,246
Accounts payable and accrued liabilities	116,146	39,639
Lease intangible liabilities, net	94,878	—
Total liabilities	3,216,478	1,250,310
Commitments and contingencies (Note 14)		
Equity		
Preferred stock, $.01 par value; 10,000,000 shares authorized, 5,750,000 shares issued and outstanding as of September 30, 2017 and December 31, 2016	58	58
Common stock, $.01 par value; 250,000,000 shares authorized, 175,832,213 and 65,285,614 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	1,758	653
Additional paid-in capital	3,588,510	1,208,862
Cumulative distributions in excess of net income	(225,459)	(192,201)
Accumulated other comprehensive income (loss)	4,236	(1,798)
Total Sabra Health Care REIT, Inc. stockholders' equity	3,369,103	1,015,574
Noncontrolling interests	2,726	35
Total equity	3,371,829	1,015,609
Total liabilities and equity	$ 6,588,307	$ 2,265,919

See accompanying notes to condensed consolidated financial statements.

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SABRA HEALTH CARE REIT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Rental income	$100,145	$ 56,833	$213,273	$167,442
Interest and other income	4,090	3,157	8,062	25,482
Resident fees and services	7,554	1,937	17,840	5,811
Total revenues	111,789	61,927	239,175	198,735
Expenses:				
Depreciation and amortization	25,933	17,102	62,290	51,273
Interest	24,568	15,794	56,218	49,139
Operating expenses	5,102	1,404	11,929	4,256
General and administrative	12,944	4,966	24,159	13,513
Merger and acquisition costs	23,299	1,051	29,750	1,222
Provision for doubtful accounts and loan losses	5,149	540	7,454	3,286
Impairment of real estate	—	—	—	29,811
Total expenses	96,995	40,857	191,800	152,500
Other income (expense):				
Loss on extinguishment of debt	(553)	—	(553)	(556)
Other income	51	2,945	3,121	5,345
Net gain (loss) on sale of real estate	582	1,451	4,614	(3,203)
Total other income (expense)	80	4,396	7,182	1,586
Income before income tax expense	14,874	25,466	54,557	47,821
Income tax benefit (expense)	195	(154)	(161)	(786)
Net income	15,069	25,312	54,396	47,035
Net loss attributable to noncontrolling interests	26	25	42	66
Net income attributable to Sabra Health Care REIT, Inc.	15,095	25,337	54,438	47,101
Preferred stock dividends	(2,561)	(2,561)	(7,682)	(7,682)
Net income attributable to common stockholders	$12,534	$ 22,776	$46,756	$39,419
Net income attributable to common stockholders, per:				

Basic common share	$0.11	$ 0.35	$0.58	$0.60
Diluted common share	$0.11	$ 0.35	$0.57	$0.60
Weighted-average number of common shares outstanding, basic	112,149,638	65,312,288	81,150,846	65,285,591
Weighted-average number of common shares outstanding, diluted	112,418,100	65,591,428	81,429,044	65,470,589
Dividends declared per common share	$0.36	$ 0.42	$1.21	$1.25

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$15,069	$25,312	$54,396	$47,035
Other comprehensive income (loss):				
Unrealized gain (loss), net of tax:				
Foreign currency translation gain (loss)	412	(500)	552	(749)
Unrealized gain (loss) on cash flow hedges [1]	4,657	398	5,482	(1,300)
Total other comprehensive income (loss)	5,069	(102)	6,034	(2,049)
Comprehensive income	20,138	25,210	60,430	44,986
Comprehensive loss attributable to noncontrolling interest	26	25	42	66
Comprehensive income attributable to Sabra Health Care REIT, Inc.	$20,164	$25,235	$60,472	$45,052

(1) Amounts are net of provision for income taxes of $0.4 million and $0.6 million for the three and nine months ended September 30, 2017, respectively, and none for the three and nine months ended September 30, 2016.

See accompanying notes to condensed consolidated financial statements.

SABRA HEALTH CARE REIT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(dollars in thousands, except per share data)
(unaudited)

	Preferred Stock		Common Stock							
	Shares	Amount	Shares	Amounts	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2015	5,750,000	$58	65,182,335	$652	$1,202,541	$(142,148)	$(7,333)	$1,053,770	$106	$1,053,876
Net income (loss)	—	—	—	—	—	47,101	—	47,101	(66)	47,035
Other comprehensive loss	—	—	—	—	—	—	(2,049)	(2,049)	—	(2,049)
Amortization of stock-based compensation	—	—	—	—	6,775	—	—	6,775	—	6,775
Common stock issuance, net	—	—	108,731	1	(1,104)	—	—	(1,103)	—	(1,103)
Repurchase of common stock	—	—	(31,230)	—	(725)	—	—	(725)	—	(725)
Preferred dividends	—	—	—	—	—	(7,682)	—	(7,682)	—	(7,682)
Common dividends ($1.25 per share)	—	—	—	—	—	(82,240)	—	(82,240)	—	(82,240)
Balance, September 30, 2016	5,750,000	$58	65,259,836	$653	$1,207,487	$(184,969)	$(9,382)	$1,013,847	$40	$1,013,887

	Preferred Stock		Common Stock							
	Shares	Amount	Shares	Amounts	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2016	5,750,000	$58	65,285,614	$653	$1,208,862	$(192,201)	$(1,798)	$1,015,574	$35	$1,015,609
Net income (loss)	—	—	—	—	—	54,438	—	54,438	(42)	54,396
Other comprehensive income	—	—	—	—	—	—	6,034	6,034	—	6,034
	—	—	—	—	—	—	—	—	2,733	2,733

Change in noncontrolling interests										
Amortization of stock-based compensation	—	—	—	—	8,768	—	—	8,768	—	8,768
Common stock issuance, net	—	—	110,546,599	1,105	2,370,880	—	—	2,371,985	—	2,371,985
Preferred dividends	—	—	—	—	—	(7,682)	—	(7,682)	—	(7,682
Common dividends ($1.21 per share)	—	—	—	—	—	(80,014)	—	(80,014)	—	(80,014
Balance, September 30, 2017	5,750,000	$58	175,832,213	$1,758	$3,588,510	$(225,459)	$4,236	$3,369,103	$2,726	$3,371,829

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash flows from operating activities:		
Net income	$54,396	$47,035
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	62,290	51,273
Amortization of above and below market lease intangibles, net	637	—
Non-cash interest income adjustments	(137)	549
Amortization of deferred financing costs	4,132	3,767
Stock-based compensation expense	8,329	6,137
Amortization of debt premium/discount	(99)	81
Loss on extinguishment of debt	553	556
Straight-line rental income adjustments	(18,260)	(16,710)
Provision for doubtful accounts and loan losses	7,454	3,286
Change in fair value of contingent consideration	(552)	50
Net (gain) loss on sales of real estate	(4,614)	3,203
Impairment of real estate	—	29,811
Changes in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other assets	(5,752)	1,381
Accounts payable and accrued liabilities	(53,570)	6,217
Restricted cash	(5,036)	(2,820)
Net cash provided by operating activities	49,771	133,816
Cash flows from investing activities:		
Acquisition of real estate	(393,064)	(109,619)
Cash received in CCP Merger	77,858	—
Origination and fundings of loans receivable	(5,642)	(9,478)
Origination and fundings of preferred equity investments	(2,713)	(6,845)
Additions to real estate	(3,233)	(901)
Repayment of loans receivable	8,710	214,947
Repayments of preferred equity investments	3,239	—
Net proceeds from the sales of real estate	11,723	85,449
Net cash (used in) provided by investing activities	(303,122)	173,553
Cash flows from financing activities:		
Net repayments of revolving credit facility	(137,000)	(255,000)
Proceeds from term loans	181,000	69,360
Principal payments on secured debt	(3,094)	(13,756)
Payments of deferred financing costs	(15,316)	(5,933)
Issuance of common stock, net	319,026	(1,289)
Dividends paid on common and preferred stock	(86,813)	(89,283)
Net cash provided by (used in) financing activities	257,803	(295,901)

Net increase in cash and cash equivalents	4,452	11,468
Effect of foreign currency translation on cash and cash equivalents	758	772
Cash and cash equivalents, beginning of period	25,663	7,434
Cash and cash equivalents, end of period	$30,873	$19,674
Supplemental disclosure of cash flow information:		
Interest paid	$48,836	$49,009
Supplemental disclosure of non-cash investing and financing activities:		
Acquisition of business in CCP Merger (see Note 3)	$3,726,093	$—
Assumption of indebtedness in CCP Merger	$(1,751,373)	$—
Stock exchanged in CCP Merger	$(2,052,578)	$—
Real estate acquired through loan receivable foreclosure	$—	$10,100

See accompanying notes to condensed consolidated financial statements.

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SABRA HEALTH CARE REIT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BUSINESS

Overview

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

On May 7, 2017, the Company, the Operating Partnership, PR Sub, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company (“Merger Sub”), Care Capital Properties, Inc., a Delaware corporation (“CCP”), and Care Capital Properties, L.P. (“CCPLP”), a Delaware limited partnership and wholly-owned subsidiary of CCP, entered into an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which, on August 17, 2017, CCP merged with and into Merger Sub, with Merger Sub continuing as the surviving corporation (the “CCP Merger”), following which Merger Sub merged with and into the Company, with the Company continuing as the surviving entity (the “Subsequent Merger”), and, simultaneous with the Subsequent Merger, CCPLP merged with and into the Operating Partnership, with the Operating Partnership continuing as the surviving entity.

Pursuant to the Merger Agreement, as of the effective time of the CCP Merger, each share of CCP common stock, par value $0.01 per share, issued and outstanding immediately prior to the effective time of the CCP Merger (other than shares of CCP common stock owned directly by CCP, the Company or their respective subsidiaries, in each case not held on behalf of third parties) was converted into the right to receive 1.123 newly issued shares of Company common stock, par value $0.01 per share, plus cash in lieu of any fractional shares. See Note 3, “CCP Merger and Recent Real Estate Acquisitions” for additional information regarding the CCP Merger.

The acquisition of CCP has been reflected in the Company's condensed consolidated financial statements since the effective date of the CCP Merger.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Sabra and its wholly owned subsidiaries as of September 30, 2017 and December 31, 2016 and for the periods ended September 30, 2017 and 2016. All significant intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information as contained within the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) and the rules and regulations of the SEC, including the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for financial statements. In the opinion of management, the financial statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair statement of the results for such periods. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. For further information, refer to the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2016 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC.

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

As of September 30, 2017, the Company determined it was the primary beneficiary of two variable interest entities—a senior housing community and an exchange accommodation titleholder variable interest entity—and has consolidated the operations of these entities in the accompanying condensed consolidated financial statements. As of September 30, 2017, the Company determined that operations of these entities were not material to the Company's results of operations, financial condition or cash flows.

As it relates to investments in loans, in addition to the Company's assessment of VIEs and whether the Company is the primary beneficiary of those VIEs, the Company evaluates the loan terms and other pertinent facts to determine if the loan investment should be accounted for as a loan or as a real estate joint venture. If an investment has the characteristics of a real estate joint venture, including if the Company participates in the majority of the borrower's expected residual profit, the Company would account for the investment as an investment in a real estate joint venture and not as a loan investment. Expected residual profit is defined as the amount of profit, whether called interest or another name, such as an equity kicker, above a reasonable amount of interest and fees expected to be earned by a lender. At September 30, 2017, none of the Company's investments in loans are accounted for as real estate joint ventures.

As it relates to investments in joint ventures, the Company assesses any limited partners' rights and their impact on the presumption of control of the limited partnership by any single partner. The Company also applies this guidance to managing member interests in limited liability companies.The Company reassesses its determination of which entity controls the joint venture if: there is a change to the terms or in the exercisability of the rights of any partners or members, the sole general partner or managing member increases or decreases its ownership interests, or there is an increase or decrease in the number of outstanding ownership interests. As of September 30, 2017, the Company's determination of which entity controls its investments in joint ventures has not changed as a result of any reassessment.

Use of Estimates

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

Reclassifications

Certain amounts in the Company's consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods. As a result, certain reclassifications were made to the condensed consolidated balance sheets and condensed consolidated statements of income.

Net Investment in Direct Financing Lease
As of September 30, 2017, the Company had a $22.9 million net investment in one skilled nursing/transitional care facility leased to an operator under a direct financing lease, as the tenant is obligated to purchase the property at the end of the

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lease term. The net investment in direct financing lease is recorded in accounts receivable, prepaid expenses and other assets, net on the condensed consolidated balance sheets and represents the total undiscounted rental payments (including the tenant's purchase obligation), plus the estimated unguaranteed residual value, less the unearned lease income. Unearned lease income represents the excess of the minimum lease payments and residual values over the cost of the investment. Unearned lease income is deferred and amortized to income over the lease term to provide a constant yield when collectability of the lease payments is reasonably assured. Income from the Company's net investment in direct financing lease was $0.3 million for the three and nine months ended September 30, 2017 and is reflected in interest and other income on the condensed consolidated statements of income. Future minimum lease payments contractually due under the direct financing lease at September 30, 2017, were as follows: $0.5 million for the remainder of 2017; $2.2 million for 2018; $2.2 million for 2019; $2.3 million for 2020; and $2.1 million for 2021.

Recently Issued Accounting Standards Update

Between May 2014 and May 2016, the FASB issued three Accounting Standards Updates (each, an “ASU”) changing the requirements for recognizing and reporting revenue (together, herein referred to as the “Revenue ASUs”): (i) ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), (ii) ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (“ASU 2016-08”) and (iii) ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”). ASU 2014-09 provides guidance for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2016-08 is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. ASU 2016-12 provides practical expedients and improvements on the previously narrow scope of ASU 2014-09. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (“ASU 2015-14”). ASU 2015-14 defers the effective date of ASU 2014-09 by one year to fiscal years, and interim periods within, beginning after December 15, 2017. All subsequent ASUs related to ASU 2014-09, including ASU 2016-08 and ASU 2016-12, assumed the deferred effective date enforced by ASU 2015-14. Early adoption of the Revenue ASUs is permitted for annual periods, and interim periods within, beginning after December 15, 2016. A reporting entity may apply the amendments in the Revenue ASUs using either a modified retrospective approach, by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or full retrospective approach. As the primary source of revenue for the Company is generated through leasing and financing arrangements, which are excluded from the Revenue ASUs, the Company expects that the impact of the Revenue ASUs to the Company will be limited to the recognition of non-lease revenue, such as certain resident fees in its Senior Housing - Managed properties structures (a portion of which are not generated through leasing arrangements)), and its recognition of real estate sale transactions. Under ASU 2014-09, revenue recognition for real estate sales is primarily based on the transfer of control versus continuing involvement under current guidance. Accordingly, the Company anticipates that the new guidance will result in more transactions qualifying as sales of real estate and gains on sale being recognized at an earlier date than under current accounting guidance. Additionally, upon adoption of the Revenue ASUs in 2018, the Company anticipates that it will be required to separately disclose the components of its total revenue between lease revenue accounted for under existing lease guidance and service revenue accounted for under the new Revenue ASUs, but does not anticipate a material change in the timing of revenue recognition. The Company has not yet elected a transition method and is evaluating the complete impact of the adoption of the Revenue ASUs on January 1, 2018 to its consolidated financial position, results of operations and disclosures. The Company expects to complete its evaluation of the impacts of the Revenue ASUs during the fourth quarter of 2017.

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

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the definition of a business ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business with the objective of providing guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. When substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. To be a business without outputs, there will now need to be an organized workforce. ASU 2017-01 is effective for fiscal years and interim periods within those

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years beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2017-01 on October 1, 2016 on a prospective basis. The Company expects that the majority of its future acquisitions of real estate will be accounted for as asset acquisitions under the new guidance. This adoption will impact how the Company accounts for merger and acquisition costs and contingent consideration, which may result in lower expensed merger and acquisition costs and eliminate fair value adjustments related to future contingent consideration arrangements.
In May 2017, the FASB issued ASU 2017-09, Compensation—Stock compensation (Topic 718): Scope of modification accounting (“ASU 2017-09”). ASU 2017-09 clarifies and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of ASU 2017-09 to have a material impact on its consolidated financial statements.
In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”). ASU 2017-12 is intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and to simplify the application of the hedge accounting guidance in current GAAP. ASU 2017-12 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements when adopted.

3. CCP MERGER AND RECENT REAL ESTATE ACQUISITIONS

CCP Merger

On August 17, 2017, the Company completed the CCP Merger. Under the terms of the Merger Agreement, each share of CCP common stock issued and outstanding immediately prior to the effective time of the CCP Merger (other than any shares owned directly by CCP, the Company or their respective subsidiaries, in each case not held on behalf of third parties) was converted into the right to receive 1.123 newly issued shares of Company common stock, resulting in the issuance of approximately 94.0 million shares of Company common stock at the effective time of the CCP Merger. As a result of the CCP Merger, the Company acquired 330 properties (consisting of 296 skilled nursing/transitional care facilities, 13 senior housing communities and 21 specialty hospitals and other facilities), one skilled nursing/transitional care facility leased to an operator under a direct financing lease (see Note 2, “Summary of Significant Accounting Policies—Net Investment in Direct Financing Lease”), 18 investments in loans receivable (see Note 6, “Loans Receivable and Other Investments”) and one specialty valuation firm. Sabra also assumed certain outstanding equity awards and other debt and liabilities of CCP (see Note 7, “Debt”). Based on the closing price of Sabra’s common stock on August 16, 2017, the Company estimates the fair value of the consideration exchanged or assumed to be approximately $2.1 billion. The Company’s estimated fair values of CCP’s assets acquired and liabilities assumed on the closing date of the CCP Merger are determined based on certain valuations and analyses that have yet to be finalized, and accordingly, the assets acquired and liabilities assumed, as detailed below, are preliminary and are subject to adjustment once the analyses are completed.

The following table summarizes the preliminary purchase price allocation for the CCP Merger based on the Company's initial valuation, including estimates and assumptions of the acquisition date fair value of the tangible and intangible assets acquired and liabilities assumed on August 17, 2017 (in thousands):

Real estate investments	$3,629,447
Loans receivable and other investments	57,064
Cash and cash equivalents	77,858
Restricted cash	779
Lease intangible assets, net	234,426
Accounts receivable, prepaid expenses and other assets, net	35,829
Secured debt, net	(98,500)
Revolving credit facility	(362,000)
Unsecured term loans	(674,000)
Senior unsecured notes, net	(616,873)
Accounts payable and accrued liabilities	(132,860)
Lease intangible liabilities, net	(95,859)
Noncontrolling interests	(2,733)
Total consideration	$2,052,578

The lease intangible assets and lease intangible liabilities acquired in connection with the CCP Merger have weighted-average amortization periods as of the closing date of the CCP Merger of 11 years and 10 years, respectively.

For the three and nine months ended September 30, 2017, the Company recognized $45.1 million of total revenues and $30.6 million of net income attributable to common stockholders, excluding acquisition related costs, from the CCP Merger investments. Acquisition related costs associated with the CCP Merger were $23.3 million and $29.7 million, respectively, during the three and nine months ended September 30, 2017.

Recent Real Estate Acquisitions

During the nine months ended September 30, 2017, in addition to the properties acquired as a result of the CCP Merger, the Company acquired 21 skilled nursing/transitional care facilities and one senior housing community. During the nine months ended September 30, 2016, the Company acquired one skilled nursing/transitional care facility and three senior housing communities. The consideration was allocated as follows (in thousands):

	Nine Months Ended September 30,	
	2017	2016
Land	$55,579	$5,521
Building and improvements	329,462	102,094
Tenant origination and absorption costs	6,143	1,565
Tenant relationship	1,880	439
Total consideration	$393,064	$109,619

The tenant origination and absorption costs intangible assets and tenant relationship intangible assets acquired in connection with these acquisitions have weighted-average amortization periods as of the respective dates of acquisition of 13 years and 23 years, respectively.

For the three and nine months ended September 30, 2017, the Company recognized $1.5 million and $1.6 million of total revenues, respectively, and $1.4 million of net income attributable to common stockholders from the facilities acquired during the nine months ended September 30, 2017. For the three and nine months ended September 30, 2016, the Company recognized $1.7 million of total revenues and $0.1 million of net income attributable to common stockholders from the facilities acquired during the nine months ended September 30, 2016.

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4. REAL ESTATE PROPERTIES HELD FOR INVESTMENT

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

As of September 30, 2017

Property Type	Number of Properties	Number of Beds/Units	Total Real Estate at Cost	Accumulated Depreciation	Total Real Estate Investments, Net
Skilled Nursing/Transitional Care	409	45,710	$4,386,543	$(215,921)	$4,170,622
Senior Housing - Leased[1]	88	8,110	1,149,278	(96,790)	1,052,488
Senior Housing - Managed[1]	11	999	170,866	(10,884)	159,982
Specialty Hospitals and Other	22	1,085	602,339	(12,820)	589,519
	530	55,904	6,309,026	(336,415)	5,972,611
Corporate Level			448	(274)	174
			$6,309,474	$(336,689)	$5,972,785

As of December 31, 2016

Property Type	Number of Properties	Number of Beds/Units	Total Real Estate at Cost	Accumulated Depreciation	Total Real Estate Investments, Net
Skilled Nursing/Transitional Care	97	10,819	$1,042,754	$(190,038)	$852,716
Senior Housing - Leased[1]	83	7,855	1,153,739	(80,449)	1,073,290
Senior Housing - Managed[1]	2	134	34,212	(1,682)	32,530
Specialty Hospitals and Other	1	70	61,640	(10,387)	51,253
	183	18,878	2,292,345	(282,556)	2,009,789
Corporate Level			406	(256)	150
			$2,292,751	$(282,812)	$2,009,939

	September 30, 2017	December 31, 2016
Building and improvements	$5,410,572	$1,983,769
Furniture and equipment	234,901	85,196
Land improvements	3,563	3,744
Land	660,438	220,042
	6,309,474	2,292,751
Accumulated depreciation	(336,689)	(282,812)
	$5,972,785	$2,009,939

(1) During the nine months ended September 30, 2017, the Company transitioned nine senior housing communities into a managed property structure whereby the Company owns the operations of the communities and the communities are operated by a third-party property manager.

Contingent Consideration Arrangements

In connection with three of its prior real estate acquisitions, the Company entered into contingent consideration arrangements pursuant to which it could be required to pay out additional amounts based on incremental value created through the improvement of operations of the applicable acquired facility (a contingent consideration liability). The estimated value of the contingent consideration liabilities at the time of purchase was $3.2 million. The contingent consideration amounts would be determined based on portfolio performance and the facility achieving certain performance hurdles during 2017. During the nine months ended September 30, 2017, one earn-out arrangement expired and resulted in a $0 payout and a second earn-out arrangement was terminated in connection with the transition of the eight senior housing communities to Senior Housing - Managed properties. To determine the value of the remaining contingent consideration arrangement, the Company used significant inputs not observable in the market to estimate the contingent consideration, made assumptions regarding the probability of the facility achieving the incremental value and then applied an appropriate discount rate. As of September 30, 2017, based on the performance of this facility, the contingent consideration liability had an estimated value of $0.3 million, which is included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets.

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During the three and nine months ended September 30, 2017, the Company recorded an increase of $0.3 million and a decrease of $0.6 million, respectively, to the contingent consideration liability. These amounts are included in other income on the accompanying condensed consolidated statements of income.
Operating Leases
As of September 30, 2017, the substantial majority of the Company's real estate properties (excluding 11 Senior Housing - Managed properties) were leased under triple-net operating leases with expirations ranging from one to 15 years. As of September 30, 2017, the leases had a weighted-average remaining term of nine years. The leases include provisions to extend the lease terms and other negotiated terms and conditions. The Company, through its subsidiaries, retains substantially all of the risks and benefits of ownership of the real estate assets leased to the tenants. In addition, the Company may receive additional security under these operating leases in the form of letters of credit and security deposits from the lessee or guarantees from the parent of the lessee. Security deposits received in cash related to tenant leases are included in accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets and totaled $35.6 million as of September 30, 2017 and $2.7 million as of December 31, 2016. As of September 30, 2017, the Company had a $3.5 million reserve for unpaid cash rents and a $2.8 million reserve associated with accumulated straight-line rental income. As of December 31, 2016, the Company had a $3.2 million reserve for unpaid cash rents and a $3.7 million reserve associated with accumulated straight-line rental income.
The following table provides information regarding significant tenant relationships representing 10% or more of the Company's total revenues as of September 30, 2017 (dollars in thousands):

		Three Months Ended		Nine Months Ended	
		September 30, 2017			
	Number of Investments	Rental Revenue	% of Total Revenue	Rental Revenue	% of Total Revenue
Genesis Healthcare, Inc.	76	$20,257	18.1 %	$60,470	25.3 %
Holiday AL Holdings, LP	21	9,813	8.8	29,438	12.3

The Company has entered into memoranda of understanding with Genesis to market for sale 35 skilled nursing facilities (the "MOU Disposition Facilities"). As of September 30, 2017, the Company completed the sale of two of the MOU Disposition Facilities, and subsequent to September 30, 2017, the Company completed the sale of two additional MOU Disposition Facilities. The Company has also entered into a definitive agreement to sell an additional 20 MOU Disposition Facilities, which is expected to be completed in the fourth quarter of 2017. The Company expects the remaining MOU Disposition Facilities to be sold by the end of the first quarter of 2018, though there can be no assurance that the sales will be completed in that timeframe, if at all. The Company has also begun the process of marketing for sale up to all of the remaining 43 facilities leased to Genesis, with sales expected to occur in 2018.
The Company monitors the creditworthiness of its tenants by reviewing credit ratings (if available) and evaluating the ability of the tenants to meet their lease obligations to the Company based on the tenants' financial performance, including the evaluation of any parent guarantees (or the guarantees of other related parties) of tenant lease obligations. Because formal credit ratings may not be available for most of the Company's tenants, the primary basis for the Company's evaluation of the credit quality of its tenants (and more specifically the tenant's ability to pay their rent obligations to the Company) is the tenant's lease coverage ratio or the parent's fixed charge coverage ratio for those entities with a parent guarantee. These coverage ratios include earnings before interest, taxes, depreciation, amortization and rent ("EBITDAR") to rent and earnings before interest, taxes, depreciation, amortization, rent and management fees ("EBITDARM") to rent at the lease level and consolidated EBITDAR to total fixed charges at the parent guarantor level when such a guarantee exists. The Company obtains various financial and operational information from its tenants each month and reviews this information in conjunction with the above-described coverage metrics to identify financial and operational trends, evaluate the impact of the industry's operational and financial environment (including the impact of government reimbursement), and evaluate the management of the

tenant's operations. These metrics help the Company identify potential areas of concern relative to its tenants' credit quality and ultimately the tenant's ability to generate sufficient liquidity to meet its obligations, including its obligation to continue to pay the rent due to the Company.

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As of September 30, 2017, the future minimum rental payments from the Company’s properties held for investment under non-cancelable operating leases was as follows (in thousands):

October 1, 2017 through December 31, 2017	$146,223
2018	590,222
2019	599,100
2020	592,748
2021	582,633
Thereafter	3,508,262
	$6,019,188

5. ASSET HELD FOR SALE AND DISPOSITIONS

Asset Held for Sale

As of September 30, 2017, the Company determined that one skilled nursing/transitional care facility, with a net book value of $2.0 million, met the criteria to be classified as held for sale. The net book value is included in accounts receivable, prepaid expenses and other assets, net on the condensed consolidated balance sheets.

2017 Dispositions

During the nine months ended September 30, 2017, the Company completed the sale of four skilled nursing/transitional care facilities for aggregate consideration of $11.7 million. The net carrying value of the assets and liabilities of these facilities was $7.1 million, which resulted in an aggregate $4.6 million net gain on sale.

2016 Dispositions

During the nine months ended September 30, 2016, the Company completed the sale of two skilled nursing/transitional care facilities and one acute care hospital for aggregate consideration of $85.4 million after selling expenses of $2.3 million. The net carrying value of the assets and liabilities of these facilities, after the impairment loss of $29.8 million recognized in relation to the acute care hospital, was $88.6 million, resulting in an aggregate $3.2 million loss on sale.

During the nine months ended September 30, 2017, the Company recognized $0.3 million of net income, excluding the net gain on sale, from the asset held for sale and the dispositions made during the nine months ended September 30, 2017. During the nine months ended September 30, 2016, the Company recognized $38,000 of net income, excluding the net loss on sale and real estate impairment, from the dispositions made during the nine months ended September 30, 2017 and 2016. The sale of these facilities do not represent a strategic shift that has or will have a major effect on the Company's operations and financial results and therefore the results of operations attributable to these facilities have remained in continuing operations.

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6. LOANS RECEIVABLE AND OTHER INVESTMENTS

As of September 30, 2017 and December 31, 2016, the Company's loans receivable and other investments consisted of the following (dollars in thousands):

Investment	Quantity as of September 30, 2017	Property Type	Principal Balance as of September 30, 2017 (1)	Book Value as of September 30, 2017	Book Value as of December 31, 2016	Weighted Average Contractual Interest Rate / Rate of Return as of September 30, 2017	Maturity Date as of September 30, 2017
Loans Receivable:							
Mortgage	5	Skilled Nursing / Senior Housing	$ 45,064	$ 42,664	$ 38,262	9.2 %	11/07/16- 02/10/27
Construction	2	Senior Housing	2,354	2,418	842	8.0 %	03/31/21- 05/31/22
Mezzanine	2	Senior Housing	34,640	28,391	9,656	10.3 %	02/28/18- 05/25/20
Pre-development	1	Senior Housing	2,357	2,357	4,023	9.0 %	04/01/20
Other	14	Multiple	44,926	27,859	—	8.6 %	10/28/17- 04/30/27
Debtor-in-possession	—	Acute Care Hospital	—	—	813	N/A	N/A
	24		129,341	103,689	53,596	9.3 %	
Loan loss reserve			—	(6,211)	(2,750)		
			$ 129,341	$ 97,478	$ 50,846		
Other Investments:							
Preferred Equity	13	Skilled Nursing / Senior Housing	51,833	52,288	45,190	12.8 %	N/A
Total	37		$ 181,174	$ 149,766	$ 96,036	10.3 %	

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

In connection with the CCP Merger, the Company acquired 18 loan receivable investments with a book value of $54.1 million as of September 30, 2017.

As of September 30, 2017, the Company considered six loan receivable investments to be impaired. The aggregate principal balance of the impaired loans was $35.2 million as of September 30, 2017 and December 31, 2016. The Company recorded a provision for loan losses of $3.0 million and $4.8 million related to four loan receivable investments during the three and nine months ended September 30, 2017, respectively, two of which were written-off during the nine months ended September 30, 2017. As of September 30, 2017, six loans receivable investments totaling $35.2 million were on nonaccrual status. During the three and nine months ended September 30, 2017, the Company reduced its portfolio-based loan loss reserve by $32,000 and $0.3 million, respectively. The Company's specific loan loss reserve was $6.1 million and the portfolio-based loan loss reserve was $0.1 million as of September 30, 2017. The Company's specific loan loss reserve and portfolio-based loan loss reserve were $2.3 million and $0.4 million, respectively, as of December 31, 2016.

7. DEBT

Secured Indebtedness

The Company’s secured debt consists of the following (dollars in thousands):

Interest Rate Type	Book Value as of September 30, 2017 (1)	Book Value as of December 31, 2016 (1)	Weighted Average Effective Interest Rate at September 30, 2017 (2)	Maturity Date
Fixed Rate	$ 161,871	$ 163,638	3.87 %	December 2021 - August 2051
Variable Rate	98,500	—	3.02 %	July 2019
	$ 260,371	$ 163,638	3.55 %	

(1) Principal balance does not include deferred financing costs, net of $2.8 million and $2.9 million as of September 30, 2017 and December 31, 2016, respectively.

(2) Weighted average effective interest rate includes private mortgage insurance.

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On August 17, 2017, in connection with the CCP Merger (see Note 3, "CCP Merger and Recent Real Estate Acquisitions"), the Company assumed a $98.5 million variable rate secured term loan that bears interest at LIBOR plus 1.80% and matures in July 2019.

Senior Unsecured Notes

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

Title	Maturity Date	Principal Balance as of September 30, 2017 [1]	Principal Balance as of December 31, 2016 [1]
5.5% senior unsecured notes due 2021 ("2021 Notes")	February 1, 2021	$500,000	$500,000
5.375% senior unsecured notes due 2023 ("2023 Notes")	June 1, 2023	200,000	200,000
5.125% senior unsecured notes due 2026 ("2026 Notes")	August 15, 2026	500,000	—
5.38% senior unsecured notes due 2027 ("2027 Notes")	May 17, 2027	100,000	—
		$1,300,000	$700,000

(1) Principal balance does not include premium, net of $16.3 million and deferred financing costs, net of $10.3 million as of September 30, 2017 and does not include discount, net of $0.5 million and deferred financing costs, net of $11.2 million as of December 31, 2016.

The 2021 Notes and the 2023 Notes were issued by the Operating Partnership and Sabra Capital Corporation, wholly owned subsidiaries of the Company (the "Issuers"). The 2021 Notes accrue interest at a rate of 5.5% per annum payable semiannually on February 1 and August 1 of each year, and the 2023 Notes accrue interest at a rate of 5.375% per annum payable semiannually on June 1 and December 1 of each year.

The 2026 Notes and the 2027 Notes were assumed as a result of the CCP Merger (see Note 3, "CCP Merger and Recent Real Estate Acquisitions") and accrue interest at a rate of 5.125% and 5.38%, respectively, per annum. Interest is payable semiannually on February 15 and August 15 of each year for the 2026 Notes and on May 17 and November 17 of each year for the 2027 Notes.

The obligations under the 2021 Notes, 2023 Notes and 2027 Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by Sabra and certain subsidiaries of Sabra; provided, however, that such guarantees are subject to release under certain customary circumstances. The obligations under the 2026 Notes are fully and unconditionally guaranteed, on an unsecured basis, by Sabra; provided, however, that such guarantee is subject to release under certain customary circumstances. See Note 12, "Summarized Condensed Consolidating Information" for additional information concerning the circumstances pursuant to which the guarantors will be automatically and unconditionally released from their obligations under the guarantees.

The indentures and agreements (the "Senior Notes Indentures") governing the 2021 Notes, 2023 Notes, 2026 Notes and 2027 Notes (collectively, the "Senior Notes") include customary events of default and require the Company to comply with specified restrictive covenants. As of September 30, 2017, the Company was in compliance with all applicable financial covenants under the Senior Notes Indentures.

Revolving Credit Facility and Term Loans

On January 14, 2016, the Operating Partnership and Sabra Canadian Holdings, LLC (together, the "Borrowers") entered into a third amended and restated unsecured credit facility (the "Prior Credit Facility").

The Prior Credit Facility included a revolving credit facility (the "Prior Revolving Credit Facility") and U.S. dollar and Canadian dollar term loans (collectively, the "Prior Term Loans"). The Prior Revolving Credit Facility provided for a borrowing capacity of $500.0 million and, in addition, provided for U.S. dollar and Canadian dollar term loans of $245.0 million and CAD $125.0 million, respectively. Further, up to $125.0 million of the Prior Revolving Credit Facility could be used for borrowings in certain foreign currencies. The Prior Credit Facility also contained an accordion feature that allowed for an increase in the total available borrowings to $1.25 billion, subject to terms and conditions. In addition, the Canadian dollar term loan was re-designated as a net investment hedge (see Note 8, “Derivative and Hedging Instruments” for further information).

The Prior Revolving Credit Facility had a maturity date of January 14, 2020, and included two six-month extension options. The Prior Term Loans had a maturity date of January 14, 2021.

Borrowings under the Prior Revolving Credit Facility bore interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Operating Partnership's option, either (a) LIBOR or (b) a base rate determined as the

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greater of (i) the federal funds rate plus 0.5%, (ii) the prime rate, and (iii) one-month LIBOR plus 1.0% (the “Base Rate”). The applicable percentage for borrowings varied based on the Consolidated Leverage Ratio, as defined in the credit agreement for the Prior Credit Facility, and ranged from 1.80% to 2.40% per annum for LIBOR based borrowings and 0.80% to 1.40% per annum for borrowings at the Base Rate. In addition, the Operating Partnership paid an unused facility fee to the lenders equal to 0.25% or 0.30% per annum, which was determined by usage under the Prior Revolving Credit Facility.

The Prior Term Loans bore interest as follows: the U.S. dollar term loan bore interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Operating Partnership’s option, either (a) LIBOR or (b) the Base Rate (the applicable percentage varied based on the Consolidated Leverage Ratio, as defined in the credit agreement for the Prior Credit Facility, and ranged from 1.75% to 2.35% per annum for LIBOR based borrowings and 0.75% to 1.35% per annum for borrowings at the Base Rate); and the Canadian dollar term loan bore interest on the outstanding principal amount at a rate equal to the Canadian Dollar Offer Rate (“CDOR”) plus 1.75% to 2.35% depending on the Consolidated Leverage Ratio.

Effective on August 17, 2017, the Borrowers, Sabra and the other parties thereto entered into a fourth amended and restated unsecured credit facility (the “Credit Facility”). The Credit Facility amends and restates the Prior Credit Facility. The Company recognized a $0.6 million loss on extinguishment of debt related to write-offs of deferred financing costs in connection with amending and restating the Prior Credit Facility during the three and nine months ended September 30, 2017.

The Credit Facility includes a $1.0 billion revolving credit facility (the “Revolving Credit Facility”), $1.1 billion in U.S. dollar term loans and a CAD $125 million Canadian dollar term loan (collectively, the “Term Loans”). Further, up to $175 million of the Revolving Credit Facility may be used for borrowings in certain foreign currencies. The Credit Facility also contains an accordion feature that can increase the total available borrowings to $2.5 billion, subject to terms and conditions.

The Revolving Credit Facility has a maturity date of August 17, 2021, and includes two six-month extension options. $200 million of the U.S. dollar Term Loans has a maturity date of August 17, 2020, and the other Term Loans have a maturity date of August 17, 2022.

As of September 30, 2017, there was $251.0 million outstanding under the Revolving Credit Facility and $749.0 million available for borrowing.

Borrowings under the Revolving Credit Facility bear interest on the outstanding principal amount at a rate equal to an applicable interest margin plus, at the Operating Partnership’s option, either (a) LIBOR or (b) the Base Rate. On August 17, 2017, Sabra’s ratings met the Investment Grade Ratings Criteria (as defined in the credit agreement), and Sabra elected to use the ratings-based applicable interest margin for borrowings which will vary based on the Debt Ratings (as defined in the credit agreement) and will range from 0.875% to 1.65% per annum for LIBOR based borrowings and 0.00% to 0.65% per annum for borrowings at the Base Rate. As of September 30, 2017, the interest rate on the Revolving Credit Facility was 2.47%. In addition, the Operating Partnership pays a facility fee ranging between 0.125% and 0.300% per annum based on the aggregate amount of commitments under the Revolving Credit Facility regardless of amounts outstanding thereunder.

The U.S. dollar Term Loans bear interest on the outstanding principal amount at a rate equal to an applicable interest margin plus, at the Operating Partnership's option, either (a) LIBOR or (b) the Base Rate. The ratings-based applicable interest margin for borrowings will vary based on the Debt Ratings, as defined in the credit agreement, and will range from 0.90% to 1.90% per annum for LIBOR based borrowings and 0.00% to 0.90% per annum for borrowings at the Base Rate. The Canadian dollar term loan bears interest on the outstanding principal amount at a rate equal to CDOR plus an interest margin that will range from 0.90% to 1.90% depending on the Debt Ratings.

On June 10, 2015, the Company entered into an interest rate swap agreement to fix the CDOR portion of the interest rate for CAD $90.0 million of its Canadian term loan at 1.59%. In addition, CAD $90.0 million of the Canadian dollar term loan was designated as a net investment hedge. On August 10, 2016, the Company entered into two interest rate swap agreements to fix the LIBOR portion of the interest rate for $245.0 million of its U.S. dollar Term Loan at 0.90% and one interest rate swap agreement to fix the CDOR portion on CAD $35.0 million of its Canadian dollar term loan at 0.93%. See Note 8, “Derivative and Hedging Instruments” for further information.

As a result of the CCP Merger (see Note 3, “CCP Merger and Recent Real Estate Acquisitions”), the Company assumed eight interest rate swap agreements that fix the LIBOR portion of the interest rate for $600 million of the Company’s U.S. dollar Term Loans at a weighted average rate of 1.31%. See Note 8, “Derivative and Hedging Instruments” for further information.

The obligations of the Borrowers under the Credit Facility are guaranteed by Sabra and certain subsidiaries of Sabra. The Credit Facility contains customary covenants that include restrictions or limitations on the ability to make acquisitions and other investments, pay dividends, incur additional indebtedness, engage in non-healthcare related business

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activities, enter into transactions with affiliates and sell or otherwise transfer certain assets as well as customary events of default. The Credit Facility also requires Sabra, through the Operating Partnership, to comply with specified financial covenants, which include a maximum leverage ratio, a minimum fixed charge coverage ratio and a minimum tangible net worth requirement. As of September 30, 2017, the Company was in compliance with all applicable financial covenants under the Credit Facility.

Interest Expense

During the three and nine months ended September 30, 2017, the Company incurred interest expense of $24.6 million and $56.2 million, respectively, and $15.8 million and $49.1 million during the three and nine months ended September 30, 2016, respectively. Interest expense includes financing costs amortization of $1.6 million and $4.1 million for the three and nine months ended September 30, 2017, respectively, and $1.3 million and $3.8 million for the three and nine months ended September 30, 2016, respectively. As of September 30, 2017 and December 31, 2016, the Company had $15.4 million and $13.8 million, respectively, of accrued interest included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets.

Maturities

The following is a schedule of maturities for the Company's outstanding debt as of September 30, 2017 (in thousands):

	Secured Indebtedness	Revolving Credit Facility (1)	Term Loans	Senior Notes	Total
October 1, 2017 through December 31, 2017	$ 1,054	$—	$—	$—	$ 1,054
2018	4,304	—	—	—	4,304
2019	102,948	—	—	—	102,948
2020	4,598	—	200,000	—	204,598
2021	20,587	251,000	—	500,000	771,587
Thereafter	126,880	—	1,000,225	800,000	1,927,105
Total Debt	260,371	251,000	1,200,225	1,300,000	3,011,596
Premium, net	—	—	—	16,259	16,259
Deferred financing costs, net	(2,800)	—	(9,338)	(10,263)	(22,401)
Total Debt, Net	$ 257,571	$ 251,000	$ 1,190,887	$ 1,305,996	$ 3,005,454

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

8. DERIVATIVE AND HEDGING INSTRUMENTS

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

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

Cash Flow Hedges

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Approximately $3.5 million of losses, which are included in accumulated other comprehensive loss, as of September 30, 2017, are expected to be reclassified into earnings in the next 12 months. In 2016 the

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Company terminated its interest rate cap, generating cash proceeds of $0.3 million. The balance of the loss in other comprehensive income will be reclassified to earnings through 2019.

Net Investment Hedges

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

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

	September 30, 2017	December 31, 2016
Derivatives designated as cash flow hedges:		
Denominated in U.S. Dollars	$ 845,000	$ 245,000
Denominated in Canadian Dollars	$ 125,000	$ 125,000
Derivatives designated as net investment hedges:		
Denominated in Canadian Dollars	$ 56,300	$ 56,300
Financial instrument designated as net investment hedge:		
Denominated in Canadian Dollars	$ 125,000	$ 125,000

Derivative and Financial Instruments Designated as Hedging Instruments

The following is a summary of the derivative and financial instruments designated as hedging instruments held by the Company at September 30, 2017 and December 31, 2016 (dollars in thousands):

			Fair Value			
Type	Designation	Count as of September 30, 2017	September 30, 2017	December 31, 2016	Maturity Dates	Balance Sheet Location
Assets:						
Interest rate swap	Cash flow	12	$18,957	$ 8,083	2020 - 2023	Accounts receivable, prepaid expenses and other assets, net
Cross currency interest rate swaps	Net investment	2	827	3,157	2025	Accounts receivable, prepaid expenses and other assets, net
			$19,784	$ 11,240		
Liabilities:						
Interest rate swap	Cash flow	—	$—	$ 716	2020	Accounts payable and accrued liabilities
CAD term loan	Net investment	1	100,225	93,000	2022	Term loans, net
			$100,225	$ 93,716		

The following presents the effect of the Company’s derivative and financial instruments designated as hedging instruments on the condensed consolidated statements of income and the condensed consolidated statements of equity for the three and nine months ended September 30, 2017 (in thousands):

	Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)	Income Statement Location

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	
Cash Flow Hedges:					
Interest rate products	$4,372	$(40)	$4,462	$(2,019)	Interest expense
Net Investment Hedges:					
Foreign currency products	(1,080)	102	(2,239)	(2,118)	N/A
CAD term loan	(3,938)	1,363	(7,225)	(5,863)	N/A
	$(646)	$1,425	$(5,002)	$(10,000)	

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	Loss Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)				Income Statement Location
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2017	2016	2017	2016	
Cash Flow Hedges:					
Interest rate products	$(535)	$(413)	$(1,404)	$(802)	Interest expense
Net Investment Hedges:					
Foreign currency products	—	—	—	—	N/A
CAD term loan	—	—	—	—	N/A
	$(535)	$(413)	$(1,404)	$(802)	

The Company determined that a portion of a cash flow hedge was ineffective and recognized $30,000 and $0.1 million of unrealized losses during the three and nine months ended September 30, 2017, respectively, related to its interest rate swaps to other income in the condensed consolidated statements of income. During the three and nine months ended September 30, 2016, the Company determined that a portion of a cash flow hedge was ineffective and recognized $0.4 million of unrealized gains related to its interest rate swaps to other income in the condensed consolidated statements of income.

Derivatives Not Designated as Hedging Instruments

During the three and nine months ended September 30, 2017, the Company recorded $0 and $8,000, respectively, of other expense related to a cross currency interest rate swap not designated as a hedging instrument. As of September 30, 2017 and December 31, 2016, the Company's derivatives were all designated as hedging instruments.

Offsetting Derivatives

The Company enters into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company’s derivatives as of September 30, 2017 and December 31, 2016 (in thousands):

	As of September 30, 2017					
				Gross Amounts Not Offset in the Balance Sheet		
	Gross Amounts of Recognized Assets / Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets / Liabilities presented in the Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amount
Offsetting Assets:						
Derivatives	$20,273	$ —	$ 20,273	$ —	$ —	$20,273
Offsetting Liabilities:						
Derivatives	$—	$ —	$ —	$ —	$ —	$—

As of December 31, 2016

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

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Credit-risk-related Contingent Features

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

As of September 30, 2017, the Company had no derivatives with a fair value in a net liability position.

9. FAIR VALUE DISCLOSURES

Financial Instruments

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

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

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

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

Derivative instruments: The Company's derivative instruments are presented at fair value on the accompanying condensed consolidated balance sheets. The Company estimates the fair value of derivative instruments, including its interest rate swaps and cross currency swaps, using the assistance of a third party using inputs that are observable in the market, which include forward yield curves and other relevant information. Although the Company has determined that the majority of the inputs used to value its derivative financial instruments fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivative financial instruments utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivative financial instruments. As a result, the Company has determined that its derivative financial instruments valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Senior Notes: These instruments are presented in the accompanying condensed consolidated balance sheets at their outstanding principal balance, net of unamortized deferred financing costs and premiums/discounts and not at fair value. The fair values of the Senior Notes were determined using third-party market quotes derived from orderly trades. As such, the Company classifies these instruments as Level 2.

Secured indebtedness: These instruments are presented in the accompanying condensed consolidated balance sheets at their outstanding principal balance, net of unamortized deferred financing costs and premiums/discounts and not at fair value. The fair values of the Company's secured debt were estimated using a discounted cash flow analysis based on management's estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio, type of collateral and other credit enhancements. As such, the Company classifies these instruments as Level 3.

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The following are the face values, carrying amounts and fair values of the Company's financial instruments as of September 30, 2017 and December 31, 2016 whose carrying amounts do not approximate their fair value (in thousands):

	September 30, 2017			December 31, 2016		
	Face Value (1)	Carrying Amount (2)	Fair Value	Face Value (1)	Carrying Amount (2)	Fair Value
Financial assets:						
Loans receivable	$129,341	$97,478	$97,722	$53,484	$50,846	$51,914
Preferred equity investments	51,833	52,288	52,926	44,882	45,190	48,332
Financial liabilities:						
Senior Notes	1,300,000	1,305,996	1,341,106	700,000	688,246	709,500
Secured indebtedness	260,371	257,571	248,041	163,638	160,752	150,091

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

(2) Carrying amount represents the book value of financial instruments, including unamortized premiums/discounts and deferred financing costs.

The Company determined the fair value of financial instruments as of September 30, 2017 whose carrying amounts do not approximate their fair value with valuation methods utilizing the following types of inputs (in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Loans receivable	$97,722	$—	$—	$97,722
Preferred equity investments	52,926	—	—	52,926
Financial liabilities:				
Senior Notes	1,341,106	—	1,341,106	—
Secured indebtedness	248,041	—	—	248,041

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

Items Measured at Fair Value on a Recurring Basis

During the nine months ended September 30, 2017, the Company recorded the following amounts measured at fair value (in thousands):

Fair Value Measurements Using		
Quoted Prices in	Significant Other Observable	Significant Unobservable Inputs

	Total	Active Markets for Identical Assets (Level 1)	Inputs (Level 2)	(Level 3)
Recurring Basis:				
Financial assets:				
Interest rate swap	$ 18,957	$ —	$ 18,957	$ —
Cross currency swap	827	—	827	—
Financial liabilities:				
Contingent consideration liability	266	—	266	—

The Company entered into contingent consideration arrangements as a result of three acquisitions of real estate (see Note 4, "Real Estate Properties Held for Investment"). During the nine months ended September 30, 2017, one earn-out arrangement expired and resulted in a $0 payout and a second earn-out arrangement was terminated in connection with the transition of the eight senior housing communities to Senior Housing - Managed properties. In order to determine the fair value of the Company's remaining contingent consideration arrangement, the Company used significant inputs not observable in the market

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to estimate the contingent consideration. The Company used financial information provided by the facility to estimate the possible payout. As of September 30, 2017, the total contingent consideration liability had an estimated value of $0.3 million.
The following reconciliation provides the details of activity for contingent consideration liability recorded at fair value using Level 3 inputs (in thousands):

Balance as of December 31, 2016	$818
Decrease in contingent consideration liability	(552)
Balance as of September 30, 2017	$266

During the three and nine months ended September 30, 2017, the Company recorded an increase of $0.3 million and a decrease of $0.6 million, respectively, to the contingent consideration liability. These amounts are included in other income on the accompanying condensed consolidated statements of income.

10. EQUITY

Preferred Stock

On March 21, 2013, the Company completed an underwritten public offering of 5.8 million shares of 7.125% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock") at a price of $25.00 per share, pursuant to an effective registration statement. The Company received net proceeds of $138.3 million from the offering, after deducting underwriting discounts and other offering expenses. The Company classified the par value as preferred equity on its condensed consolidated balance sheets with the balance of the liquidation preference, net of any issuance costs, recorded as an increase in paid-in capital.
The holders of the Company's Series A Preferred Stock rank senior to the Company's common stock with respect to dividend rights and rights upon the Company's liquidation, dissolution or winding up of its affairs. At September 30, 2017, there were no dividends in arrears.
The Series A Preferred Stock does not have a stated maturity date, but the Company may redeem the Series A Preferred Stock on or after March 21, 2018, for $25.00 per share, plus any accrued and unpaid dividends. The Company may redeem the Series A Preferred Stock prior to March 21, 2018, in limited circumstances to preserve its status as a REIT or pursuant to a specified change of control. Upon the occurrence of a specified change of control (which did not include the CCP Merger), each holder of Series A Preferred Stock will have the right to convert some or all of the shares of Series A Preferred Stock held by such holder into a number of shares of the Company's common stock equivalent to $25.00 plus accrued and unpaid dividends, but not to exceed a cap of 1.7864 shares of common stock per share of Series A Preferred Stock (subject to certain adjustments).

Common Stock

As a result of the CCP Merger completed on August 17, 2017, the Company issued approximately 94.0 million shares of its common stock in exchange for shares of CCP common stock and shares underlying share-based awards assumed by the Company outstanding as of the effective time of the CCP Merger.
On September 28, 2017, the Company completed an underwritten public offering of 16.0 million newly issued shares of its common stock pursuant to an effective registration statement. The Company received net proceeds, before expenses, of $322.6 million from the offering, after giving effect to the issuance and sale of all 16.0 million shares of common stock, at a price of $21.00 per share. These proceeds were used to repay borrowings outstanding under the Revolving Credit Facility.
The underwriters exercised their option to purchase additional shares, and on October 2, 2017, the Company issued an additional 2.4 million newly issued shares of its common stock pursuant to an effective registration statement at a price of $21.00 per share, resulting in additional net proceeds, before expenses, of $48.4 million.
The following table lists the cash dividends on common stock declared and paid by the Company during the nine months ended September 30, 2017:

Declaration Date	Record Date	Amount Per Share	Dividend Payable Date
February 3, 2017	February 15, 2017	$0.42	February 28, 2017

May 8, 2017	May 18, 2017	$0.43	May 31, 2017
August 2, 2017	August 16, 2017	$0.3598913[1]	August 18, 2017

[1] Represents the previous full quarter dividend of $0.43 per share, prorated based on the time from the prior dividend payable date of May 31, 2017 through August 16, 2017.

During the nine months ended September 30, 2017, the Company issued 0.1 million shares of common stock as a result of restricted stock unit vestings and in connection with amounts payable under the Company's 2016 Bonus Plan pursuant to an election by certain participants to receive their bonus in the form of an equity award.

Upon any payment of shares as a result of restricted stock unit vestings, the related tax withholding obligation will generally be satisfied by the Company, reducing the number of shares to be delivered by a number of shares necessary to satisfy the related applicable tax withholding obligation. During the nine months ended September 30, 2017, the Company incurred $2.8 million in tax withholding obligations on behalf of its employees that were satisfied through a reduction in the number of shares delivered to those participants.

Accumulated Other Comprehensive Income (Loss)

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

	September 30, 2017	December 31, 2016
Foreign currency translation loss	$ (2,515)	$ (3,067)
Unrealized gains on cash flow hedges	6,751	1,269
Total accumulated other comprehensive income (loss)	$ 4,236	$ (1,798)

11. EARNINGS PER COMMON SHARE

The following table illustrates the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2017 and 2016 (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator				
Net income attributable to common stockholders	$12,534	$ 22,776	$46,756	$ 39,419
Denominator				
Basic weighted average common shares and common equivalents	112,149,638	65,312,288	81,150,846	65,285,591
Dilutive restricted stock units	268,462	279,140	278,198	184,998
Diluted weighted average common shares	112,418,100	65,591,428	81,429,044	65,470,589
Net income attributable to common stockholders, per:				
Basic common share	$0.11	$ 0.35	$0.58	$ 0.60
Diluted common share	$0.11	$ 0.35	$0.57	$ 0.60

During the three and nine months ended September 30, 2017, approximately 6,800 and 23,100 restricted stock units, respectively, were not included in computing diluted earnings per share because they were considered anti-dilutive. During the three and nine months ended September 30, 2016, approximately 1,200 and 15,600 restricted stock units, respectively, were not included in computing diluted earnings per share because they were considered anti-dilutive. No stock options were considered

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anti-dilutive during the three and nine months ended September 30, 2017 and no stock options were outstanding during three and nine months ended September 30, 2016.

12. SUMMARIZED CONDENSED CONSOLIDATING INFORMATION

In connection with the offerings of the 2021 Notes and the 2023 Notes by the Issuers, the Company and certain 100% owned subsidiaries of the Company (the “Guarantors”) have, jointly and severally, fully and unconditionally guaranteed the 2021 Notes and the 2023 Notes, subject to release under certain customary circumstances as described below. In connection with the assumption of the 2026 Notes as a result of the CCP Merger (see Note 3, “CCP Merger and Recent Real Estate Acquisitions”), the Company has fully and unconditionally guaranteed the 2026 Notes, subject to release under certain circumstances as described below. These guarantees are subordinated to all existing and future senior debt and senior guarantees of the Guarantors and are unsecured. The Company conducts all of its business through and derives virtually all of its income from its subsidiaries. Therefore, the Company’s ability to make required payments with respect to its indebtedness (including the Senior Notes) and other obligations depends on the financial results and condition of its subsidiaries and its ability to receive funds from its subsidiaries.

A Guarantor will be automatically and unconditionally released from its obligations under the guarantees with respect to the 2021 Notes and the 2023 Notes in the event of:

- Any sale of the subsidiary Guarantor or of all or substantially all of its assets;
- A merger or consolidation of a subsidiary Guarantor with an issuer of the 2021 Notes or the 2023 Notes or another Guarantor, provided that the surviving entity remains a Guarantor;
- A subsidiary Guarantor is declared “unrestricted” for covenant purposes under the indentures governing the 2021 Notes or the 2023 Notes;
- The requirements for legal defeasance or covenant defeasance or to discharge the indentures governing the 2021 Notes or the 2023 Notes have been satisfied;
- A liquidation or dissolution, to the extent permitted under the indentures governing the 2021 Notes or the 2023 Notes, of a subsidiary Guarantor; or
- The release or discharge of the guaranty that resulted in the creation of the subsidiary guaranty, except a discharge or release by or as a result of payment under such guaranty.

The Company will be automatically and unconditionally released from its obligations under the guarantees with respect to the 2026 Notes in the event of:

- A liquidation or dissolution, to the extent permitted under the indenture governing the 2026 Notes;
- A merger or consolidation, provided that the surviving entity remains a Guarantor; or
- The requirements for legal defeasance or covenant defeasance or to discharge the indenture governing the 2026 Notes have been satisfied.

Pursuant to Rule 3-10 of Regulation S-X, the following summarized condensed consolidating information is provided for the Company (the “Parent Company”), the Issuers, the Guarantors, and the Company’s non-Guarantor subsidiaries with respect to the 2021 Notes and the 2023 Notes. This summarized financial information has been prepared from the books and records maintained by the Company, the Issuers, the Guarantors and the non-Guarantor subsidiaries. The summarized financial information may not necessarily be indicative of the results of operations or financial position had the Issuers, the Guarantors or non-Guarantor subsidiaries operated as independent entities. Sabra’s investments in its consolidated subsidiaries are presented based upon Sabra's proportionate share of each subsidiary's net assets. The Guarantor subsidiaries’ investments in the non-Guarantor subsidiaries and non-Guarantor subsidiaries’ investments in Guarantor subsidiaries are presented under the equity method of accounting. Intercompany activities between subsidiaries and the Parent Company are presented within operating activities on the condensed consolidating statement of cash flows.

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

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CONDENSED CONSOLIDATING BALANCE SHEET
September 30, 2017
(in thousands)
(unaudited)

			Combined Non-Guarantor Subsidiaries of 2026 Notes[6]				
	Parent Company[1]	Operating Partnership[2]	Sabra Capital Corporation[3]	Combined Guarantor Subsidiaries of 2021 Notes and 2023 Notes[4]	Combined Non-Guarantor Subsidiaries of 2021 Notes and 2023 Notes[5]	Elimination	Consolidated
Assets							
Real estate investments, net of accumulated depreciation	$174	$—	$—	$1,832,335	$ 4,140,276	$—	$5,972,785
Loans receivable and other investments, net	(140)	—	—	89,911	59,995	—	149,766
Cash and cash equivalents	25,214	—	—	1,014	4,645	—	30,873
Restricted cash	—	—	—	2,038	10,451	—	12,489
Lease intangible assets, net	—	—	—	22,801	240,016	—	262,817
Accounts receivable, prepaid expenses and other assets, net	2,219	30,483	—	87,304	43,771	(4,200)	159,577
Intercompany	2,618,618	2,339,272	—	—	—	(4,957,890)	—
Investment in subsidiaries	744,470	1,040,196	—	12,833	—	(1,797,499)	—
Total assets	$3,390,555	$3,409,951	$—	$2,048,236	$ 4,499,154	$(6,759,589)	$6,588,307
Liabilities							
Secured debt, net	$—	$—	$—	$—	$ 257,571	$—	$257,571
Revolving credit facility	—	251,000	—	—	—	—	251,000
Term loans, net	—	1,091,939	—	98,948	—	—	1,190,887
Senior unsecured notes, net	—	1,305,996	—	—	—	—	1,305,996
Accounts payable and accrued liabilities	21,452	16,546	—	7,230	75,118	(4,200)	116,146
Lease intangible liabilities, net	—	—	—	—	94,878	—	94,878
Intercompany	—	—	—	941,667	4,016,223	(4,957,890)	—
Total liabilities	21,452	2,665,481	—	1,047,845	4,443,790	(4,962,090)	3,216,478
Total Sabra Health Care REIT, Inc. stockholders' equity	3,369,103	744,470	—	1,000,391	52,638	(1,797,499)	3,369,103
Noncontrolling interests	—	—	—	—	2,726	—	2,726
Total equity	3,369,103	744,470	—	1,000,391	55,364	(1,797,499)	3,371,829
Total liabilities and equity	$3,390,555	$3,409,951	$—	$2,048,236	$ 4,499,154	$(6,759,589)	$6,588,307

(1) The Parent Company guarantees the 2021 Notes, the 2023 Notes and the 2026 Notes.

(2) The Operating Partnership is the co-issuer of the 2021 Notes and the 2023 Notes and the issuer of the 2026 Notes.

(3) Sabra Capital Corporation is the co-issuer of the 2021 Notes and the 2023 Notes.

(4) The Combined Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes guarantee the 2021 Notes and the 2023 Notes.

(5)

The Combined Non-Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes consist of the subsidiaries that do not guarantee the 2021 Notes and the 2023 Notes.

(6) None of Sabra Capital Corporation, the Combined Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes, nor the Combined Non-Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes guarantee the 2026 Notes.

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CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2016
(in thousands)
(unaudited)

			Combined Non-Guarantor Subsidiaries of 2026 Notes[6]				
	Parent Company[1]	Operating Partnership[2]	Sabra Capital Corporation[3]	Combined Guarantor Subsidiaries of 2021 Notes and 2023 Notes[4]	Combined Non-Guarantor Subsidiaries of 2021 Notes and 2023 Notes[5]	Elimination	Consolidated
Assets							
Real estate investments, net of accumulated depreciation	$ 150	$ —	$ —	$ 1,860,850	$ 148,939	$ —	$ 2,009,939
Loans receivable and other investments, net	(410)	—	—	96,446	—	—	96,036
Cash and cash equivalents	18,168	—	—	2,675	4,820	—	25,663
Restricted cash	—	—	—	57	8,945	—	9,002
Lease intangible assets, net	—	—	—	25,489	761	—	26,250
Accounts receivable, prepaid expenses and other assets, net	2,859	18,023	—	70,812	9,244	(1,909)	99,029
Intercompany	368,281	687,493	—	—	25,125	(1,080,899)	—
Investment in subsidiaries	640,238	907,136	—	12,364	—	(1,559,738)	—
Total assets	$ 1,029,286	$ 1,612,652	$ —	$ 2,068,693	$ 197,834	$ (2,642,546)	$ 2,265,919
Liabilities							
Secured debt, net	$ —	$ —	$ —	$ —	$ 160,752	$ —	$ 160,752
Revolving credit facility	—	26,000	—	—	—	—	26,000
Term loans, net	—	243,626	—	92,047	—	—	335,673
Senior unsecured notes, net	—	688,246	—	—	—	—	688,246
Accounts payable and accrued liabilities	13,712	14,542	—	11,606	1,688	(1,909)	39,639
Intercompany	—	—	—	1,080,899	—	(1,080,899)	—
Total liabilities	13,712	972,414	—	1,184,552	162,440	(1,082,808)	1,250,310
Total Sabra Health Care REIT, Inc. stockholders' equity	1,015,574	640,238	—	884,141	35,359	(1,559,738)	1,015,574
Noncontrolling interests	—	—	—	—	35	—	35
Total equity	1,015,574	640,238	—	884,141	35,394	(1,559,738)	1,015,609
Total liabilities and equity	$ 1,029,286	$ 1,612,652	$ —	$ 2,068,693	$ 197,834	$ (2,642,546)	$ 2,265,919

(1) The Parent Company guarantees the 2021 Notes, the 2023 Notes and the 2026 Notes.
(2) The Operating Partnership is the co-issuer of the 2021 Notes and the 2023 Notes and the issuer of the 2026 Notes.
(3) Sabra Capital Corporation is the co-issuer of the 2021 Notes and the 2023 Notes.
(4) The Combined Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes guarantee the 2021 Notes and the 2023 Notes.
(5) The Combined Non-Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes consist of the subsidiaries that do not guarantee the 2021 Notes and the 2023 Notes.

(6) None of Sabra Capital Corporation, the Combined Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes, nor the Combined Non-Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes guarantee the 2026 Notes.

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CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Three Months Ended September 30, 2017
(dollars in thousands, except per share amounts)
(unaudited)

			Combined Non-Guarantor Subsidiaries of 2026 Notes[6]				
	Parent Company[1]	Operating Partnership[2]	Sabra Capital Corporation[3]	Combined Guarantor Subsidiaries of 2021 Notes and 2023 Notes[4]	Combined Non-Guarantor Subsidiaries of 2021 Notes and 2023 Notes[5]	Elimination	Consolidated
Revenues:							
Rental income	$ —	$ —	$ —	$ 54,640	$ 48,692	$ (3,187)	$ 100,145
Interest and other income	8	47	—	1,991	2,091	(47)	4,090
Resident fees and services	—	—	—	—	7,554	—	7,554
Total revenues	8	47	—	56,631	58,337	(3,234)	111,789
Expenses:							
Depreciation and amortization	217	—	—	15,500	10,216	—	25,933
Interest	—	21,765	—	792	2,011	—	24,568
Operating expenses	—	—	—	—	8,289	(3,187)	5,102
General and administrative	10,058	16	—	1,671	1,199	—	12,944
Merger and acquisition costs	23,287	—	—	12	—	—	23,299
Provision for doubtful accounts and loan losses	533	—	—	4,616	—	—	5,149
Total expenses	34,095	21,781	—	22,591	21,715	(3,187)	96,995
Other income (expense):							
Loss on extinguishment of debt	—	(422)	—	(131)	—	—	(553)
Other income (expense)	349	688	—	(986)	—	—	51
Net gain (loss) on sales of real estate	—	—	—	614	(32)	—	582
Total other income (expense)	349	266	—	(503)	(32)	—	80
Income in subsidiary	49,145	70,613	—	1,808	—	(121,566)	—
Income before income tax expense	15,407	49,145	—	35,345	36,590	(121,613)	14,874
Income tax benefit (expense)	(265)	—	—	482	(22)	—	195
Net income	15,142	49,145	—	35,827	36,568	(121,613)	15,069
Net income attributable to noncontrolling interests	—	—	—	—	26	—	26
Net income attributable to Sabra Health Care REIT, Inc.	15,142	49,145	—	35,827	36,594	(121,613)	15,095
Preferred stock dividends	(2,561)	—	—	—	—	—	(2,561)
Net income attributable to common stockholders	$ 12,581	$ 49,145	$ —	$ 35,827	$ 36,594	$ (121,613)	$ 12,534
Net loss attributable to common stockholders, per:							
Basic common share							$ 0.11

Diluted common share	$ 0.11
Weighted-average number of common shares outstanding, basic	112,149,638
Weighted-average number of common shares outstanding, diluted	112,418,100

(1) The Parent Company guarantees the 2021 Notes, the 2023 Notes and the 2026 Notes.

(2) The Operating Partnership is the co-issuer of the 2021 Notes and the 2023 Notes and the issuer of the 2026 Notes.

(3) Sabra Capital Corporation is the co-issuer of the 2021 Notes and the 2023 Notes.

(4) The Combined Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes guarantee the 2021 Notes and the 2023 Notes.

(5) The Combined Non-Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes consist of the subsidiaries that do not guarantee the 2021 Notes and the 2023 Notes.

(6) None of Sabra Capital Corporation, the Combined Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes, nor the Combined Non-Guarantor Subsidiaries of the 2021 Notes and the 2023 Notes guarantee the 2026 Notes.

CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Three Months Ended September 30, 2016
(dollars in thousands, except per share amounts)
(unaudited)

			Combined Non-Guarantor Subsidiaries of 2026 Notes[6]				
	Parent Company[1]	Operating Partnership[2]	Sabra Capital Corporation[3]	Combined Guarantor Subsidiaries of 2021 Notes and 2023 Notes[4]	Combined Non-Guarantor Subsidiaries of 2021 Notes and 2023 Notes[5]	Elimination	Consolidated
Revenues:							
Rental income	$ —	$ —	$ —	$ 52,233	$ 5,187	$ (587)	$ 56,833
Interest and other income	1	—	—	3,156	68	(68)	3,157
Resident fees and services	—	—	—	—	1,937	—	1,937
Total revenues	1	—	—	55,389	7,192	(655)	61,927
Expenses:							
Depreciation and amortization	211	—	—	15,320	1,571	—	17,102
Interest	—	13,215	—	878	1,701	—	15,794
Operating expenses	—	—	—	—	1,991	(587)	1,404
General and administrative	4,527	21	—	375	43	—	4,966
Merger and acquisition costs	(105)	—	—	1,156	—	—	1,051
Provision for doubtful accounts and loan losses	566	—	—	(26)	—	—	540
Total expenses	5,199	13,236	—	17,703	5,306	(587)	40,857
Other income (expense):							
Other income (expense)	2,636	400	—	(91)	—	—	2,945
Net gain on sales of real estate	—	—	—	1,451	—	—	1,451
Total other income (expense)	2,636	400	—	1,360	—	—	4,396
Income in subsidiary	28,073	40,909		1,711	—	(70,693)	—
Income before income tax expense	25,511	28,073	—	40,757	1,886	(70,761)	25,466
Income tax expense	(106)	—	—	(27)	(21)	—	(154)
Net income	25,405	28,073	—	40,730	1,865	(70,761)	25,312
Net loss attributable to noncontrolling interests	—	—	—	—	25	—	25
Net income attributable to Sabra Health Care REIT, Inc.	25,405	28,073	—	40,730	1,890	(70,761)	25,337
Preferred stock dividends	(2,561)	—	—	—	—	—	(2,561)
Net income attributable to common stockholders	$ 22,844	$ 28,073	$ —	$ 40,730	$ 1,890	$ (70,761)	$ 22,776
Net loss attributable to common stockholders, per:							
Basic common share							