Sabra Health Care REIT, Inc.
Form 10-Q
May 09, 2018
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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 March 31, 2018
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 April 30, 2018, there were 178,282,370 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:

- our dependence on the operating success of our tenants;
- operational risks with respect to our Senior Housing - Managed communities (as defined below);
- the effect of our tenants declaring bankruptcy or becoming insolvent;
- our ability to find replacement tenants and the impact of unforeseen costs in acquiring new properties;
- the impact of litigation and rising insurance costs on the business of our tenants;
- 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 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 possibility that Sabra may not acquire the remaining majority interest in the Enlivant Joint Venture (as defined below);
- risks associated with our investments in joint ventures;
- changes in healthcare regulation and political or economic conditions;
- the impact of required regulatory approvals of transfers of healthcare properties;
- competitive conditions in our industry;
- our concentration in the healthcare property sector, particularly in skilled nursing/transitional care facilities and senior housing communities, which makes our profitability more vulnerable to a downturn in a specific sector than if we were investing in multiple industries;
- the significant amount of and our ability to service our indebtedness;
- covenants in our debt agreements that may restrict our ability to pay dividends, make investments, incur additional indebtedness and refinance indebtedness on favorable terms;
- increases in market interest rates;
- our ability to raise capital through equity and debt financings;
- changes in foreign currency exchange rates;
- the relatively illiquid nature of real estate investments;
- the loss of key management personnel or other employees;
- 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 maintain our status as a real estate investment trust (“REIT”);
- changes in tax laws and regulations affecting REITs (including the potential effects of the Tax Cuts and Jobs Act);

- 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 under 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, 2017 (our “2017 Annual Report on Form 10-K”), as such risk factors may be amended, supplemented or superseded from time

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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)

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Real estate investments, net of accumulated depreciation of $377,063 and $340,423 as of March 31, 2018 and December 31, 2017, respectively	$6,108,801	$5,994,432
Loans receivable and other investments, net	100,888	114,390
Investment in unconsolidated joint venture	354,907	—
Cash and cash equivalents	46,352	518,632
Restricted cash	11,818	68,817
Lease intangible assets, net	161,423	167,119
Accounts receivable, prepaid expenses and other assets, net	200,380	168,887
Total assets	$6,984,569	$7,032,277
Liabilities		
Secured debt, net	$254,917	$256,430
Revolving credit facility	611,000	641,000
Term loans, net	1,188,623	1,190,774
Senior unsecured notes, net	1,306,566	1,306,286
Accounts payable and accrued liabilities	102,353	102,523
Lease intangible liabilities, net	94,544	98,015
Total liabilities	3,558,003	3,595,028
Commitments and contingencies (Note 13)		
Equity		
Preferred stock, $.01 par value; 10,000,000 shares authorized, 5,750,000 shares issued and outstanding as of March 31, 2018 and December 31, 2017	58	58
Common stock, $.01 par value; 250,000,000 shares authorized, 178,282,370 and 178,255,843 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	1,783	1,783
Additional paid-in capital	3,638,109	3,636,913
Cumulative distributions in excess of net income	(238,612)	(217,236)
Accumulated other comprehensive income	20,813	11,289
Total Sabra Health Care REIT, Inc. stockholders' equity	3,422,151	3,432,807
Noncontrolling interests	4,415	4,442
Total equity	3,426,566	3,437,249
Total liabilities and equity	$6,984,569	$7,032,277

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 March 31, 2018	Three Months Ended March 31, 2017
Revenues:		
Rental income	$144,255	$57,224
Interest and other income	4,338	1,945
Resident fees and services	17,493	3,481
Total revenues	166,086	62,650
Expenses:		
Depreciation and amortization	48,005	19,137
Interest	35,818	15,788
Operating expenses	12,124	2,420
General and administrative	7,867	6,090
Merger and acquisition costs	330	563
Provision for doubtful accounts and loan losses	1,213	1,770
Impairment of real estate	532	—
Total expenses	105,889	45,768
Other income (expense):		
Other income	2,820	2,129
Net loss on sales of real estate	(472)	—
Total other income	2,348	2,129
Income before income from unconsolidated joint venture and income tax expense	62,545	19,011
Income from unconsolidated joint venture	446	—
Income tax expense	(510)	(220)
Net income	62,481	18,791
Net (income) loss attributable to noncontrolling interests	(10)	32
Net income attributable to Sabra Health Care REIT, Inc.	62,471	18,823
Preferred stock dividends	(2,561)	(2,561)
Net income attributable to common stockholders	$59,910	$16,262
Net income attributable to common stockholders, per:		

Basic common share	$ 0.34	$ 0.25
Diluted common share	$ 0.34	$ 0.25
Weighted-average number of common shares outstanding, basic	178,294,605	65,354,649
Weighted-average number of common shares outstanding, diluted	178,516,388	65,920,486
Dividends declared per common share	$ 0.45	$ 0.42

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 March 31,	
	2018	2017
Net income	$62,481	$18,791
Other comprehensive income (loss):		
Unrealized gain (loss), net of tax:		
Foreign currency translation loss	(374)	(558)
Unrealized gain on cash flow hedges	9,898	728
Total other comprehensive income	9,524	170
Comprehensive income	72,005	18,961
Comprehensive (income) loss attributable to noncontrolling interest	(10)	32
Comprehensive income attributable to Sabra Health Care REIT, Inc.	$71,995	$18,993

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		Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amounts	Shares	Amounts						
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)	—	—	—	—	—	18,823	—	18,823	(32)	18,791
Other comprehensive income	—	—	—	—	—	—	170	170	—	170
Amortization of stock-based compensation	—	—	—	—	2,860	—	—	2,860	—	2,860
Common stock issuance, net	—	—	125,054	1	(2,815)	—	—	(2,814)	—	(2,814)
Preferred dividends	—	—	—	—	—	(2,561)	—	(2,561)	—	(2,561)
Common dividends ($0.42 per share)	—	—	—	—	—	(27,702)	—	(27,702)	—	(27,702)
Balance, March 31, 2017	5,750,000	$58	65,410,668	$654	$1,208,907	$(203,641)	$(1,628)	$1,004,350	$3	$1,004,353

	Preferred Stock		Common Stock		Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amounts						
Balance, December 31, 2017	5,750,000	$58	178,255,843	$1,783	$3,636,913	$(217,236)	$11,289	$3,432,807	$4,442	$3,437,249
Cumulative effect of ASU 2017-12 adoption	—	—	—	—	—	(795)	795	—	—	—
Net income	—	—	—	—	—	62,471	—	62,471	10	62,481
Other comprehensive income	—	—	—	—	—	—	8,729	8,729	—	8,729
	—	—	—	—	—	—	—	—	(37)	(37)

Distributions to noncontrolling interests										
Amortization of stock-based compensation	—	—	—	—	1,398	—	—	1,398	—	1,398
Common stock issuance, net	—	—	26,527	—	(202)	—	—	(202)	—	(202)
Preferred dividends	—	—	—	—	—	(2,561)	—	(2,561)	—	(2,561)
Common dividends ($0.45 per share)	—	—	—	—	—	(80,491)	—	(80,491)	—	(80,491)
Balance, March 31, 2018	5,750,000	$58	178,282,370	$1,783	$3,638,109	$(238,612)	$20,813	$3,422,151	$4,415	$3,426,566

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)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$62,481	$18,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48,005	19,137
Amortization of above and below market lease intangibles, net	(684)	—
Non-cash interest income adjustments	(570)	26
Non-cash interest expense	2,481	1,591
Stock-based compensation expense	1,135	2,588
Straight-line rental income adjustments	(11,563)	(4,607)
Provision for doubtful accounts and loan losses	1,213	1,770
Change in fair value of contingent consideration	—	(822)
Net loss on sales of real estate	472	—
Impairment of real estate	532	—
Income from unconsolidated joint venture	(446)	—
Changes in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other assets	(1,658)	(1,791)
Accounts payable and accrued liabilities	249	(5,096)
Net cash provided by operating activities	101,647	31,587
Cash flows from investing activities:		
Acquisition of real estate	(172,001)	—
Origination and fundings of loans receivable	(13,232)	(508)
Origination and fundings of preferred equity investments	(928)	(51)
Additions to real estate	(11,539)	(520)
Repayments of loans receivable	28,805	118
Repayments of preferred equity investments	234	—
Investment in unconsolidated joint venture	(354,461)	—
Net proceeds from the sales of real estate	6,743	—
Net cash used in investing activities	(516,379)	(961)
Cash flows from financing activities:		
Net repayments of revolving credit facility	(30,000)	(9,000)
Principal payments on secured debt	(1,061)	(1,021)
Payments of deferred financing costs	(6)	(109)
Distributions to noncontrolling interests	(37)	—
Issuance of common stock, net	(499)	(3,224)
Dividends paid on common and preferred stock	(82,789)	(29,993)
Net cash used in financing activities	(114,392)	(43,347)
Net decrease in cash, cash equivalents and restricted cash	(529,124)	(12,721)
Effect of foreign currency translation on cash, cash equivalents and restricted cash	(155)	21

Cash, cash equivalents and restricted cash, beginning of period	587,449	34,665
Cash, cash equivalents and restricted cash, end of period	$58,170	$21,965
Supplemental disclosure of cash flow information:		
Interest paid	$42,623	$18,127

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 primarily 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; preferred equity investments; and an investment in an unconsolidated joint venture.

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 March 31, 2018 and December 31, 2017 and for the periods ended March 31, 2018 and 2017. 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 months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending

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December 31, 2018. For further information, refer to the Company's consolidated financial statements and notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 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 March 31, 2018, the Company determined it was the primary beneficiary of five variable interest entities—four exchange accommodation titleholder variable interest entities and a joint venture variable interest entity owning one skilled nursing/transitional care facility—and has consolidated the operations of these entities in the accompanying condensed consolidated financial statements. As of March 31, 2018, 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 whether 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 March 31, 2018, 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 March 31, 2018, 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 statements of income.

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Investment in Unconsolidated Joint Venture

The Company reports investments in unconsolidated entities over whose operating and financial policies it has the ability to exercise significant influence under the equity method of accounting. Under this method of accounting, the Company's share of the investee's earnings or losses is included in the Company's condensed consolidated statements of income. The initial carrying value of the investment is based on the amount paid to purchase the joint venture interest. Differences between the Company's cost basis and the basis reflected at the joint venture level are generally amortized over the lives of the related assets and liabilities, and such amortization is included in the Company's share of earnings of the joint venture.

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of its equity method investments may not be recoverable or realized. When indicators of potential impairment are identified, the Company evaluates its equity method investments for impairment based on a comparison of the fair value of the investment to its carrying value. The fair value is estimated based on discounted cash flows that include all estimated cash inflows and outflows over a specified holding period and any estimated debt premiums or discounts. If, based on this analysis, the Company does not believe that it will be able to recover the carrying value of its equity method investment, the Company would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of its equity method investment.

On January 2, 2018, the Company completed its transaction with affiliates of Enlivant and TPG Real Estate, the real estate platform of TPG, and contributed $352.7 million, before closing costs, to acquire a 49% equity interest in an entity that owns 172 senior housing communities managed by Enlivant (the "Enlivant Joint Venture"). At closing, the Enlivant Joint Venture had outstanding indebtedness of $791.3 million and net working capital of $22.9 million, and the Company's investment in the Enlivant Joint Venture implied an aggregate portfolio value of $1.49 billion. The joint venture agreement includes an option for the Company to acquire the remainder of the outstanding equity interests in the Enlivant Joint Venture by January 2, 2021 and grants the Company the right of first offer if the Company's partner in the Enlivant Joint Venture desires to transfer its equity interest (which it may do commencing on January 2, 2020). In addition, Sabra has the right to designate three directors on the seven member board of directors of the Enlivant Joint Venture and has other customary minority rights. As of March 31, 2018, the book value of the Company's investment in the Enlivant Joint Venture was $354.9 million.

Net Investment in Direct Financing Lease

As of March 31, 2018, the Company had a $23.1 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 lease term. The net investment in direct financing lease is recorded in accounts receivable, prepaid expenses and other assets, net on the accompanying condensed consolidated balance sheets and represents the total undiscounted rental payments, plus the estimated unguaranteed residual value, less the unearned lease income. Unearned lease income represents the excess of the minimum lease payments and residual value 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 $0.6 million for the three months ended March 31, 2018 and is reflected in interest and other income on the accompanying condensed consolidated statements of income. Future minimum lease payments contractually due under the direct financing lease at March 31, 2018, were as follows: $1.6 million for the remainder of 2018; $2.2 million for 2019; $2.3 million for 2020; and $2.1 million for 2021.

Recently Issued Accounting Standards Update

Adopted

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"), (iii) ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12") and (iv) ASU No. 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets ("ASU 2017-05"). 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. The Revenue ASUs became effective for the Company on January 1, 2018 with the Company electing to use the modified retrospective approach for its adoption. Further, the Company elected to reassess only contracts that were not completed as of the adoption date. The adoption of these ASUs did not have a material impact to beginning retained earnings as of January 1, 2018.

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In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 provides specific guidance clarifying how certain cash receipts and payments should be classified. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted ASU 2016-15 and ASU 2016-18 on January 1, 2018. The full retrospective approach of adoption is required for both ASUs and, accordingly, certain line items in the Company's consolidated statements of cash flows have been reclassified to conform to the current period presentation. The following table illustrates changes in the Company's cash flows as reported in the accompanying condensed consolidated statements of cash flows and as previously reported prior to the adoption (in thousands):

	Three Months Ended March 31, 2017	
	As Reported	As Previously Reported
Net cash provided by operating activities	31,587	31,438
Net decrease in balance	(12,721)	(12,870)
Balance - beginning of the year	34,665	25,663
Balance - end of the year	21,965	12,814

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 adopted ASU 2017-12 effective beginning January 1, 2018. ASU 2017-12 requires a modified retrospective transition method in which the Company recognized the cumulative effect of the change on the opening balance of each affected component of equity in the condensed consolidated balance sheet as of the date of adoption, which resulted in a decrease to cumulative distributions in excess of net income and an increase to accumulated other comprehensive income of $0.8 million.

Issued but Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 supersedes guidance related to accounting for leases. ASU 2016-02 updates guidance around the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The objective of ASU 2016-02 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. ASU 2016-02 does not fundamentally change lessor accounting; however, some changes have been made to lessor accounting to conform and align that guidance with the lessee guidance and other areas within GAAP. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted. Entities currently are required to adopt the new lease requirements using a modified retrospective transition method whereby an entity initially applies the new lease requirements (subject to specific transition requirements and optional practical expedients) at the beginning of the earliest period presented in the financial statements. Upon adoption of ASU 2016-02, the Company will recognize its operating leases for which it is the lessee, mainly corporate office leases and ground leases, on its consolidated balance sheets. Further, as a result of adoption, the Company may be required to increase its revenue and expense for the amount of real estate taxes and insurance paid by its tenants under certain leasing arrangements with no net impact to net income.

In January 2018, the FASB issued a proposed amendment to ASU 2016-02 that would allow lessors to elect, as a practical expedient, not to separate lease and nonlease components (such as services rendered) in a contract for the purpose of revenue recognition and disclosure. In March 2018, the FASB voted to move forward with drafting a final ASU related to this proposed amendment. The practical expedient as proposed can only be applied to leasing arrangements for which (i) the timing and pattern of transfer are the same for the lease and nonlease components and (ii) the lease component, if accounted for separately, would be classified as an operating lease. The proposed amendment also would provide for an additional (and optional) transition method to adopt the new lease requirements by allowing entities to initially apply the requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. If finalized by the FASB, the Company plans to elect this practical expedient and apply the transition method for its operating leases for which the Company is the lessee. The Company is still evaluating the full impact of the adoption of ASU 2016-02 on January 1, 2019 to its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires that a financial asset (or a group of financial assets)

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

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 that was subsequently sold in March 2018. 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 following table summarizes the 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	$3,727,310
Loans receivable and other investments	58,244
Cash and cash equivalents	77,859
Restricted cash	779
Lease intangible assets, net	145,786
Accounts receivable, prepaid expenses and other assets, net	35,873
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	(134,802)
Lease intangible liabilities, net	(102,643)
Noncontrolling interests	(4,455)
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 10 years.

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Recent Real Estate Acquisitions

During the three months ended March 31, 2018, the Company acquired 11 Senior Housing - Managed communities, two skilled nursing/transitional care facilities and one senior housing community. The Company did not complete any acquisitions during the three months ended March 31, 2017. The consideration was allocated as follows based on certain valuations and analyses that have yet to be finalized, and accordingly, the allocation is preliminary and is subject to adjustment once the analyses are completed (in thousands):

	Three Months Ended March 31, 2018
Land	$20,552
Building and improvements	150,523
Tenant origination and absorption costs intangible assets	722
Tenant relationship intangible assets	209
Total consideration	$172,006

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 months ended March 31, 2018, the Company recognized $9.7 million of total revenues and $0.9 million of net income attributable to common stockholders from the facilities acquired during the three months ended March 31, 2018.

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 March 31, 2018

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	380	42,972	$4,384,312	$(232,080)	$4,152,232
Senior Housing - Leased	89	8,167	1,173,102	(110,342)	1,062,760
Senior Housing - Managed	24	1,744	310,377	(13,999)	296,378
Specialty Hospitals and Other	22	1,085	617,440	(20,362)	597,078
	515	53,968	6,485,231	(376,783)	6,108,448
Corporate Level			633	(280)	353
			$6,485,864	$(377,063)	$6,108,801

As of December 31, 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	384	43,223	$4,364,387	$(209,039)	$4,155,348
Senior Housing - Leased	88	8,137	1,166,687	(102,370)	1,064,317
Senior Housing - Managed	13	1,113	189,120	(12,125)	176,995
Specialty Hospitals and Other	22	1,085	614,068	(16,620)	597,448
	507	53,558	6,334,262	(340,154)	5,994,108

Corporate Level	593	(269)	324
	$6,334,855	$ (340,423)	$5,994,432

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	March 31, 2018	December 31, 2017
Building and improvements	$5,576,282	$5,449,415
Furniture and equipment	240,869	232,889
Land improvements	3,507	3,456
Land	665,206	649,095
	6,485,864	6,334,855
Accumulated depreciation	(377,063)	(340,423)
	$6,108,801	$5,994,432

Operating Leases

As of March 31, 2018, the substantial majority of the Company’s real estate properties (excluding 24 Senior Housing - Managed communities) were leased under triple-net operating leases with expirations ranging from less than one year to 15 years. As of March 31, 2018, 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. 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 on the accompanying condensed consolidated balance sheets and totaled $22.1 million and $20.3 million as of March 31, 2018 and December 31, 2017, respectively, and letters of credit deposited with the Company totaled $96.6 million and $96.3 million as of March 31, 2018 and December 31, 2017, respectively. In addition, our tenants have deposited with the Company $25.6 million and $28.3 million as of March 31, 2018 and December 31, 2017, respectively, for future real estate taxes, insurance expenditures and tenant improvements related to our properties and their operations.

As of March 31, 2018, the Company had a $2.2 million reserve for unpaid cash rental income and a $3.0 million reserve associated with accumulated straight-line rental income. As of December 31, 2017, the Company had a $3.2 million reserve for unpaid cash rental income and a $12.4 million reserve associated with accumulated straight-line rental income.

The Company has entered into memoranda of understanding with Genesis to market for sale up to all of its remaining Genesis facilities and to restructure its lease agreements with Genesis to increase the marketability of these facilities to potential buyers. Effective January 1, 2018, the annual base rent payable under the Genesis leases was reduced by $19.0 million pursuant to a lease restructuring agreement. Subsequent to March 31, 2018, the Company completed the sale of five facilities leased to Genesis and expects to complete the sale of 41 of its remaining 49 Genesis facilities during the remainder of 2018 and retain eight facilities, although it cannot provide assurance that the sales will be completed in that timeframe, if at all. The five facilities sold subsequent to March 31, 2018 were classified as held for sale as of March 31, 2018 (see Note 5, “Assets Held for Sale and Dispositions”).

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.
For the three months ended March 31, 2018, no tenant relationships represented 10% or more of the Company’s total revenues.

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As of March 31, 2018, the future minimum rental payments from the Company’s properties held for investment under non-cancelable operating leases were as follows (in thousands):

April 1, 2018 through December 31, 2018	$416,640
2019	566,530
2020	559,757
2021	558,493
2022	552,102
Thereafter	2,949,305
	$5,602,827

5. ASSETS HELD FOR SALE AND DISPOSITIONS

Assets Held for Sale

As of March 31, 2018, the Company determined that five skilled nursing/transitional care facilities, with an aggregate net book value of $12.5 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. The facilities were sold on April 2, 2018 for an aggregate gross sales price of $17.0 million.

Dispositions

During the three months ended March 31, 2018, the Company completed the sale of one skilled nursing/transitional care facility for consideration, net of closing costs, of $6.8 million. The net carrying value of the assets and liabilities of this facility was $7.2 million, which resulted in a $0.4 million net loss on sale. The Company also recognized an additional $0.1 million of selling expenses for sales completed in 2017.

Excluding the net loss on sale, the Company recognized $0.1 million of net income during the three months ended March 31, 2018 from this facility. The sale of this facility does 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 this facility have remained in continuing operations.

The Company sold no facilities during the three months ended March 31, 2017.

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6. LOANS RECEIVABLE AND OTHER INVESTMENTS

As of March 31, 2018 and December 31, 2017, the Company's loans receivable and other investments consisted of the following (dollars in thousands):

Investment	Quantity as of March 31, 2018	Property Type	Principal Balance as of March 31, 2018 (1)	Book Value as of March 31, 2018	Book Value as of December 31, 2017	March 31, 2018 Weighted Average Contractual Interest Rate / Rate of Return	March 31, 2018 Weighted Average Annualized Effective Interest Rate / Rate of Return	Maturity Date as of March 31, 2018
Loans Receivable:								
Mortgage	2	Skilled Nursing / Senior Housing	$18,028	$17,032	$12,351	9.9 %	11.0 %	12/31/18-02/10/27
Construction	2	Senior Housing	3,047	3,114	2,733	8.0 %	7.7 %	03/31/21-05/31/22
Mezzanine	1	Skilled Nursing	25,000	2,548	10,239	10.0%	41.9 %	05/25/20
Pre-development	1	Senior Housing	2,357	2,357	2,357	9.0 %	8.4 %	04/01/20
Other	15	Multiple	27,780	25,789	38,324	8.7 %	10.6 %	12/31/17-04/30/27
	21		76,212	50,840	66,004	9.4 %	12.0 %	
Loan loss reserve			—	(200)	(97)			
			$76,212	$50,640	$65,907			
Other Investments:								
Preferred Equity	13	Skilled Nursing / Senior Housing	49,782	50,248	48,483	12.6%	12.6 %	N/A
Total	34		$125,994	$100,888	$114,390	10.7%	12.3 %	

(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 loans receivable investments with a principal balance of $83.3 million and fair value of $58.2 million as of August 17, 2017. Of these loans, eight loans receivable investments with a principal balance of $36.3 million were considered to have deteriorated credit quality, and based on the collateral or expected cash flows, the fair value was determined to be $11.3 million and the accretable yield was $3.5 million as of August 17, 2017. The accretable yield was $2.0 million and $2.6 million as of March 31, 2018 and December 31, 2017, respectively. The decrease was due to $0.5 million in interest payments received and $0.1 million of accretion recorded in interest and other income during the three months ended March 31, 2018. As of March 31, 2018 and December 31, 2017, the book value of these loans was $9.6 million and $10.0 million, respectively.

During the three months ended March 31, 2018, the Company recorded no provision for specific loan losses and increased its portfolio-based loan loss reserve by $0.1 million.

As of March 31, 2018, the Company had no specific loan loss reserve, and the portfolio-based loan loss reserve was $0.2 million. As of March 31, 2018, the Company did not consider any loans receivable investments to be impaired, and one loan receivable with a book value of $0 and three preferred equity investments totaling $14.3 million were on nonaccrual status.

As of December 31, 2017, the Company had no specific loan loss reserve and had a $0.1 million portfolio-based loan loss reserve. As of December 31, 2017, the Company did not consider any loans receivable investments to be impaired, and one loan receivable with a book value of $0 was on nonaccrual status.

During the three months ended March 31, 2017, the Company recorded a provision for loan losses of $1.5 million related to three loans receivable investments and reduced its portfolio-based loan loss reserve by $0.2 million.

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7. DEBT

Secured Indebtedness

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

Interest Rate Type	Principal Balance as of March 31, 2018 [1]	Principal Balance as of December 31, 2017 [1]	Weighted Average Effective Interest Rate at March 31, 2018 [2]	Maturity Date
Fixed Rate	$159,160	$ 160,702	3.87 %	December 2021 - August 2051
Variable Rate	98,500	98,500	3.68 %	July 2019
	$257,660	$ 259,202	3.80 %	

(1) Principal balance does not include deferred financing costs, net of $2.7 million and $2.8 million as of March 31, 2018 and December 31, 2017, respectively.

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

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 March 31, 2018 [1]	Principal Balance as of December 31, 2017 [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	500,000
5.38% senior unsecured notes due 2027 (“2027 Notes”)	May 17, 2027	100,000	100,000
		$1,300,000	$1,300,000

(1) Principal balance does not include premium, net of $15.6 million and deferred financing costs, net of $9.0 million as of March 31, 2018 and does not include premium, net of $15.9 million and deferred financing costs, net of $9.6 million as of December 31, 2017.

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 March 31, 2018, the Company was in compliance with all applicable financial covenants under the Senior Notes Indentures.

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Credit Facility

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 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 Offered 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.

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 $125.0 million Canadian dollar term loan (collectively, the “Term Loans”). Further, up to $175.0 million of the Revolving Credit Facility may be used for borrowings in certain foreign currencies. The Credit Facility also contains an accordion feature that can increase the total available borrowings to $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. $200.0 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 March 31, 2018, there was $611.0 million outstanding under the Revolving Credit Facility and $389.0 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 March 31, 2018, the interest rate on the Revolving Credit Facility was 3.13%. 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

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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 dollar 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 Loans 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 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 March 31, 2018, the Company was in compliance with all applicable financial covenants under the Credit Facility.

Interest Expense

During the three months ended March 31, 2018 and 2017, the Company incurred interest expense of $35.8 million and $15.8 million, respectively. Interest expense includes non-cash interest expense of $2.5 million and $1.6 million for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, the Company had $15.5 million and $24.7 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 March 31, 2018 (in thousands):

	Secured Indebtedness	Revolving Credit Facility [1]	Term Loans	Senior Notes	Total
April 1, 2018 through December 31, 2018	$ 3,228	$—	$—	$—	$3,228
2019	102,930	—	—	—	102,930
2020	4,578	—	200,000	—	204,578
2021	20,044	611,000	—	500,000	1,131,044
2022	4,285	—	996,912	—	1,001,197
Thereafter	122,595	—	—	800,000	922,595
Total Debt	257,660	611,000	1,196,912	1,300,000	3,365,572
Premium, net	—	—	—	15,568	15,568
Deferred financing costs, net	(2,743)	—	(8,289)	(9,002)	(20,034)
Total Debt, Net	$ 254,917	$611,000	$1,188,623	$1,306,566	$3,361,106

[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

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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 $4.4 million of gains, which are included in accumulated other comprehensive income, as of March 31, 2018, are expected to be reclassified into earnings in the next 12 months.

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):

	March 31, 2018	December 31, 2017
Derivatives designated as cash flow hedges:		
Denominated in U.S. Dollars	$845,000	$ 845,000
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 March 31, 2018 and December 31, 2017 (dollars in thousands):

Type	Designation	Count as of March 31, 2018	Fair Value March 31, 2018	Fair Value December 31, 2017	Maturity Dates	Balance Sheet Location
Assets:						
Interest rate swap	Cash flow	12	$33,374	$ 25,221	2020 - 2023	Accounts receivable, prepaid expenses and other assets, net
Cross currency interest rate swaps	Net investment	2	1,273	674	2025	Accounts receivable, prepaid expenses and other assets, net
			$34,647	$ 25,895		
Liabilities:						
CAD term loan	Net investment	1	96,912	99,588	2022	Term loans, net

$96,912	$ 99,588

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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 months ended March 31, 2018 and 2017 (in thousands):

	Gain (Loss) Recognized in Other Comprehensive Income Three Months Ended March 31,		
	2018	2017	Income Statement Location
Cash Flow Hedges:			
Interest rate products	$9,123	$259	Interest expense
Net Investment Hedges:			
Foreign currency products	607	(916)	N/A
CAD term loan	2,675	(775)	N/A
	$12,405	$(1,432)	

	Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income Three Months Ended March 31,		
	2018	2017	Income Statement Location
Cash Flow Hedges:			
Interest rate products	$(50)	$(470)	Interest expense
Net Investment Hedges:			
Foreign currency products	—	—	N/A
CAD term loan	—	—	N/A
	$(50)	$(470)	

During the three months ended March 31, 2018, no cash flow hedges were determined to be ineffective. During the three months ended March 31, 2017, the Company determined that a portion of a cash flow hedge was ineffective and recognized $0.1 million of unrealized losses 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 months ended March 31, 2017, the Company recorded $7,000 of other expense related to a cross currency interest rate swap not designated as a hedging instrument. As of March 31, 2018 and December 31, 2017, 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 March 31, 2018 and December 31, 2017 (in thousands):