

CareTrust REIT, Inc.
Form 10-K
February 11, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)

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

For the fiscal year ended December 31, 2015

or

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 001-36181

CareTrust REIT, Inc.

(Exact name of registrant as specified in its charter)

Maryland

46-3999490

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

905 Calle Amanecer, Suite 300, San Clemente, CA

92673

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (949) 542-3130

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

Title of each class

Name of each exchange on which registered

Common Stock (par value \$0.01 per share)

The NASDAQ Stock Market LLC
(NASDAQ Global Select Market)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input type="radio"/>		Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="radio"/>	(Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter: \$392.0 million. As of February 10, 2016 there were 48,146,549 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant’s 2016 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of fiscal year 2015, are incorporated by reference into Part III of this Report.

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EXPLANATORY NOTE

This report represents the Annual Report on Form 10-K for the fiscal year ended December 31, 2015 for CareTrust REIT, Inc. (“CareTrust” or the “Company”). Prior to June 1, 2014, CareTrust was a wholly owned subsidiary of The Ensign Group, Inc. (“Ensign”). On June 1, 2014, Ensign completed the separation of its healthcare business and its real estate business into two separate and independent publicly traded companies through the distribution of all of the outstanding shares of common stock of CareTrust to Ensign stockholders on a pro rata basis (the “Spin-Off”). Ensign stockholders received one share of CareTrust common stock for each share of Ensign common stock held at the close of business on May 22, 2014, the record date for the Spin-Off. The Spin-Off was effective from and after June 1, 2014, with shares of CareTrust common stock distributed by Ensign on June 2, 2014.

The Company was formed on October 29, 2013 and had minimal activity prior to the Spin-Off. The consolidated and combined financial statements included in this report reflect, for all periods presented, the historical financial position, results of operations and cash flows of (i) the skilled nursing, assisted living and independent living facilities that Ensign contributed to the Company immediately prior to the Spin-Off, (ii) the operations of the three independent living facilities that the Company operated immediately following the Spin-Off, and (iii) the new investments that the Company has made after the Spin-Off. “Ensign Properties” is the predecessor of the Company, and its historical financial statements, for the periods prior to the Spin-Off, have been prepared on a “carve-out” basis from Ensign’s consolidated financial statements using the historical results of operations, cash flows, assets and liabilities attributable to such skilled nursing, assisted living and independent living facilities, and include allocations of income, expenses, assets and liabilities from Ensign. These allocations reflect significant assumptions. Although management of the Company believes such assumptions are reasonable, the consolidated and combined financial statements do not fully reflect what the Company’s financial position, results of operations and cash flows would have been had it been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of the Company’s future results of operations, financial position and cash flows.

Effective May 15, 2014, the Company became subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Company will file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”) as long as it remains subject to such Exchange Act requirements. These reports and other information filed by the Company may be read and copied at the Public Reference Room of the SEC, 100 F Street N.E., Washington, D.C. 20549. Information about the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, and other information about issuers, like the Company, which file electronically with the SEC. The address of that site is <http://www.sec.gov>. The Company makes available its reports on Form 10-K, 10-Q, and 8-K (as well as all amendments to these reports), and other information, free of charge, at the Investor Relations section of its website at www.caretrustreit.com. The information found on, or otherwise accessible through, the Company’s website is not incorporated by reference into, nor does it form a part of, this report or any other document that we file with the SEC.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, statements regarding: future financing plans, business strategies, growth prospects and operating and financial performance; expectations regarding the making of distributions and the payment of dividends; and compliance with and changes in governmental regulations.

Words such as “anticipate(s),” “expect(s),” “intend(s),” “plan(s),” “believe(s),” “may,” “will,” “would,” “could,” “should,” “seem,” “may be,” “could be,” “might be,” “may not be,” “could not be,” “should not be,” “may not,” “will not,” “would not,” “could not,” “should not,” “seem not,” or the negative of these terms, are intended to identify such forward-looking statements. These statements are based on management’s current expectations and beliefs and are subject to a number of risks and uncertainties that could lead to actual results differing materially from those projected, forecasted or expected.

Although we believe that the assumptions underlying the forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors which could have a material adverse effect on our operations and future prospects or which could cause actual results to differ materially from our expectations include, but are not

limited to: (i) the ability to achieve some or all of the benefits that we expected to achieve from the completed Spin-Off; (ii) the ability and willingness of Ensign to meet and/or perform its obligations under the contractual arrangements that it entered into with us in connection with the Spin-Off, including the Ensign Master Leases (as defined below), and any of its obligations to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities; (iii) the ability of our tenants to comply with laws, rules and regulations in the operation of the properties we lease to them; (iv) the ability and willingness of our tenants, including Ensign, to renew their leases with us upon their expiration, and the ability to reposition our properties on the same or better

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terms in the event of nonrenewal or in the event we replace an existing tenant, and obligations, including indemnification obligations, we may incur in connection with the replacement of an existing tenant; (v) the availability of and the ability to identify suitable acquisition opportunities and the ability to acquire and lease the respective properties on favorable terms; (vi) the ability to generate sufficient cash flows to service our outstanding indebtedness; (vii) access to debt and equity capital markets; (viii) fluctuating interest rates; (ix) the ability to retain our key management personnel; (x) the ability to qualify or maintain our status as a real estate investment trust (“REIT”); (xi) changes in the U.S. tax law and other state, federal or local laws, whether or not specific to REITs; (xii) other risks inherent in the real estate business, including potential liability relating to environmental matters and illiquidity of real estate investments; and (xiii) any additional factors included in this report, including in the section entitled “Risk Factors” in Item 1A of this report, as such risk factors may be amended, supplemented or superseded from time to time by other reports we file with the SEC, including subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q.

Forward-looking statements speak only as of the date of this report. Except as required by law, we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any statement is based.

TENANT INFORMATION

This Annual Report on Form 10-K includes information regarding certain of our tenants that lease properties from us, some of which are not subject to SEC reporting requirements. Ensign is subject to the reporting requirements of the SEC and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to our tenants contained or referred to in this Annual Report on Form 10-K was provided to us by such tenants or, in the case of our largest tenant Ensign, derived from SEC filings made by Ensign or other publicly available information. We have not verified this information through an independent investigation or otherwise. We have no reason to believe that this information is inaccurate in any material respect, but we cannot provide any assurance of its accuracy. We are providing this data for informational purposes only. You are encouraged to review Ensign’s publicly available filings, which can be found at the SEC’s website at www.sec.gov.

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PART I

All references in this report to “CareTrust,” the “Company,” “we,” “us” or “our” mean CareTrust REIT, Inc. together with its consolidated subsidiaries. Unless the context suggests otherwise, references to “CareTrust REIT, Inc.” mean the parent company without its subsidiaries.

ITEM 1. Business

Our Company

CareTrust REIT, Inc. (“CareTrust” or the “Company”) was formed on October 29, 2013, as a wholly owned subsidiary of The Ensign Group, Inc. (“Ensign”). On June 1, 2014, Ensign completed the separation of its healthcare business and its real estate business into two separate and independent publicly traded companies through the distribution of all of the outstanding shares of common stock of the Company to Ensign stockholders on a pro rata basis (the “Spin-Off”). The Spin-Off was effective from and after June 1, 2014, with shares of our common stock distributed to Ensign stockholders on June 2, 2014. CareTrust holds substantially all of the real property that was previously owned by Ensign. As of December 31, 2015, CareTrust’s real estate portfolio consisted of 122 skilled nursing facilities (“SNFs”), assisted living facilities (“ALFs”) and independent living facilities (“ILFs”). Of these properties, 94 are leased to Ensign on a triple-net basis under multiple long-term leases (each, an “Ensign Master Lease” and, collectively, the “Ensign Master Leases”) that have cross default provisions and are all guaranteed by Ensign, 14 are leased to affiliates of Pristine Senior Living (“Pristine”) under a long-term, triple-net master lease that is guaranteed by Pristine and two of its principals, and 11 properties are leased to seven other tenants on a triple-net basis. We also own and operate three ILFs. As of December 31, 2015, the 94 facilities leased to Ensign had a total of 10,121 beds and units and are located in Arizona, California, Colorado, Idaho, Iowa, Nebraska, Nevada, Texas, Utah and Washington; the 14 facilities leased to affiliates of Pristine had a total of 1,258 beds and units and are located in Ohio; and the 11 remaining leased properties had a total of 765 beds and units and are located in Colorado, Florida, Georgia, Idaho, Minnesota, Virginia and Washington. The three ILFs that we own and operate had a total of 264 units and are located in Texas and Utah. As of December 31, 2015, the Company had one other real estate investment, consisting of an \$8.5 million preferred equity investment.

We acquired the 14 facilities leased to affiliates of Pristine in an acquisition completed on October 1, 2015. We acquired the facilities, which comprise a 14 facility skilled nursing and assisted living portfolio, from affiliates of Liberty Nursing Center (“Liberty”), for approximately \$176.5 million (the “Liberty Acquisition”). Since the Spin-Off, we have also acquired an additional 11 properties, comprising seven assisted living facilities and four skilled nursing facilities, for approximately \$82.6 million.

We are an independent publicly traded, self-administered, self-managed real estate investment trust (“REIT”) primarily engaged in the ownership, acquisition and leasing of healthcare-related properties. We generate revenues primarily by leasing healthcare-related properties to healthcare operators in triple-net lease arrangements, under which the tenant is solely responsible for the costs related to the property (including property taxes, insurance, and maintenance and repair costs). We conduct and manage our business as one operating segment for internal reporting and internal decision making purposes. We expect to grow our portfolio by pursuing opportunities to acquire additional properties that will be leased to a diverse group of local, regional and national healthcare providers, which may include Ensign, as well as senior housing operators and related businesses. We also anticipate diversifying our portfolio over time, including by acquiring properties in different geographic markets, and in different asset classes.

We have elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. We believe that we have been organized and have operated, and we intend to continue to operate, in a manner to qualify for taxation as a REIT. We operate through an umbrella partnership, commonly referred to as an UPREIT structure, in which substantially all of our properties and assets are held through CTR Partnership, L.P. (the “Operating Partnership”). The Operating Partnership is managed by CareTrust’s wholly owned subsidiary, CareTrust GP, LLC, which is the sole general partner of the Operating Partnership. To maintain REIT status, we must meet a number of organizational and operational requirements, including a requirement that we annually distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains.

Our Industry

We operate as a REIT that invests in income-producing healthcare-related properties. We expect to grow our portfolio by pursuing opportunities to acquire additional properties that will be leased to a diverse group of local, regional and national healthcare providers, which may include Ensign, as well as senior housing operators and related businesses. We also anticipate

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diversifying our portfolio over time, including by acquiring properties in different geographic markets and in different asset classes. Our portfolio primarily consists of SNFs, ALFs and ILFs.

The skilled nursing industry has evolved to meet the growing demand for post-acute and custodial healthcare services generated by an aging population, increasing life expectancies and the trend toward shifting of patient care to lower cost settings. The skilled nursing industry has evolved in recent years, which we believe has led to a number of favorable improvements in the industry, as described below:

Shift of Patient Care to Lower Cost Alternatives. The growth of the senior population in the United States continues to increase healthcare costs. In response, federal and state governments have adopted cost-containment measures that encourage the treatment of patients in more cost-effective settings such as SNFs, for which the staffing requirements and associated costs are often significantly lower than acute care hospitals, inpatient rehabilitation facilities and other post-acute care settings. As a result, SNFs are generally serving a larger population of higher-acuity patients than in the past.

Significant Acquisition and Consolidation Opportunities. The skilled nursing industry is large and highly fragmented, characterized predominantly by numerous local and regional providers. We believe this fragmentation provides significant acquisition and consolidation opportunities for us.

Widening Supply and Demand Imbalance. The number of SNFs has declined modestly over the past several years. According to the American Health Care Association, the nursing home industry was comprised of approximately 15,700 facilities as of December 2013, as compared with over 16,700 facilities as of December 2000. We expect that the supply and demand balance in the skilled nursing industry will continue to improve due to the shift of patient care to lower cost settings, an aging population and increasing life expectancies.

Increased Demand Driven by Aging Populations and Increased Life Expectancy. As life expectancy continues to increase in the United States and seniors account for a higher percentage of the total U.S. population, we believe the overall demand for skilled nursing services will increase. At present, the primary market demographic for skilled nursing services is individuals age 75 and older. According to the 2010 U.S. Census, there were over 40 million people in the United States in 2010 that were over 65 years old. The 2010 U.S. Census estimates this group is one of the fastest growing segments of the United States population and is expected to more than double between 2000 and 2030. According to the Centers for Medicare & Medicaid Services, nursing home expenditures are projected to grow from approximately \$151 billion in 2012 to approximately \$264 billion in 2022, representing a compounded annual growth rate of 5.7%. We believe that these trends will support an increasing demand for skilled nursing services, which in turn will likely support an increasing demand for our properties.

Portfolio Summary

We have a geographically diverse portfolio of properties, consisting of the following types:

Skilled Nursing Facilities. SNFs are licensed healthcare facilities that provide restorative, rehabilitative and nursing care for people not requiring the more extensive and sophisticated treatment available at acute care hospitals.

Treatment programs include physical, occupational, speech, respiratory and other therapies, including sub-acute clinical protocols such as wound care and intravenous drug treatment. Charges for these services are generally paid from a combination of government reimbursement and private sources. As of December 31, 2015, our portfolio included 100 SNFs, 13 of which include assisted or independent living operations.

Assisted Living Facilities. ALFs are licensed healthcare facilities that provide personal care services, support and housing for those who need help with activities of daily living, such as bathing, eating and dressing, yet require limited medical care. The programs and services may include transportation, social activities, exercise and fitness programs, beauty or barber shop access, hobby and craft activities, community excursions, meals in a dining room setting and other activities sought by residents. These facilities are often in apartment-like buildings with private residences ranging from single rooms to large apartments. Certain ALFs may offer higher levels of personal assistance for residents requiring memory care as a result of Alzheimer's disease or other forms of dementia. Levels of personal assistance are based in part on local regulations. As of December 31, 2015, our portfolio included 18 ALFs, some of which also contain independent living units.

Independent Living Facilities. ILFs, also known as retirement communities or senior apartments, are not healthcare facilities. The facilities typically consist of entirely self-contained apartments, complete with their own kitchens, baths and individual living spaces, as well as parking for tenant vehicles. They are most often rented unfurnished, and generally can be personalized by the tenants, typically an individual or a couple over the age of 55. These facilities offer various services and amenities such as laundry, housekeeping, dining options/meal plans, exercise and wellness programs, transportation, social, cultural and recreational activities, on-site security and

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emergency response programs. As of December 31, 2015, our portfolio of four ILFs includes one that is operated by Ensign and three that are operated by us.

Our portfolio of SNFs, ALFs and ILFs is broadly diversified by geographic location throughout the United States, with concentrations in Texas and California. Our properties are grouped into four categories: (1) SNFs - these are properties that are comprised exclusively of SNFs; (2) Skilled Nursing Campuses - these are properties that include a combination of SNFs and ALFs or ILFs or both; (3) ALFs and ILFs - these are properties that include ALFs or ILFs, or a combination of the two; and (4) ILFs operated by CareTrust - these are ILFs operated by CareTrust, unlike the other properties, which are leased to third-party operators.

Significant Master Leases

We have leased 94 of our properties to subsidiaries of Ensign pursuant to the Ensign Master Leases, which consist of eight triple-net leases, each with its own pool of properties, that have varying maturities and diversity in both property type and geography. The Ensign Master Leases provide for initial terms in excess of ten years with staggered expiration dates and no purchase options. At the option of Ensign, each Ensign Master Lease may be extended for up to either two or three five year renewal terms beyond the initial term and, if elected, the renewal will be effective for all of the leased property then subject to the Ensign Master Lease. The rent is a fixed component that was initially set near the time of the Spin-Off. The annual revenues from the Ensign Master Leases are \$56.0 million during each of the first two years of the Ensign Master Leases. For the 12 months ended December 31, 2015, the lease coverage ratio of the Ensign Master Leases was approximately 2.07x based on the ANOI from the leased properties. We define ANOI as earnings before interest, taxes, depreciation, amortization, and rent. A management fee equal to five percent of gross revenues is included as a reduction to ANOI. Commencing on June 1, 2016 and annually thereafter, the annual rents from the Ensign Master Leases will be escalated by an amount equal to the product of (1) the lesser of the percentage change in the Consumer Price Index (but not less than zero) or 2.5%, and (2) the prior year's rent. The Ensign Master Leases are guaranteed by Ensign.

On February 5, 2016, we entered into an agreement with Ensign allowing them to voluntarily close and decertify from the Medicare program its operations at one of the 94 properties we lease to Ensign operating subsidiaries, a facility located in Texas, pursuant to one of our Ensign Master Leases ("Master Lease No. 2"). Under the agreement, Ensign will continue to pay 100% of the indivisible master rent due under Master Lease No. 2 throughout the term of that lease and any renewals, and will continue to maintain and pay all expenses related to the closed property on a triple-net basis as required by the lease for up to five years. We estimate that the planned closure will reduce our approximate lease coverage ratio for Master Lease No. 2 from 2.10x to 2.03x, and for the overall Ensign portfolio from 2.07x to 2.06x. We also believe that the fair value of the assets after closure will exceed our net book value therefor, and accordingly do not anticipate any impairment of value now or in the future. In addition, under the agreement we have the right to unilaterally extricate the property and the Texas licenses and Medicaid bed rights attached thereto from Master Lease No. 2 at our discretion, and to redeploy or dispose of such assets free and clear of the lease without any obligation to Ensign. We intend to use this right to monetize the recovered assets in due course. We believe that Ensign's voluntary closure plan for this property was based on unique and isolated concerns about this particular property's operations, and we have no reason to anticipate any similar plans or requests in the future with respect to other properties we lease to Ensign.

We have leased 14 of our properties to subsidiaries of Pristine pursuant to a triple-net master lease entered into effective as of October 1, 2015, which has an initial term of 15 years, two five year renewal options and no purchase options. The annual revenues from the Pristine master lease are \$17.0 million and will be escalated annually by an amount equal to the product of (1) the lesser of the percentage change in the Consumer Price Index (but not less than zero) or 3.0%, and (2) the prior year's rent. The Pristine master lease is guaranteed by Pristine and two of its principals. Because we lease most of our properties to Ensign and Pristine, these two tenants are the primary source of our revenues, and their financial condition and ability and willingness to (i) satisfy their obligations under their master leases and (ii) renew those leases upon expiration of the initial base terms thereof significantly impacts our revenues and our ability to service our indebtedness and to make distributions to our stockholders. There can be no assurance that these tenants have sufficient assets, income and access to financing to enable them to satisfy their obligations under the master leases, and any inability or unwillingness on their part to do so would have a material adverse effect

on our business, financial condition, results of operations and liquidity, on our ability to service our indebtedness and other obligations and on our ability to pay dividends to our stockholders, as required for us to qualify, and maintain our status, as a REIT. We also cannot assure you that these tenants will elect to renew their lease arrangements with us upon expiration of the initial base terms or any renewal terms thereof or, if such leases are not renewed, that we can reposition the affected properties on the same or better terms. See “Risk Factors - Risks Related to Our Business - We are dependent on Ensign, Pristine and other healthcare operators to make payments to us under leases, and an event that materially and adversely affects their business, financial position or results of operations could materially and adversely affect our business, financial position or results of operations.”

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Properties by Type:

The following table displays the geographic distribution of our facilities by property type and the related number of beds and units available for occupancy by asset class, as of December 31, 2015. The number of beds or units that are operational may be less than the official licensed capacity.

State	Total(1)		SNFs		Skilled Nursing Campuses			ALFs and ILFs(1)		
	Properties	Beds/Units	Facilities	Beds	Campuses	SNF Beds	ALF Beds	ILF Units	Facilities	Units
CA	18	1,991	14	1,465	2	158	121	24	2	223
TX	27	3,241	22	2,699	1	123	77	20	4	322
AZ	10	1,327	7	799	1	162	100	—	2	266
UT	12	1,305	9	907	1	235	37	—	2	126
CO	6	633	4	380	—	—	—	—	2	253
ID	9	567	5	408	1	45	24	—	3	90
WA	8	754	7	652	—	—	—	—	1	102
NV	3	304	1	92	—	—	—	—	2	212
NE	5	366	3	220	2	105	41	—	—	—
IA	5	356	3	185	2	109	62	—	—	—
MN	1	28	—	—	—	—	—	—	1	28
VA	1	39	—	—	—	—	—	—	1	39
GA	1	105	1	105	—	—	—	—	—	—
FL	2	134	—	—	—	—	—	—	2	134
OH	14	1,258	11	870	3	232	100	56	—	—
Total	122	12,408	87	8,782	13	1,169	562	100	22	1,795

(1) ALFs and ILFs include ALFs or ILFs, or a combination of the two, operated by our tenants and three ILFs operated by us.

Occupancy by Property Type:

The following table displays occupancy by property type for each of the years ended December 31, 2015, 2014 and 2013. Percentage occupancy in the below table is computed by dividing the average daily number of beds occupied by the total number of beds available for use during the periods indicated (beds of acquired facilities are included in the computation following the date of acquisition only).

Property Type	Year Ended December 31,			
	2015	2014	2013	
Facilities Leased to Tenants:				
SNFs	77%(1)	75%(1)	75	%
Skilled Nursing Campuses	76%(1)	75%(1)	77	%
ALFs and ILFs	85%(1)	85%(1)	83	%
Facilities Operated by CareTrust:				
ILFs	76	%82	%73	%

(1) Financial data were derived solely from information provided by our tenants without independent verification by us. The facility financial performance data is presented one quarter in arrears.

Property Type - Rental Income:

The following tables display the annual rental income and total beds/units for each property type leased to third-party tenants for the years ended December 31, 2015 and 2014.

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Property Type	For the Year Ended December 31, 2015		
	Rental Income (in thousands)	Percent of Total	Total Beds/ Units
SNFs	\$48,998	74	% 8,782
Skilled Nursing Campuses	8,090	12	% 1,831
ALFs and ILFs	8,891	14	% 1,531
Total	\$65,979	100	% 12,144

Property Type	For the Year Ended December 31, 2014		
	Rental Income (in thousands)(1)	Percent of Total	Total Beds/ Units
SNFs	\$38,918	75	% 7,438
Skilled Nursing Campuses	7,493	15	% 1,443
ALFs and ILFs	4,956	10	% 1,411
Total	\$51,367	100	% 10,292

(1) Does not reflect the full amount of rental income from subsidiaries of Ensign that is payable pursuant to the Ensign Master Leases.

Geographic Concentration - Rental Income:

The following table displays the geographic distribution of annual rental income for properties leased to third-party tenants for the years ended December 31, 2015 and 2014.

State	For the Year Ended December 31, 2015		For the Year Ended December 31, 2014		
	Rental Income (in thousands)	Percent of Total	Rental Income (in thousands)(1)	Percent of Total	
CA	\$ 15,384	23	% \$ 12,952	25	%
TX	14,057	21	% 13,099	25	%
AZ	8,633	13	% 7,510	15	%
UT	5,738	9	% 6,004	12	%
CO	3,819	6	% 1,944	4	%
ID	3,827	6	% 2,557	5	%
WA	4,282	6	% 2,958	6	%
NV	983	2	% 1,233	2	%
NE	1,328	2	% 1,460	3	%
IA	1,605	2	% 1,628	3	%
MN	594	1	% 22	—	
VA	562	1	% —	—	
GA	400	1	% —	—	
FL	511	1	% —	—	
OH	4,256	6	% —	—	
Total	\$65,979	100	% \$51,367	100	%

(1) Does not reflect the full amount of rental income from subsidiaries of Ensign that is payable pursuant to the Ensign Master Leases.

ILFs Operated by CareTrust:

The following table displays the geographic distribution of ILFs operated by CareTrust and the related number of operational units available for occupancy as of December 31, 2015. The following table also displays the average

monthly revenue per occupied unit for the years ended December 31, 2015 and 2014.

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State	Facilities	Units	For the Year Ended	For the Year Ended
			December 31, 2015	December 31, 2014
			Average Monthly	Average Monthly
			Revenue Per	Revenue Per
			Occupied Unit(1)	Occupied Unit(1)
TX	2	207	\$1,176	\$1,141
UT	1	57	1,309	1,276
Total	3	264	1,213	1,180

(1) Average monthly revenue per occupied unit is equivalent to average effective rent per unit, as we do not offer tenants free rent or other concessions.

We view our ownership and operation of the three ILFs as complementary to our real estate business. Our goal is to provide enhanced focus on their operations to improve their financial and operating performance. The three ILFs that we own and operate as of December 31, 2015 are:

- Lakeland Hills Independent Living, located in Dallas, Texas, with 168 units;
- The Cottages at Golden Acres, located in Dallas, Texas, with 39 units; and
- The Apartments at St. Joseph Villa, located in Salt Lake City, Utah, with 57 units.

Investment and Financing Policies

Our investment objectives are to increase cash flow, provide quarterly cash dividends, maximize the value of our properties and acquire properties with cash flow growth potential. We intend to invest primarily in SNFs and seniors housing, including ALFs and ILFs, as well as medical office buildings, long-term acute care hospitals and inpatient rehabilitation facilities. Our properties are located in 15 states and we intend to continue to acquire properties in other states throughout the United States. Although our portfolio currently consists primarily of owned real property, future investments may include first mortgages, mezzanine debt and other securities issued by, or joint ventures with, REITs or other entities that own real estate consistent with our investment objectives.

Our Competitive Strengths

We believe that our ability to acquire, integrate and improve facilities is a direct result of the following key competitive strengths:

Geographically Diverse Property Portfolio. Our properties are located in 15 different states, with concentrations in Texas and California. The properties in any one state do not account for more than 26% of our total beds and units as of December 31, 2015. We believe this geographic diversification will limit the effect of changes in any one market on our overall performance.

Long-Term, Triple-Net Lease Structure. All of our properties (except for the three ILFs that we own and operate) are leased to our tenants under long-term, triple-net leases, pursuant to which the operators are responsible for all facility maintenance and repair, insurance required in connection with the leased properties and the business conducted on the leased properties, taxes levied on or with respect to the leased properties and all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties.

Financially Secure Primary Tenant. Ensign is an established provider of healthcare services with strong financial performance and accounted for 81% of our 2015 revenues, exclusive of tenant reimbursements. Ensign is subject to the reporting requirements of the SEC and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. Ensign's publicly available filings can be found at the SEC's website at www.sec.gov.

Ability to Identify Talented Operators. As a result of our management team's operating experience and network of relationships and insight, we believe that we are able to identify and pursue working relationships with qualified local, regional and national healthcare providers and seniors housing operators. We expect to continue our disciplined focus on pursuing investment opportunities, primarily with respect to stabilized assets but also some strategic investment in improving properties, while seeking dedicated and engaged operators who possess local market knowledge, have solid operating records and emphasize quality services and outcomes. We intend to support these operators by providing

strategic capital for facility acquisition, upkeep and modernization. Our management team's experience gives us a key competitive advantage in objectively evaluating an operator's financial position, care and service programs, operating efficiencies and likely business prospects.

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Experienced Management Team. Gregory K. Stapley, our President and Chief Executive Officer, has extensive experience in the real estate and healthcare industries. Mr. Stapley has more than 29 years of experience in the acquisition, development and disposition of real estate including healthcare facilities and office, retail and industrial properties, including 14 years at Ensign. Our Chief Financial Officer, William M. Wagner, has more than 23 years of accounting and finance experience, primarily in real estate, including 11 years of experience working extensively for REITs. Most notably he worked for both Nationwide Health Properties, Inc., a healthcare REIT, and Sunstone Hotel Investors, Inc., a lodging REIT, serving as Senior Vice President and Chief Accounting Officer of each company. David M. Sedgwick, our Vice President of Operations, is a licensed nursing home administrator with more than 12 years of experience in skilled nursing operations, including turnaround operations, and trained over 100 Ensign nursing home administrators while he was Ensign's Chief Human Capital Officer. Our executives have years of public company experience, including experience accessing both debt and equity capital markets to fund growth and maintain a flexible capital structure.

Flexible UPREIT Structure. We operate through an umbrella partnership, commonly referred to as an UPREIT structure, in which substantially all of our properties and assets are held through the Operating Partnership. Conducting business through the Operating Partnership will allow us flexibility in the manner in which we structure the acquisition of properties. In particular, an UPREIT structure enables us to acquire additional properties from sellers in exchange for limited partnership units, which provides property owners the opportunity to defer the tax consequences that would otherwise arise from a sale of their real properties and other assets to us. As a result, this structure allows us to acquire assets in a more efficient manner and may allow us to acquire assets that the owner would otherwise be unwilling to sell because of tax considerations.

Business Strategies

Our primary goal is to create long-term stockholder value through the payment of consistent cash dividends and the growth of our asset base. To achieve this goal, we intend to pursue a business strategy focused on opportunistic acquisitions and property diversification. We also intend to further develop our relationships with tenants and healthcare providers with a goal to progressively expand the mixture of tenants managing and operating our properties.

The key components of our business strategies include:

Diversify Asset Portfolio. We diversify through the acquisition of new and existing facilities from third parties and the expansion and upgrade of current facilities. We employ what we believe to be a disciplined, opportunistic acquisition strategy with a focus on the acquisition of skilled nursing, assisted living and independent living facilities, as well as medical office buildings, long-term acute care hospitals and inpatient rehabilitation facilities. As we acquire additional properties, we expect to further diversify by geography, asset class and tenant within the healthcare and healthcare-related sectors.

Maintain Balance Sheet Strength and Liquidity. We maintain a capital structure that provides the resources and flexibility to support the growth of our business. We intend to maintain a mix of credit facility debt, mortgage debt and unsecured debt which, together with our anticipated ability to complete future equity financings, we expect will fund the growth of our property portfolio.

Develop New Tenant Relationships. We cultivate new relationships with tenants and healthcare providers in order to expand the mix of tenants operating our properties and, in doing so, to reduce our dependence on Ensign. We expect that this objective will be achieved over time as part of our overall strategy to acquire new properties and further diversify our portfolio of healthcare properties.

Provide Capital to Underserved Operators. We believe there is a significant opportunity to be a capital source to healthcare operators, through the acquisition and leasing of healthcare properties to them that are consistent with our investment and financing strategy at appropriate risk-adjusted rates of returns, which, due to size and other considerations, are not a focus for larger healthcare REITs. We pursue acquisitions and strategic opportunities that meet our investing and financing strategy and that are attractively priced, including funding development of properties through preferred equity or construction loans and thereafter entering into sale and leaseback arrangements with such developers as well as other secured term financing and mezzanine lending. We utilize our management team's

operating experience, network of relationships and industry insight to identify both large and small quality operators in need of capital funding for future growth. In appropriate circumstances, we may negotiate with operators to acquire individual healthcare properties from those operators and then lease those properties back to the operators pursuant to long-term triple-net leases.

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

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Pursue Strategic Development Opportunities. We work with operators and developers to identify strategic development opportunities. These opportunities may involve replacing or renovating facilities that may have become less competitive. We also identify new development opportunities that present attractive risk-adjusted returns. We may provide funding to the developer of a property in conjunction with entering into a sale leaseback transaction or an option to enter into a sale leaseback transaction for the property.

Competition

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

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

Employees

We employ approximately 46 employees (including our executive officers), none of whom is subject to a collective bargaining agreement.

Government Regulation, Licensing and Enforcement

Overview

As operators of healthcare facilities, Ensign and other tenants of our healthcare properties are typically subject to extensive and complex federal, state and local healthcare laws and regulations relating to fraud and abuse practices, government reimbursement, licensure and certificate of need and similar laws governing the operation of healthcare facilities, and we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud, waste and abuse, cost control, healthcare management and provision of services, among others. These regulations are wide-ranging and can subject our tenants to civil, criminal and administrative sanctions. Affected tenants may find it increasingly difficult to comply with this complex and evolving regulatory environment because of a relative lack of guidance in many areas as certain of our healthcare properties are subject to oversight from several government agencies and the laws may vary from one jurisdiction to another. Changes in laws and regulations and reimbursement enforcement activity and regulatory non-compliance by our tenants could have a significant effect on their operations and financial condition, which in turn may adversely affect us, as detailed below and set forth under “Risk Factors - Risks Related to Our Business.”

The following is a discussion of certain laws and regulations generally applicable to operators of our healthcare facilities and, in certain cases, to us.

Fraud and Abuse Enforcement

There are various extremely complex federal and state laws and regulations governing healthcare providers’ relationships and arrangements and prohibiting fraudulent and abusive practices by such providers. These laws include, but are not limited to, (i) federal and state false claims acts, which, among other things, prohibit providers from filing false claims or making false statements to receive payment from Medicare, Medicaid or other federal or state healthcare programs, (ii) federal and state anti-kickback and fee-splitting statutes, including the Medicare and Medicaid anti-kickback statute, which prohibit the payment or receipt of remuneration to induce referrals or recommendations of healthcare items or services, (iii) federal and state physician self-referral laws (commonly referred to as the “Stark Law”), which generally prohibit referrals by physicians to entities with which the physician or

an immediate family member has a financial relationship, (iv) the federal Civil Monetary Penalties Law, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services and (v) federal and state privacy laws, including the privacy and security rules contained in the Health Insurance Portability and

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Accountability Act of 1996, which provide for the privacy and security of personal health information. Violations of healthcare fraud and abuse laws carry civil, criminal and administrative sanctions, including punitive sanctions, monetary penalties, imprisonment, denial of Medicare and Medicaid reimbursement and potential exclusion from Medicare, Medicaid or other federal or state healthcare programs. These laws are enforced by a variety of federal, state and local agencies and can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring qui tam or “whistleblower” actions. Ensign and our other tenants are (and many of our future tenants are expected to be) subject to these laws, and some of them may in the future become the subject of governmental enforcement actions if they fail to comply with applicable laws.

Reimbursement

Sources of revenue for Ensign and our other tenants include (and for our future tenants is expected to include), among other sources, governmental healthcare programs, such as the federal Medicare program and state Medicaid programs, and non-governmental payors, such as insurance carriers and health maintenance organizations. As federal and state governments focus on healthcare reform initiatives, and as the federal government and many states face significant budget deficits, efforts to reduce costs by these payors will likely continue, which may result in reduced or slower growth in reimbursement for certain services provided by Ensign and some of our other tenants.

Healthcare Licensure and Certificate of Need

Our healthcare facilities are subject to extensive federal, state and local licensure, certification and inspection laws and regulations. In addition, various licenses and permits are required to dispense narcotics, operate pharmacies, handle radioactive materials and operate equipment. Many states require certain healthcare providers to obtain a certificate of need, which requires prior approval for the construction, expansion and closure of certain healthcare facilities. The approval process related to state certificate of need laws may impact some of our tenants’ abilities to expand or change their businesses.

Americans with Disabilities Act (the “ADA”)

Although most of our properties are not required to comply with the ADA because of certain “grandfather” provisions in the law, some of our properties must comply with the ADA and similar state or local laws to the extent that such properties are “public accommodations,” as defined in those statutes. These laws may require removal of barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. Under our triple-net lease structure, our tenants would generally be responsible for additional costs that may be required to make our facilities ADA-compliant. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants.

Environmental Matters

A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect healthcare facility operations. These complex federal and state statutes, and their enforcement, involve a myriad of regulations, many of which involve strict liability on the part of the potential offender. Some of these federal and state statutes may directly impact us. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property, such as us, may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The cost of any required remediation, removal, fines or personal or property damages and the owner’s liability therefore could exceed or impair the value of the property and/or the assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner’s ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenues. See “Risk Factors - Risks Related to Our Business - Environmental compliance costs and liabilities associated with real estate properties owned by us may materially impair the value of those investments.”

Compliance Process

As an operator of healthcare facilities, Ensign has a program to help it comply with various requirements of federal and private healthcare programs. In October 2013, Ensign entered into a corporate integrity agreement (the “CIA”) with the Office of the Inspector General of the U.S. Department of Health and Human Services. The CIA requires, among

other things, that Ensign and its subsidiaries maintain a corporate compliance program to help comply with various requirements of federal and private healthcare programs. Although we are no longer a subsidiary of Ensign, we are subject to certain continuing obligations under Ensign's compliance program, including certain training in Medicare and Medicaid laws for our employees, as required by the CIA.

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REIT Qualification

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. Our qualification as a REIT will depend upon our ability to meet, on a continuing basis, various complex requirements under the Internal Revenue Code of 1986, as amended (the “Code”), relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels to our stockholders and the concentration of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification and taxation as a REIT under the Code and that our manner of operation has and will enable us to meet the requirements for qualification and taxation as a REIT.

The Operating Partnership

We own substantially all of our assets and properties and conduct our operations through the Operating Partnership. We believe that conducting business through the Operating Partnership provides flexibility with respect to the manner in which we structure the acquisition of properties. In particular, an UPREIT structure enables us to acquire additional properties from sellers in tax deferred transactions. In these transactions, the seller would typically contribute its assets to the Operating Partnership in exchange for units of limited partnership interest in the Operating Partnership (“OP Units”). Holders of OP Units will have the right, after a 12-month holding period, to require the Operating Partnership to redeem any or all of such OP Units for cash based upon the fair market value of an equivalent number of shares of CareTrust’s common stock at the time of the redemption. Alternatively, we may elect to acquire those OP Units in exchange for shares of our common stock on a one-for-one basis. The number of shares of common stock used to determine the redemption value of OP Units, and the number of shares issuable in exchange for OP Units, is subject to adjustment in the event of stock splits, stock dividends, distributions of warrants or stock rights, specified extraordinary distributions and similar events. The Operating Partnership is managed by our wholly owned subsidiary, CareTrust GP, LLC, which is the sole general partner of the Operating Partnership and owns one percent of its outstanding partnership interests. As of December 31, 2015, CareTrust is the only limited partner of the Operating Partnership, owning 99% of its outstanding partnership interests, and we have not issued OP Units to any other party.

The benefits of our UPREIT structure include the following:

Access to capital. We believe the UPREIT structure provides us with access to capital for refinancing and growth.

Because an UPREIT structure includes a partnership as well as a corporation, we can access the markets through the Operating Partnership issuing equity or debt as well as the corporation issuing capital stock or debt securities. Sources of capital include possible future issuances of debt or equity through public offerings or private placements.

Growth. The UPREIT structure allows stockholders, through their ownership of common stock, and the limited partners, through their ownership of OP Units, an opportunity to participate in future investments we may make in additional properties.

Tax deferral. The UPREIT structure provides property owners who transfer their real properties to the Operating Partnership in exchange for OP Units the opportunity to defer the tax consequences that otherwise would arise from a sale of their real properties and other assets to us or to a third party. As a result, this structure allows us to acquire assets in a more efficient manner and may allow us to acquire assets that the owner would otherwise be unwilling to sell because of tax considerations.

Insurance

We maintain, or require in our leases, including the Ensign Master Leases, that our tenants maintain all applicable lines of insurance on our properties and their operations. The amount and scope of insurance coverage provided by our policies and the policies maintained by our tenants is customary for similarly situated companies in our industry. However, we cannot assure you that our tenants will maintain the required insurance coverages, and the failure by any of them to do so could have a material adverse effect on us. We also cannot assure you that we will continue to require the same levels of insurance coverage under our leases, including the Ensign Master Leases, that such insurance will be available at a reasonable cost in the future or that the insurance coverage provided will fully cover all losses on our properties upon the occurrence of a catastrophic event, nor can we assure you of the future financial viability of the insurers.

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ITEM 1A. Risk Factors

Risks Related to Our Business

We are dependent on Ensign, Pristine and other healthcare operators to make payments to us under leases, and an event that materially and adversely affects their business, financial position or results of operations could materially and adversely affect our business, financial position or results of operations.

Following the acquisitions on February 1, 2016, Ensign represents \$56.0 million, or 64%, and Pristine represents \$17.0 million, or 20%, of our revenues, exclusive of tenant reimbursements, on an annualized basis. Additionally, because each master lease is a triple-net lease, we depend on our tenants to pay all insurance, taxes, utilities and maintenance and repair expenses in connection with these leased properties and to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their business. There can be no assurance that Ensign, Pristine or our other tenants will have sufficient assets, income and access to financing to enable them to satisfy their payment obligations under their leases with us. The inability or unwillingness of Ensign or Pristine to meet their rent obligations under their leases could materially adversely affect our business, financial position or results of operations, including our ability to pay dividends to our stockholders as required to maintain our status as a REIT. The inability of Ensign or Pristine to satisfy their other obligations under their leases, such as the payment of insurance, taxes and utilities, could materially and adversely affect the condition of the leased properties as well as their business, financial position and results of operations. For these reasons, if Ensign or Pristine were to experience a material and adverse effect on their businesses, financial position or results of operations, our business, financial position or results of operations could also be materially and adversely affected.

Due to our dependence on rental payments from Ensign and Pristine as our primary source of revenues, we may be limited in our ability to enforce our rights under, or to terminate, their leases. Failure by Ensign or Pristine to comply with the terms of their leases or to comply with the healthcare regulations to which the leased properties are subject could require us to find another lessee for such leased property and there could be a decrease in or cessation of rental payments. In such event, we may be unable to locate a suitable lessee at similar rental rates or at all, which would have the effect of reducing our rental revenues.

Tenants that fail to comply with the requirements of, or changes to, governmental reimbursement programs, such as Medicare or Medicaid, may cease to operate or be unable to meet their financial and other contractual obligations to us.

Ensign and other healthcare operators to which we lease properties are subject to complex federal, state and local laws and regulations relating to governmental healthcare reimbursement programs. See “Business - Government Regulation, Licensing and Enforcement - Overview.” As a result, Ensign and other tenants are subject to the following risks, among others:

- statutory and regulatory changes;
- retroactive rate adjustments;
- recovery of program overpayments or set-offs;
- administrative rulings;
- policy interpretations;
- payment or other delays by fiscal intermediaries or carriers;
- government funding restrictions (at a program level or with respect to specific facilities); and
- interruption or delays in payments due to any ongoing governmental investigations and audits.

Healthcare reimbursement will likely continue to be of significant importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or the effect that any future legislative reforms may have on our tenants’ costs of doing business and on the amount of reimbursement by government and other third-party payors. More generally, and because of the dynamic nature of the legislative and regulatory environment for health care products and services, and in light of existing federal budgetary concerns, we cannot predict the impact that broad-based, far-reaching legislative or regulatory changes could have on the U.S. economy, our business or that of our operators and tenants. The failure of Ensign or any of our other tenants to comply with these laws, requirements and regulations could materially and adversely affect their ability to meet their financial and contractual obligations to us.

Finally, government investigations and enforcement actions brought against the health care industry have increased dramatically over the past several years and are expected to continue. Some of these enforcement actions represent novel legal theories and expansions in the application of the Federal False Claims Act. The costs for an operator of a health care property

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associated with both defending such enforcement actions and the undertakings in settling these actions can be substantial and could have a material adverse effect on the ability of an operator to meet its obligations to us. Tenants that fail to comply with federal, state and local licensure, certification and inspection laws and regulations may cease to operate our healthcare facilities or be unable to meet their financial and other contractual obligations to us.

The healthcare operators to which we lease properties are subject to extensive federal, state, local and industry-related licensure, certification and inspection laws, regulations and standards. Our tenants' failure to comply with any of these laws, regulations or standards could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from federal and state healthcare programs, loss of license or closure of the facility. For example, operations at our properties may require a license, registration, certificate of need, provider agreement or certification. Failure of any tenant to obtain, or the loss of, any required license, registration, certificate of need, provider agreement or certification would prevent a facility from operating in the manner intended by such tenant. Additionally, failure of our tenants to generally comply with applicable laws and regulations could adversely affect facilities owned by us, and therefore could materially and adversely affect us. See "Business - Government Regulation, Licensing and Enforcement - Healthcare Licensure and Certificate of Need."

Our tenants depend on reimbursement from government and other third-party payors; reimbursement rates from such payors may be reduced, which could cause our tenants' revenues to decline and could affect their ability to meet their obligations to us.

The federal government and a number of states are currently managing budget deficits, which may put pressure on Congress and the states to decrease reimbursement rates for our tenants, with the goal of decreasing state expenditures under Medicaid programs. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. These potential reductions could be compounded by the potential for federal cost-cutting efforts that could lead to reductions in reimbursement to our tenants under both the Medicaid and Medicare programs. Potential reductions in Medicaid and Medicare reimbursement to our tenants could reduce the revenues of our tenants and their ability to meet their obligations to us. The bankruptcy, insolvency or financial deterioration of our tenants could delay or prevent our ability to collect unpaid rents or require us to find new tenants.

We receive substantially all of our income as rent payments under leases of our properties. We have no control over the success or failure of our tenants' businesses and, at any time, any of our tenants may experience a downturn in its business that may weaken its financial condition. As a result, our tenants may fail to make rent payments when due or declare bankruptcy. Any tenant failures to make rent payments when due or tenant bankruptcies could result in the termination of the tenant's lease and could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders (which could adversely affect our ability to raise capital or service our indebtedness). This risk is magnified in situations where we lease multiple properties to a single tenant, such as Ensign and Pristine, as a multiple property tenant failure could reduce or eliminate rental revenue from multiple properties.

If tenants are unable to comply with the terms of the leases, we may be forced to modify the leases in ways that are unfavorable to us. Alternatively, the failure of a tenant to perform under a lease could require us to declare a default, repossess the property, find a suitable replacement tenant, hire third-party managers to operate the property or sell the property. There is no assurance that we would be able to lease a property on substantially equivalent or better terms than the prior lease, or at all, find another qualified tenant, successfully reposition the property for other uses or sell the property on terms that are favorable to us. It may be more difficult to find a replacement tenant for a healthcare property than it would be to find a replacement tenant for a general commercial property due to the specialized nature of the business. Even if we are able to find a suitable replacement tenant for a property, transfers of operations of healthcare facilities are subject to regulatory approvals not required for transfers of other types of commercial operations, which may affect our ability to successfully transition a property.

If any lease expires or is terminated, we could be responsible for all of the operating expenses for that property until it is re-leased or sold. If we experience a significant number of un-leased properties, our operating expenses could

increase significantly. Any significant increase in our operating costs may have a material adverse effect on our business, financial condition and results of operations, and our ability to make distributions to our stockholders. If one or more of our tenants files for bankruptcy relief, the U.S. Bankruptcy Code provides that a debtor has the option to assume or reject the unexpired lease within a certain period of time. Any bankruptcy filing by or relating to one of our tenants could bar all efforts by us to collect pre-bankruptcy debts from that tenant or seize its property. A tenant bankruptcy

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could also delay our efforts to collect past due balances under the leases and could ultimately preclude collection of all or a portion of these sums. It is possible that we may recover substantially less than the full value of any unsecured claims we hold, if any, which may have a material adverse effect on our business, financial condition and results of operations, and our ability to make distributions to our stockholders. Furthermore, dealing with a tenant's bankruptcy or other default may divert management's attention and cause us to incur substantial legal and other costs.

The geographic concentration of some of our facilities could leave us vulnerable to an economic downturn, regulatory changes or acts of nature in those areas.

Our properties are located in 15 different states, with concentrations in Texas and California. The properties in these two states accounted for approximately 26% and 16%, respectively, of the total beds and units in our portfolio, as of December 31, 2015 and approximately 21% and 23%, respectively, of our rental income for the year ended December 31, 2015. As a result of this concentration, the conditions of local economies and real estate markets, changes in governmental rules, regulations and reimbursement rates or criteria, changes in demographics, state funding, acts of nature and other factors that may result in a decrease in demand and/or reimbursement for skilled nursing services in these states could have a disproportionately adverse effect on our tenants' revenue, costs and results of operations, which may affect their ability to meet their obligations to us.

Our facilities located in Texas are especially susceptible to natural disasters such as hurricanes, tornadoes and flooding, and our facilities located in California are particularly susceptible to natural disasters such as fires, earthquakes and mudslides. These acts of nature may cause disruption to our tenants, their employees and our facilities, which could have an adverse impact on our tenants' patients and businesses. In order to provide care for their patients, our tenants are dependent on consistent and reliable delivery of food, pharmaceuticals, utilities and other goods to our facilities, and the availability of employees to provide services at the facilities. If the delivery of goods or the ability of employees to reach our facilities were interrupted in any material respect due to a natural disaster or other reasons, it would have a significant impact on our facilities and our tenants' businesses at those facilities. Furthermore, the impact, or impending threat, of a natural disaster may require that our tenants evacuate one or more facilities, which would be costly and would involve risks, including potentially fatal risks, for their patients. The impact of disasters and similar events is inherently uncertain. Such events could harm our tenants' patients and employees, severely damage or destroy one or more of our facilities, harm our tenants' business, reputation and financial performance, or otherwise cause our tenants' businesses to suffer in ways that we currently cannot predict. We pursue acquisitions of additional properties and seek other strategic opportunities in the ordinary course of our business, which may result in the use of a significant amount of management resources or significant costs, and we may not fully realize the potential benefits of such transactions.

We pursue acquisitions of additional properties and seek acquisitions and other strategic opportunities in the ordinary course of our business. Accordingly, we are often engaged in evaluating potential transactions and other strategic alternatives. In addition, from time to time, we engage in discussions that may result in one or more transactions. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transaction, we may devote a significant amount of our management resources to such a transaction, which could negatively impact our operations. We may incur significant costs in connection with seeking acquisitions or other strategic opportunities regardless of whether the transaction is completed and in combining our operations if such a transaction is completed. In the event that we consummate an acquisition or strategic alternative in the future, there is no assurance that we would fully realize the potential benefits of such a transaction.

We operate in a highly competitive industry and face competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders and other investors, some of whom are significantly larger and have greater resources and lower costs of capital. Increased competition will make it more challenging to identify and successfully capitalize on acquisition opportunities that meet our investment objectives. If we cannot identify and purchase a sufficient quantity of suitable properties at favorable prices or if we are unable to finance acquisitions on commercially favorable terms, our business, financial position or results of operations could be materially and adversely affected. Additionally, the fact that we must distribute 90% of our REIT taxable income in order to maintain our qualification as a REIT may limit our ability to rely upon rental payments from our leased

properties or subsequently acquired properties in order to finance acquisitions. As a result, if debt or equity financing is not available on acceptable terms, further acquisitions might be limited or curtailed. Transactions involving properties we might seek to acquire entail risks associated with real estate investments generally, including that the investment's performance will fail to meet expectations or that the tenant, operator or manager will underperform.

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

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

We may be required to incur substantial renovation costs to make certain of our healthcare properties suitable for other operators and tenants.

Healthcare facilities are typically highly customized and may not be easily adapted to non-healthcare-related uses. The improvements generally required to conform a property to healthcare use, such as upgrading electrical, gas and plumbing infrastructure, are costly and at times tenant-specific. A new or replacement tenant to operate one or more of our healthcare facilities may require different features in a property, depending on that tenant's particular operations. If a current tenant is unable to pay rent and vacates a property, we may incur substantial expenditures to modify a property before we are able to secure another tenant. Also, if the property needs to be renovated to accommodate multiple tenants, we may incur substantial expenditures before we are able to release the space. These expenditures or renovations could materially and adversely affect our business, financial condition or results of operations.

We may not be able to sell properties when we desire because real estate investments are relatively illiquid, which could materially and adversely affect our business, financial position or results of operations.

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

An increase in market interest rates could increase our interest costs on existing and future debt and could adversely affect our stock price.

If interest rates increase, so could our interest costs for any new debt and our variable rate debt obligations under our unsecured revolving credit facility and unsecured term loan (the "Credit Facility"). This increased cost could make the financing of any acquisition more costly, as well as lower our current period earnings. Rising interest rates could limit our ability to refinance existing debt when it matures or cause us to pay higher interest rates upon refinancing. In addition, an increase in interest rates could decrease the access third parties have to credit, thereby decreasing the amount they are willing to pay for our assets and consequently limiting our ability to reposition our portfolio promptly in response to changes in economic or other conditions. Further, the dividend yield on our common stock, as a percentage of the price of such common stock, will influence the price of such common stock. Thus, an increase in market interest rates may lead prospective purchasers of our common stock to expect a higher dividend yield, which could adversely affect the market price of our common stock.

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

Our success depends in large part upon the leadership and performance of our executive management team, particularly Gregory K. Stapley and other key employees. If we lose the services of Mr. Stapley or any of our other key employees, we may not be able to successfully manage our business or achieve our business objectives.

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

Our lease agreements with operators (including the Ensign Master Leases) require that the tenant maintain comprehensive liability and hazard insurance, and we maintain customary insurance for the ILFs that we own and operate. However, there are certain types of losses (including, but not limited to, losses arising from environmental conditions or of a catastrophic nature, such as earthquakes, hurricanes and floods) that may be uninsurable or not economically insurable. Insurance coverage may not be sufficient to pay the full current market value or current replacement cost of a loss. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it infeasible to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to restore the economic position with respect to such property.

If one of our properties experiences a loss that is uninsured or that exceeds policy coverage limits, we could lose the capital invested in the damaged property as well as the anticipated future cash flows from the property. If the damaged property is subject to recourse indebtedness, we could continue to be liable for the indebtedness even if the property is irreparably damaged.

In addition, even if damage to our properties is covered by insurance, a disruption of business caused by a casualty event may result in loss of revenue for our tenants or us. Any business interruption insurance may not fully compensate them or us for such loss of revenue. If one of our tenants experiences such a loss, it may be unable to satisfy its payment obligations to us under its lease with us.

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

Under various federal, state and local laws, ordinances and regulations, as a current or previous owner of real estate, we may be required to investigate and clean up certain hazardous or toxic substances or petroleum released at a property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by the third parties in connection with the contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and the costs it incurs in connection with the contamination. Neither we nor our tenants carry environmental insurance on our properties.

Although we generally require our tenants, as operators of our healthcare properties, to indemnify us for environmental liabilities they cause, such liabilities could exceed the financial ability of the tenant to indemnify us or the value of the contaminated property. The presence of contamination or the failure to remediate contamination may materially adversely affect our ability to sell or lease the real estate or to borrow using the real estate as collateral. As the owner of a site, we may also be held liable to third parties for damages and injuries resulting from environmental contamination emanating from the site. Although we will be generally indemnified by our tenants for contamination caused by them, these indemnities may not adequately cover all environmental costs. We may also experience environmental liabilities arising from conditions not known to us.

The impact of healthcare reform legislation on us and our tenants cannot accurately be predicted.

Ensign and other healthcare operators to which we lease properties are dependent on the healthcare industry and may be susceptible to the risks associated with healthcare reform. Because all of our properties are used as healthcare properties, we are impacted by the risks associated with healthcare reform. Legislative proposals are introduced or proposed in Congress and in some state legislatures each year that would effect major changes in the healthcare system, either nationally or at the state level. We cannot accurately predict whether any future legislative proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our tenants and, thus, our business. Notably, in March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act"). The passage of the Affordable Care Act has resulted in comprehensive reform legislation that has expanded healthcare coverage to millions of uninsured people and provides for significant changes to the U.S. healthcare system over the next several years. These new laws include a large number of health-related provisions, including expanding Medicaid eligibility, requiring most individuals to have health insurance, establishing new regulations on health plans, establishing health

insurance exchanges, and modifying certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste, including through new tools to address fraud and abuse. To help fund this expansion, the Affordable Care Act outlines certain reductions in Medicare reimbursements for various healthcare providers, including long-term acute care hospitals and SNFs, as well as certain other changes to Medicare payment methodologies. This comprehensive healthcare legislation provides for extensive future rulemaking by regulatory authorities, and also may be altered or amended. While we can anticipate that some of the rulemaking

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that will be promulgated by regulatory authorities will affect our tenants and the manner in which they are reimbursed by the federal healthcare programs, we cannot accurately predict today the impact of those regulations on our tenants and, thus, on our business.

The Supreme Court's decision upholding the constitutionality of the individual mandate while striking down the provisions linking federal funding of state Medicaid programs with a federally mandated expansion of those programs has not reduced the uncertain impact that the law will have on healthcare delivery systems over the next decade. We can expect that the federal authorities will continue to implement the law, but, because of the Supreme Court's mixed ruling, the implementation will take longer than originally expected, with a commensurate increase in the period of uncertainty regarding the law's full long term financial impact on the delivery of and payment for healthcare.

Other legislative changes have been proposed and adopted since the Affordable Care Act was enacted, which also may impact our business. For instance, on April 1, 2014, the President signed the Protecting Access to Medicare Act of 2014, which, among other things, requires the Centers for Medicare & Medicaid Services ("CMS") to measure, track, and publish readmission rates of SNFs by 2017 and implement a value-based purchasing program for SNFs (the "SNF VBP Program") by October 1, 2018. The SNF VBP Program will increase Medicare reimbursement rates for SNFs that achieve certain levels of quality performance measures to be developed by CMS, relative to other facilities. The value-based payments authorized by the SNF VBP Program will be funded by reducing Medicare payment for all SNFs by 2% and redistributing up to 70% of those funds to high-performing SNFs. If Medicare reimbursement provided to our healthcare tenants is reduced under the SNF VBP Program, that reduction may have an adverse impact on the ability of our tenants to meet their obligations to us.

If the Spin-Off were to fail to qualify as a tax-free transaction for U.S. federal income tax purposes, Ensign and CareTrust could be subject to significant tax liabilities and, in certain circumstances, we could be required to indemnify Ensign for material taxes pursuant to indemnification obligations under the Tax Matters Agreement that we entered into with Ensign.

Ensign has received from the Internal Revenue Service (the "IRS") a private letter ruling (the "IRS Ruling"), which provides substantially to the effect that, on the basis of certain facts presented and representations and assumptions set forth in the request submitted to the IRS, the Spin-Off will qualify as tax-free under Sections 368(a)(1)(D) and 355 of the Code. The IRS Ruling does not address certain requirements for tax-free treatment of the Spin-Off under Section 355 of the Code, and Ensign received a tax opinion from its tax advisors, substantially to the effect that, with respect to such requirements on which the IRS will not rule, such requirements have been satisfied. The IRS Ruling, and the tax opinion that Ensign received from its tax advisors, rely on, among other things, certain facts, representations, assumptions and undertakings, including those relating to the past and future conduct of our and Ensign's businesses, and the IRS Ruling and the tax opinion would not be valid if such facts, representations, assumptions and undertakings were incorrect in any material respect. Notwithstanding the IRS Ruling and the tax opinion, the IRS could determine the Spin-Off should be treated as a taxable transaction for U.S. federal income tax purposes if it determines any of the facts, representations, assumptions or undertakings that were included in the request for the IRS Ruling are false or have been violated or if it disagrees with the conclusions in the opinions that are not covered by the IRS Ruling.

If the Spin-Off ultimately is determined to be taxable, Ensign would recognize taxable gain in an amount equal to the excess, if any, of the fair market value of the shares of our common stock held by Ensign on the distribution date over Ensign's tax basis in such shares. Such taxable gain and resulting tax liability would be substantial.

In addition, under the terms of the Tax Matters Agreement that we entered into with Ensign (the "Tax Matters Agreement"), we generally are responsible for any taxes imposed on Ensign that arise from the failure of the Spin-Off to qualify as tax-free for U.S. federal income tax purposes, within the meaning of Sections 368(a)(1)(D) and 355 of the Code, to the extent such failure to qualify is attributable to certain actions, events or transactions relating to our stock, assets or business, or a breach of the relevant representations or any covenants made by us in the Tax Matters Agreement, the materials submitted to the IRS in connection with the request for the IRS Ruling or the representation letter provided in connection with the tax opinion relating to the Spin-Off. Our indemnification obligations to Ensign and its subsidiaries, officers and directors are not limited by any maximum amount. If we are required to indemnify Ensign under the circumstance set forth in the Tax Matters Agreement, we may be subject to substantial tax liabilities.

We may not be able to engage in desirable strategic transactions and equity issuances because of certain restrictions relating to requirements for tax-free distributions for U.S. federal income tax purposes. In addition, we could be liable for adverse tax consequences resulting from engaging in significant strategic or capital-raising transactions.

Our ability to engage in significant strategic transactions and equity issuances may be limited or restricted in order to preserve, for U.S. federal income tax purposes, the tax-free nature of the Spin-Off.

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Even if the Spin-Off otherwise qualifies for tax-free treatment under Sections 368(a)(1)(D) and 355 of the Code, it may result in corporate level taxable gain to Ensign under Section 355(e) of the Code if 50% or more, by vote or value, of shares of our stock or Ensign's stock are acquired or issued as part of a plan or series of related transactions that includes the Spin-Off. The process for determining whether an acquisition or issuance triggering these provisions has occurred is complex, inherently factual and subject to interpretation of the facts and circumstances of a particular case. Any acquisitions or issuances of our stock or Ensign stock within a two-year period after the Spin-Off generally are presumed to be part of such a plan, although we or Ensign, as applicable, may be able to rebut that presumption. Under the Tax Matters Agreement that we entered into with Ensign, we also are generally responsible for any taxes imposed on Ensign that arise from the failure of the Spin-Off to qualify as tax-free for U.S. federal income tax purposes, within the meaning of Sections 368(a)(1)(D) and 355 of the Code, to the extent such failure to qualify is attributable to actions, events or transactions relating to our stock, assets or business, or a breach of the relevant representations or any covenants made by us in the Tax Matters Agreement, the materials submitted to the IRS in connection with the request for the IRS Ruling or the representation letter provided to counsel in connection with the tax opinion.

Our agreements with Ensign may not reflect terms that would have resulted from arm's-length negotiations with unaffiliated third parties.

The agreements related to the Spin-Off, including the Separation and Distribution Agreement, the Ensign Master Leases, the Opportunities Agreement (the "Opportunities Agreement"), the Tax Matters Agreement, the Transition Services Agreement and the Employee Matters Agreement (the "Employee Matters Agreement") we entered into with Ensign, were negotiated in the context of the Spin-Off while we were still a wholly owned subsidiary of Ensign. As a result, although those agreements are intended to reflect arm's-length terms, they may not reflect terms that would have resulted from arm's-length negotiations between unaffiliated third parties. Conversely, certain agreements related to the Spin-Off may include terms that are more favorable than those that would have resulted from arm's-length negotiations among unaffiliated third parties. Following expiration of those agreements, we may have to enter into new agreements with unaffiliated third parties, and such agreements may include terms that are less favorable to us. The terms of the agreements negotiated in the context of the Spin-Off concern, among other things, divisions and allocations of assets and liabilities and rights and obligations, between Ensign and us.

The ownership by our chief executive officer, Gregory K. Stapley, of shares of Ensign common stock may create, or may create the appearance of, conflicts of interest.

Because of his former position with Ensign, our chief executive officer, Gregory K. Stapley, owns shares of Ensign common stock. Mr. Stapley also owns shares of our common stock. His individual holdings of shares of our common stock and Ensign common stock may be significant compared to his respective total assets. These equity interests may create, or appear to create, conflicts of interest when he is faced with decisions that may not benefit or affect CareTrust and Ensign in the same manner.

Our potential indemnification liabilities pursuant to the Separation and Distribution Agreement could materially and adversely affect us.

The Separation and Distribution Agreement between us and Ensign includes, among other things, provisions governing the relationship between us and Ensign after the Spin-Off. Among other things, the Separation and Distribution Agreement provides for indemnification obligations designed to make us financially responsible for substantially all liabilities that may exist relating to or arising out of our business. If we are required to indemnify Ensign under the circumstances set forth in the Separation and Distribution Agreement, we may be subject to substantial liabilities.

In connection with the Spin-Off, Ensign agreed to indemnify us for certain liabilities. However, there can be no assurance that these indemnities will be sufficient to insure us against the full amount of such liabilities, or that Ensign's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the Separation and Distribution Agreement, the Tax Matters Agreement and other agreements we entered into in connection with the Spin-Off, Ensign agreed to indemnify us for certain liabilities. However, third parties could seek to hold us responsible for any of the liabilities that Ensign agreed to retain pursuant to these agreements, and there can be no assurance that Ensign will be able to fully satisfy its indemnification obligations under these

agreements. Moreover, even if we ultimately succeed in recovering from Ensign any amounts for which we are held liable, we may be temporarily required to bear these losses while seeking recovery from Ensign.

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The Spin-Off may expose us to potential liabilities arising out of state and federal fraudulent conveyance laws. The Spin-Off and related transactions, including the special dividend paid on December 10, 2014 (the “Special Dividend”), are subject to review under various state and federal fraudulent conveyance laws. Under U.S. federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which vary from state to state, the Spin-Off or any of the related transactions could be voided as a fraudulent transfer or conveyance if Ensign (a) distributed property with the intent of hindering, delaying or defrauding creditors or (b) received less than reasonably equivalent value or fair consideration in return for such distribution, and one of the following is also true at the time thereof: (1) Ensign was insolvent or rendered insolvent by reason of the Spin-Off or any related transaction, (2) the Spin-Off or any related transaction left Ensign with an unreasonably small amount of capital or assets to carry on the business, or (3) Ensign intended to, or believed that, it would incur debts beyond its ability to pay as they mature.

As a general matter, value is given under U.S. law for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or a valid antecedent debt is secured or satisfied. A debtor will generally not be considered to have received value under U.S. law in connection with a distribution to its stockholders.

We cannot be certain as to the standards a U.S. court would use to determine whether or not Ensign was insolvent at the relevant time. In general, however, a U.S. court would deem an entity insolvent if: (1) the sum of its debts, including contingent and unliquidated liabilities, was greater than the value of its assets, at a fair valuation; (2) the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or (3) it could not pay its debts as they became due.

If a U.S. court were to find that the Spin-Off was a fraudulent transfer or conveyance, a court could void the Spin-Off, require stockholders to return to Ensign some or all of the shares of common stock distributed in the Spin-Off or require stockholders to pay as money damages an equivalent of the value of the shares of common stock at the time of the Spin-Off. If a U.S. court were to find that the Special Dividend was a fraudulent transfer or conveyance, a court could void the Special Dividend, require stockholders to return to us some or all of the Special Dividend or require stockholders to pay as money damages an equivalent of the value of the Special Dividend. Moreover, stockholders could be required to return any dividends previously paid by us. With respect to any transfers from Ensign to us, if any such transfer was found to be a fraudulent transfer, a court could void the transaction or Ensign could be awarded monetary damages for the difference between the consideration received by Ensign and the fair market value of the transferred property at the time of the Spin-Off.

We are subject to certain continuing operational obligations pursuant to Ensign’s 2013 Corporate Integrity Agreement. As part of compliance with various requirements of federal and private healthcare programs, Ensign and its subsidiaries are required to maintain a corporate compliance program pursuant to a corporate integrity agreement that Ensign entered into in October 2013 with the Office of the Inspector General of the U.S. Department of Health and Human Services. Although we are no longer a subsidiary of Ensign, we are subject to certain continuing operational obligations as part of Ensign’s compliance program pursuant to the CIA, including certain training in Medicare and Medicaid laws for our employees. Failure to timely comply with the applicable terms of the CIA could result in substantial civil or criminal penalties, which could adversely affect our financial condition and results of operations.

Risks Related to Our Status as a REIT

If we do not qualify to be taxed as a REIT, or fail to remain qualified as a REIT, we will be subject to U.S. federal income tax as a regular corporation and could face a substantial tax liability, which could adversely affect our ability to raise capital or service our indebtedness.

We currently operate, and intend to continue to operate, in a manner that will allow us to continue to qualify to be taxed as a REIT for U.S. federal income tax purposes. We have elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. We received an opinion of our counsel with respect to our qualification as a REIT in connection with the Spin-Off. Investors should be aware, however, that opinions of advisors are not binding on the IRS or any court. The opinion of our counsel represents only the view of our counsel based on its review and analysis of existing law and on certain representations as to factual matters and

covenants made by us, including representations relating to the values of our assets and the sources of our income. The opinion is expressed as of the date issued. Our counsel has no obligation to advise us or the holders of any of our securities of any subsequent change in the matters stated, represented or assumed or of any subsequent change in applicable law. Furthermore, both the validity of the opinion of our counsel and our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis, the results of which will not be monitored by

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our counsel. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals.

If we were to fail to qualify to be taxed as a REIT in any taxable year, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of our common stock. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year in which we failed to qualify to be taxed as a REIT, which could adversely affect our financial condition and results of operations.

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to qualify to be taxed as a REIT may depend in part on the actions of third parties over which we have no control or only limited influence.

Legislative or other actions affecting REITs could have a negative effect on us.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury (the "Treasury"). Changes to the tax laws or interpretations thereof, with or without retroactive application, could materially and adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify to be taxed as a REIT or the U.S. federal income tax consequences to our investors and us of such qualification.

We could fail to qualify to be taxed as a REIT if income we receive from our tenants is not treated as qualifying income.

Under applicable provisions of the Code, we will not be treated as a REIT unless we satisfy various requirements, including requirements relating to the sources of our gross income. Rents received or accrued by us from our tenants will not be treated as qualifying rent for purposes of these requirements if the leases are not respected as true leases for U.S. federal income tax purposes and are instead treated as service contracts, joint ventures or some other type of arrangement. If the leases are not respected as true leases for U.S. federal income tax purposes, we will likely fail to qualify to be taxed as a REIT.

In addition, subject to certain exceptions, rents received or accrued by us from our tenants will not be treated as qualifying rent for purposes of these requirements if we or a beneficial or constructive owner of 10% or more of our stock beneficially or constructively owns 10% or more of the total combined voting power of all classes of stock entitled to vote or 10% or more of the total value of all classes of stock. CareTrust's charter provides for restrictions on ownership and transfer of CareTrust's shares of stock, including restrictions on such ownership or transfer that would cause the rents received or accrued by us from our tenants to be treated as non-qualifying rent for purposes of the REIT gross income requirements. Nevertheless, there can be no assurance that such restrictions will be effective in ensuring that rents received or accrued by us from our tenants will not be treated as qualifying rent for purposes of REIT qualification requirements.

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

The maximum U.S. federal income tax rate applicable to income from "qualified dividends" payable by U.S. corporations to U.S. stockholders that are individuals, trusts and estates is currently 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although these rules do not adversely affect the taxation of REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors

who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our stock.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains, in order for us to qualify to be taxed as a REIT (assuming that certain other requirements are also satisfied) so that U.S. federal corporate income tax does not apply to earnings that we

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distribute. To the extent that we satisfy this distribution requirement and qualify for taxation as a REIT but distribute less than 100% of our REIT taxable income, determined without regard to the dividends paid deduction and including any net capital gains, we will be subject to U.S. federal corporate income tax on our undistributed net taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we distribute to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal income tax laws. We intend to make distributions to our stockholders to comply with the REIT requirements of the Code.

Our funds from operations are generated primarily by rents paid under the Ensign Master Leases. From time to time, we may generate taxable income greater than our cash flow as a result of differences in timing between the recognition of taxable income and the actual receipt of cash or the effect of nondeductible capital expenditures, the creation of reserves or required debt or amortization payments. If we do not have other funds available in these situations, we could be required to borrow funds on unfavorable terms, sell assets at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions in order to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid being subject to corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain U.S. federal, state, and local taxes on our income and assets, including taxes on any undistributed income and state or local income, property and transfer taxes. For example, we may hold some of our assets or conduct certain of our activities through one or more taxable REIT subsidiaries (each, a “TRS”) or other subsidiary corporations that will be subject to U.S. federal, state, and local corporate-level income taxes as regular C corporations. In addition, we may incur a 100% excise tax on transactions with a TRS if they are not conducted on an arm’s-length basis. Any of these taxes would decrease cash available for distribution to our stockholders.

Complying with REIT requirements may cause us to forgo otherwise attractive acquisition opportunities or liquidate otherwise attractive investments.

To qualify to be taxed as a REIT for U.S. federal income tax purposes, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and “real estate assets” (as defined in the Code). The remainder of our investments (other than government securities, qualified real estate assets and securities issued by a TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, qualified real estate assets and securities issued by a TRS) can consist of the securities of any one issuer, and no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total assets can be represented by securities of one or more TRSs. Further, for taxable years beginning after December 31, 2015, no more than 25% of the value of our total assets may be represented by “nonqualified publicly offered REIT debt instruments” (as defined in the Code). If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate or forgo otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

In addition to the asset tests set forth above, to qualify to be taxed as a REIT we must continually satisfy tests concerning, among other things, the sources of our income, the amounts we distribute to our stockholders and the ownership of our stock. We may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make certain attractive investments.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities. The REIT provisions of the Code substantially limit our ability to hedge our assets and liabilities. Income from certain hedging transactions that we may enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute “gross income” for purposes of the 75% or 95%

gross income tests that apply to REITs, provided that certain identification requirements are met. For taxable years beginning after December 31, 2015, income from new transactions entered into to hedge the income or loss from prior hedging transactions, where the indebtedness or property which was the subject of the prior hedging transaction was extinguished or disposed of, will not constitute gross income for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions or fail to properly identify such transaction as a hedge, the income is likely to be treated as non-qualifying

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income for purposes of both of the gross income tests. As a result of these rules, we may be required to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because the TRS may be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in the TRS will generally not provide any tax benefit, except that such losses could theoretically be carried back or forward against past or future taxable income in the TRS.

Even if we qualify to be taxed as a REIT, we could be subject to tax on any unrealized net built-in gains in our assets held before electing to be treated as a REIT.

Following our REIT election, we will own appreciated assets that were held by a C corporation and were acquired by us in a transaction in which the adjusted tax basis of the assets in our hands was determined by reference to the adjusted basis of the assets in the hands of the C corporation. If we dispose of any such appreciated assets during the five-year period following our qualification as a REIT, we will be subject to tax at the highest corporate tax rates on any gain from such assets to the extent of the excess of the fair market value of the assets on the date that we became a REIT over the adjusted tax basis of such assets on such date, which are referred to as built-in gains. We would be subject to this tax liability even if we qualify and maintain our status as a REIT. Any recognized built-in gain will retain its character as ordinary income or capital gain and will be taken into account in determining REIT taxable income and our distribution requirement. Any tax on the recognized built-in gain will reduce REIT taxable income. We may choose not to sell in a taxable transaction appreciated assets we might otherwise sell during the five-year period in which the built-in gain tax applies in order to avoid the built-in gain tax. However, there can be no assurances that such a taxable transaction will not occur. If we sell such assets in a taxable transaction, the amount of corporate tax that we will pay will vary depending on the actual amount of net built-in gain or loss present in those assets as of the time we became a REIT. The amount of tax could be significant.

Uncertainties relating to CareTrust's estimate of its "earnings and profits" attributable to C-corporation taxable years may have an adverse effect on our distributable cash flow.

In order to qualify as a REIT, a REIT cannot have at the end of any REIT taxable year any undistributed earnings and profits ("E&P") that are attributable to a C-corporation taxable year. A REIT that has non-REIT accumulated earnings and profits has until the close of its first full tax year as a REIT to distribute such earnings and profits. Failure to meet this requirement would result in CareTrust's disqualification as a REIT. In connection with the Company's intention to qualify as a real estate investment trust, on October 17, 2014, the Company's board of directors declared the Special Dividend to distribute the amount of accumulated E&P allocated to the Company as a result of the Spin-Off. The amount of the Special Dividend was \$132.0 million, or approximately \$5.88 per common share. It was paid on December 10, 2014, to stockholders of record as of October 31, 2014, in a combination of both cash and stock. The cash portion totaled \$33.0 million and the stock portion totaled \$99.0 million. The Company issued 8,974,249 shares of common stock in connection with the stock portion of the Special Dividend.

The determination of non-REIT earnings and profits is complicated and depends upon facts with respect to which CareTrust may have had less than complete information or the application of the law governing earnings and profits, which is subject to differing interpretations, or both. Consequently, there are substantial uncertainties relating to the estimate of CareTrust's non-REIT earnings and profits, and we cannot be assured that the earnings and profits distribution requirement has been met. These uncertainties include the possibility that the IRS could upon audit, as discussed above, increase the taxable income of CareTrust, which would increase the non-REIT earnings and profits of CareTrust. There can be no assurances that we have satisfied the requirement.

Risks Related to Our Capital Structure

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

Following the debt refinancing transaction on February 1, 2016 as described under Management's Discussion and Analysis of Financial Condition - Liquidity and Capital Resources below, we have approximately \$445.0 million of indebtedness, consisting of \$260.0 million representing our 5.875% Senior Notes due 2021 (the "Notes"), a \$100.0 million unsecured term loan and an \$85.0 million unsecured revolving loan outstanding on our Credit Facility. We also had \$315.0 million available capacity to borrow under the Credit Facility. Our high level of indebtedness may have the following important consequences to us. For example, it could:

require us to dedicate a substantial portion of our cash flow from operations to make principal and interest payments on our indebtedness, thereby reducing our cash flow available to fund working capital, dividends, capital expenditures and other general corporate purposes;

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- require us to maintain certain debt coverage and other financial ratios at specified levels, thereby reducing our financial flexibility;
- make it more difficult for us to satisfy our financial obligations, including the Notes and borrowings under the Credit Facility;
- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- expose us to increases in interest rates for our variable rate debt;
- limit, along with the financial and other restrictive covenants in our indebtedness, our ability to borrow additional funds on favorable terms or at all to expand our business or ease liquidity constraints;
- limit our ability to refinance all or a portion of our indebtedness on or before maturity on the same or more favorable terms or at all;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- place us at a competitive disadvantage relative to competitors that have less indebtedness;
- require us to dispose of one or more of our properties at disadvantageous prices in order to service our indebtedness or to raise funds to pay such indebtedness at maturity; and
-
- result in an event of default if we fail to satisfy our obligations under the Notes or our other debt or fail to comply with the financial and other restrictive covenants contained in the indenture governing the Notes or the Credit Facility, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

In addition, the Credit Facility and the indenture governing the Notes permit us to incur substantial additional debt, including secured debt. If we incur additional debt, the related risks described above could intensify.

We may be unable to service our indebtedness.

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

We rely on our subsidiaries for our operating funds.

We conduct our operations through subsidiaries and depend on our subsidiaries for the funds necessary to operate and repay our debt obligations. Each of our subsidiaries is a distinct legal entity and has no obligation, contingent or otherwise, to transfer funds to us. In addition, the ability of our subsidiaries to transfer funds to us could be restricted by the terms of subsequent financings.

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

Our debt agreements contain various covenants that limit our ability and the ability of our subsidiaries to engage in various transactions including, as applicable:

- incurring or guaranteeing additional secured and unsecured debt;
- creating liens on our assets;
- paying dividends or making other distributions on, redeeming or repurchasing capital stock;

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- making investments or other restricted payments;
- entering into transactions with affiliates;
- issuing stock of or interests in subsidiaries;
- engaging in non-healthcare related business activities;
- creating restrictions on the ability of our subsidiaries to pay dividends or other amounts to us;
-
- selling assets;
- effecting a consolidation or merger or selling all or substantially all of our assets;
- making acquisitions; and
- amending certain material agreements, including material leases and debt agreements.

These covenants limit our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively. The Credit Facility agreement requires the Company to comply with financial maintenance covenants to be tested quarterly, consisting of a maximum debt to asset value ratio, a minimum fixed charge coverage ratio, a minimum tangible net worth, a maximum cash distributions to operating income ratio, a maximum secured debt to asset value ratio and a maximum secured recourse debt to asset value ratio. We are also required to maintain total unencumbered assets of at least 150% of our unsecured indebtedness under the indenture. Our ability to meet these requirements may be affected by events beyond our control, and we may not meet these requirements. We may be unable to maintain compliance with these covenants and, if we fail to do so, we may be unable to obtain waivers from the lenders or amend the covenants.

Risks Related To Our Common Stock

Our charter restricts the ownership and transfer of our outstanding stock, which may have the effect of delaying, deferring or preventing a transaction or change of control of our company.

In order for us to qualify to be taxed as a REIT, not more than 50% in value of our outstanding shares of stock may be owned, beneficially or constructively, by five or fewer individuals at any time during the last half of each taxable year after our first taxable year as a REIT. Additionally, at least 100 persons must beneficially own our stock during at least 335 days of a taxable year (other than our first taxable year as a REIT). Our charter, with certain exceptions, authorizes our board of directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Our charter also provides that, unless exempted by the board of directors, no person may own more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock, or more than 9.8% in value of the outstanding shares of all classes or series of our stock. The constructive ownership rules are complex and may cause shares of stock owned directly or constructively by a group of related individuals or entities to be constructively owned by one individual or entity. These ownership limits could delay or prevent a transaction or a change in control of us that might involve a premium price for shares of our stock or otherwise be in the best interests of our stockholders. The acquisition of less than 9.8% of our outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% in value of our outstanding stock, and thus violate our charter's ownership limit. Our charter also prohibits any person from owning shares of our stock that would result in our being "closely held" under Section 856(h) of the Code or otherwise cause us to fail to qualify to be taxed as a REIT. In addition, our charter provides that (i) no person shall beneficially or constructively own shares of stock to the extent such beneficial or constructive ownership of stock would result in us failing to qualify as a "domestically controlled qualified investment entity" within the meaning of Section 897(h) of the Code, and (ii) no person shall beneficially or constructively own shares of stock to the extent such beneficial or constructive ownership would cause us to own, beneficially or constructively, more than a 9.9% interest (as set forth in Section 856(d)(2)(B) of the Code) in a tenant of our real property. Any attempt to own or transfer shares of our stock in violation of these restrictions may result in the transfer being automatically void.

Maryland law and provisions in our charter and bylaws may delay or prevent takeover attempts by third parties and therefore inhibit our stockholders from realizing a premium on their stock.

Our charter and bylaws and Maryland law contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids and to encourage prospective acquirors to negotiate with our board of directors rather than to

attempt a hostile takeover. Our charter and bylaws, among other things, (1) contain transfer and ownership restrictions on the percentage by number and value of outstanding shares of our stock that may be owned or acquired by any stockholder; (2) provide that stockholders are not allowed to act by non-unanimous written consent; (3) permit the board of directors, without further action of the stockholders, to amend the charter to increase or decrease the aggregate number of authorized shares or the number of shares of any class or series that we have the authority to issue; (4) permit the board of directors to

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classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares; (5) permit only the board of directors to amend the bylaws; (6) establish certain advance notice procedures for stockholder proposals, and provide procedures for the nomination of candidates for our board of directors; (7) provide that special meetings of stockholders may only be called by the Company or upon written request of stockholders entitled to be at the meeting; (8) provide that a director may only be removed by stockholders for cause and upon the vote of two-thirds of the outstanding shares of common stock; (9) provide for supermajority approval requirements for amending or repealing certain provisions in our charter; and (10) provide for a classified board of directors of three separate classes with staggered terms. In addition, specific anti-takeover provisions of the Maryland General Corporation Law (“MGCL”) could make it more difficult for a third party to attempt a hostile takeover. These provisions include:

“business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special appraisal rights and special stockholder voting requirements on these combinations; and

“control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal. These provisions are not intended to make us immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is not in our best interests. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

The market price and trading volume of our common stock may fluctuate.

The market price of our common stock may fluctuate, depending upon many factors, some of which may be beyond our control, including, but not limited to:

- a shift in our investor base;
- our quarterly or annual earnings, or those of other comparable companies;
- actual or anticipated fluctuations in our operating results;
- our ability to obtain financing as needed;
- changes in laws and regulations affecting our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- announcements by us or our competitors of significant investments, acquisitions or dispositions;
- the failure of securities analysts to cover our common stock after the Spin-Off;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating performance and stock price of other comparable companies;
- overall market fluctuations; and
- general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the trading price of our common stock.

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We are an emerging growth company, and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies. As an emerging growth company, we are not required to, among other things, (1) provide an auditor's attestation report on management's assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act, (2) comply with any new rules that may be adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer, (3) comply with any new audit rules adopted by the Public Company Accounting Oversight Board after April 5, 2012 unless the SEC determines otherwise, (4) comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies under Section 102(b)(1) of the JOBS Act, (5) provide certain disclosure regarding executive compensation required of larger public companies in our periodic reports, proxy statements and registration statements, or (6) hold a nonbinding advisory vote on executive compensation and obtain stockholder approval of any golden parachute payments not previously approved. Accordingly, the information that we provide stockholders in our filings with the SEC may be different than what is available with respect to other public companies. If some investors find our common stock less attractive as a result of our reliance on these exemptions, there may be a less active trading market for our common stock and our stock price may be more volatile and adversely affected.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Exchange Act for complying with new or revised accounting standards applicable to public companies. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of this extended transition period. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates for such new or revised standards. We may elect to comply with public company effective dates at any time, and such election would be irrevocable pursuant to Section 107(b) of the JOBS Act.

We will remain an emerging growth company until the earliest of (1) the last day of the first fiscal year in which our total annual gross revenues exceed \$1 billion, (2) the date on which we are deemed to be a "large accelerated filer," as defined in Rule 12b-2 under the Exchange Act or any successor statute, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, (3) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three-year period, and (4) the end of the fiscal year following the fifth anniversary of the date of the first sale of our common stock pursuant to an effective registration statement filed under the Securities Act of 1933, as amended (the "Securities Act").

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could materially and adversely affect our business and the market price of our common stock. Under the Sarbanes-Oxley Act, we must maintain effective disclosure controls and procedures and internal control over financial reporting, which require significant resources and management oversight. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we had previously believed that internal controls were effective. Matters impacting our internal controls may cause us to be unable to report our financial data on a timely basis, or may cause us to restate previously issued financial data, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline

in the market price for our common stock and impairing our ability to raise capital.

As an emerging growth company, we are excluded from Section 404(b) of the Sarbanes-Oxley Act, which otherwise would require our auditors to formally attest to and report on the effectiveness of our internal control over financial reporting. If we cannot maintain effective disclosure controls and procedures or favorably assess the effectiveness of our internal control over financial reporting, or, once we are no longer an “emerging growth company,” our independent registered public accounting firm cannot provide an unqualified attestation report on the effectiveness of our internal control over financial reporting, investor confidence and, in turn, the market price of our common stock could decline.

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We cannot assure you of our ability to pay dividends in the future.

We expect to make quarterly dividend payments in cash, but in no event will the annual dividend be less than 90% of our REIT taxable income on an annual basis, determined without regard to the dividends paid deduction and excluding any net capital gains. Our ability to pay dividends may be adversely affected by a number of factors, including the risk factors described in this annual report. Dividends are authorized by our board of directors and declared by us based upon a number of factors, including actual results of operations, restrictions under Maryland law or applicable debt covenants, our financial condition, our taxable income, the annual distribution requirements under the REIT provisions of the Code, our operating expenses and other factors our directors deem relevant. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash dividends or year-to-year increases in cash dividends in the future.

Furthermore, while we are required to pay dividends in order to maintain our REIT status (as described above under “Risks Related to Our Status as a REIT - REIT distribution requirements could adversely affect our ability to execute our business plan”), we may elect not to maintain our REIT status, in which case we would no longer be required to pay such dividends. Moreover, even if we do elect to maintain our REIT status, after completing various procedural steps, we may elect to comply with the applicable distribution requirements by distributing, under certain circumstances, a portion of the required amount in the form of shares of our common stock in lieu of cash. If we elect not to maintain our REIT status or to satisfy any required distributions in shares of common stock in lieu of cash, such action could negatively affect our business and financial condition as well as the market price of our common stock. No assurance can be given that we will pay any dividends on shares of our common stock in the future.

We may issue preferred stock with terms that could dilute the voting power or reduce the value of our common stock. While we have no specific plan to issue preferred stock, our charter authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, powers, privileges, preferences, including preferences over our common stock respecting dividends and distributions, terms of redemption and relative participation, optional or other rights, if any, of the shares of each such series of preferred stock and any qualifications, limitations or restrictions thereof, as our board of directors may determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of our common stock. For example, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred stock could affect the residual value of the common stock.

ERISA may restrict investments by plans in our common stock.

A plan fiduciary considering an investment in our common stock should consider, among other things, whether such an investment is consistent with the fiduciary obligations under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), including whether such investment might constitute or give rise to a prohibited transaction under ERISA, the Code or any substantially similar federal, state or local law and, if so, whether an exemption from such prohibited transaction rules is available.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Our headquarters are located in San Clemente, California. We lease our corporate office from an unaffiliated third party.

The information set forth under “Portfolio Summary” in Item 1 of this Annual Report on Form 10-K is incorporated by reference herein.

ITEM 3. Legal Proceedings

None of the Company or any of its subsidiaries is a party to, and none of their respective properties are the subject of, any material legal proceedings.

Pursuant to the Separation and Distribution Agreement we entered into in connection with the Spin-Off (the “Separation and Distribution Agreement”), we assumed any liability arising from or relating to legal proceedings

involving the assets owned by us and agreed to indemnify Ensign (and its subsidiaries, directors, officers, employees and agents and certain other

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related parties) against any losses arising from or relating to such legal proceedings. In addition, pursuant to the Separation and Distribution Agreement, Ensign has agreed to indemnify us (including our subsidiaries, directors, officers, employees and agents and certain other related parties) for any liability arising from or relating to legal proceedings involving Ensign's healthcare business prior to the Spin-Off, and, pursuant to the Ensign Master Leases, Ensign or its subsidiaries have agreed to indemnify us for any liability arising from operations at the real property leased from us. Ensign is currently a party to various legal actions and administrative proceedings, including various claims arising in the ordinary course of its healthcare business, which are subject to the indemnities provided by Ensign to us. While these actions and proceedings are not believed by Ensign to be material, individually or in the aggregate, the ultimate outcome of these matters cannot be predicted. The resolution of any such legal proceedings, either individually or in the aggregate, could have a material adverse effect on Ensign's business, financial position or results of operations, which, in turn, could have a material adverse effect on our business, financial position or results of operations if Ensign or its subsidiaries are unable to meet their indemnification obligations.

ITEM 4. Mine Safety Disclosures

None.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Equity

Our common stock is listed on the NASDAQ Global Select Market. Set forth below for the fiscal quarters indicated are the reported high and low sales prices per share of our common stock on the NASDAQ Global Select Market.

	2015		2014	
	High	Low	High	Low
First Quarter	\$14.93	\$11.12	N/A	N/A
Second Quarter	\$14.35	\$11.87	\$22.34	\$16.32
Third Quarter	\$13.93	\$10.40	\$20.20	\$14.00
Fourth Quarter	\$11.98	\$10.21	\$18.49	\$11.32

At February 9, 2016, we had approximately 176 stockholders of record.

Dividends

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

2014. In connection with the Company's intention to qualify as a real estate investment trust in 2014, on October 17, 2014, the Company's Board of Directors declared the Special Dividend to stockholders of \$132.0 million, or approximately \$5.88 per common share, which represents the amount of accumulated earnings and profits allocated to the Company as a result of the Spin-Off. The Special Dividend was paid on December 10, 2014, to stockholders of record as of October 31, 2014, in a combination of both cash and stock. The cash portion totaled \$33.0 million and the stock portion totaled \$99.0 million. The Company issued 8,974,249 shares of common stock in connection with the stock portion of the Special Dividend. During the fourth quarter of 2014, our Board of Directors declared a quarterly cash dividend of \$0.125 per share of common stock, which was paid on January 15, 2015, to stockholders of record as of December 31, 2014.

2015. During the first quarter of 2015, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on April 15, 2015, to stockholders of record as of March 31, 2015. During the second quarter of 2015, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on

July 15, 2015 to stockholders of record as of June 30, 2015. During the third quarter of 2015, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on October 15, 2015, to stockholders of record as of September 30,

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2015. During the fourth quarter of 2015, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on January 15, 2016, to stockholders of record as of December 31, 2015.

Issuer Purchases of Equity Securities

None.

Stock Price Performance Graph

The graph below compares the cumulative total return of our common stock, the S&P 500 Index, the S&P 500 REIT Index, and the RMS (MSCI U.S. REIT Total Return Index) for the period from June 1, 2014 to December 31, 2015. Total cumulative return is based on a \$100 investment in CareTrust common stock and in each of the indexes on June 1, 2014 and assumes quarterly reinvestment of dividends before consideration of income taxes. Stockholder returns over the indicated periods should not be considered indicative of future stock prices or stockholder returns.

COMPARISON OF CUMULATIVE TOTAL RETURN
AMONG S&P 500, S&P 500 REIT INDEX, RMS AND CARETRUST REIT, INC.
RATE OF RETURN TREND COMPARISON
JUNE 1, 2014 - DECEMBER 31, 2015
(JUNE 1, 2014 = 100)
Stock Price Performance Graph Total Return

ITEM 6. Selected Financial Data

The following table sets forth our selected financial data and other data for our company on a historical basis. The following data should be read in conjunction with our audited consolidated and combined financial statements and notes thereto

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and Management’s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. Our historical operating results may not be comparable to our future operating results. The comparability of our selected financial data is significantly affected by our acquisitions and new investments in 2015, 2014, 2013, 2012 and 2011. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The selected historical financial data set forth below reflects, for the relevant periods presented, as applicable, the historical financial position, results of operations and cash flows of (i) the skilled nursing, assisted living and independent living facilities that Ensign contributed to CareTrust immediately prior to the Spin-Off, (ii) the operations of the three independent living facilities that CareTrust operated immediately following the Spin-Off, and (iii) the new investments and financings that the Company has made after the Spin-Off. “Ensign Properties” is the predecessor of the Company, and its historical financial statements have been prepared on a “carve-out” basis from Ensign’s consolidated financial statements using the historical results of operations, cash flows, assets and liabilities attributable to such skilled nursing, assisted living and independent living facilities, and include allocations of income, expenses, assets and liabilities from Ensign. These allocations reflect significant assumptions. Although CareTrust’s management believes such assumptions are reasonable, the historical financial statements do not fully reflect what CareTrust’s financial position, results of operations and cash flows would have been had it been a stand-alone company during the periods presented prior to the Spin-Off.

	As of or For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands, except per share amounts)				
Income statement data:					
Total revenues	\$74,951	\$58,897	\$48,796	\$42,063	\$31,941
Income (loss) before provision for income taxes	10,034	(8,143)	)(272	)232	(6,514)
Net income (loss)	10,034	(8,143)	)(395	)110	(5,341)
Income (loss) before provision for income taxes per share	0.26	(0.36	)(0.01	)0.01	(0.29)
Net income (loss) per share	0.26	(0.36	)(0.02	)0.00	(0.24)
Balance sheet data:					
Total assets	\$673,166	\$475,140	\$428,515	\$397,049	\$372,216
Senior unsecured notes payable (1)	254,229	253,165	—	—	—
Unsecured revolving credit facility	45,000	—	—	—	—
Secured mortgage indebtedness (1)	94,676	97,608	113,740	117,089	98,313
Senior secured term loan (1)	—	—	64,915	68,674	72,309
Senior secured revolving credit facility (1)	—	—	78,701	20,000	15,000
Total equity	262,288	113,462	162,689	184,548	179,609
Other financial data:					
Dividends declared per common share	\$0.64	\$6.01	\$—	\$—	\$—
FFO(2)	34,109	14,853	23,023	21,213	11,277
FAD(2)	37,831	16,559	23,740	21,933	11,893

(1) On December 31, 2015, we early adopted recently issued accounting standards relating to debt issuance costs, which require certain debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Additionally, we have elected to present costs related to revolving lines of credit as assets in our balance sheets.

(2) We believe that net income, as defined by U.S. generally accepted accounting principles (“GAAP”), is the most appropriate earnings measure. We also believe that Funds From Operations (“FFO”), as defined by the National Association of Real Estate Investment Trusts (“NAREIT”), and Funds Available for Distribution (“FAD”) are important non-GAAP supplemental measures of operating performance for a REIT. FFO is defined as net income (loss) computed in accordance with GAAP, excluding gains or losses from real estate dispositions, plus real estate related depreciation and amortization and impairment charges. FAD is defined as FFO excluding noncash expenses

such as stock-based compensation expense and amortization of deferred financing costs. We believe that the use of FFO and FAD, combined with the required GAAP presentations, improves the understanding of operating results of REITs among investors and makes comparisons of operating results among such companies more meaningful. We consider FFO and FAD to be useful measures for reviewing comparative operating and financial performance because, by excluding gains or losses from real estate dispositions, impairment charges and real estate depreciation and amortization, and, for FAD, by excluding noncash expenses such as stock-based compensation expense and amortization of deferred financing costs,

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FFO and FAD can help investors compare our operating performance between periods and to other REITs. However, our computation of FFO and FAD may not be comparable to FFO and FAD reported by other REITs that do not define FFO in accordance with the current NAREIT definition or that interpret the current NAREIT definition or define FAD differently than we do. Further, FFO and FAD do not represent cash flows from operations or net income as defined by GAAP and should not be considered an alternative to those measures in evaluating our liquidity or operating performance.

The following table reconciles our calculations of FFO and FAD for the five years ended December 31, 2015, 2014, 2013, 2012 and 2011 to net income, the most directly comparable financial measure according to GAAP, for the same periods:

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands)				
Net income (loss)	\$10,034	\$(8,143)	\$(395)	\$110	\$(5,341)
Real estate related depreciation and amortization	24,075	22,996	23,418	21,103	16,618
FFO	34,109	14,853	23,023	21,213	11,277
Stock-based compensation	1,522	154	18	15	15
Amortization of deferred financing costs	2,200	1,552	699	705	601
FAD	\$37,831	\$16,559	\$23,740	\$21,933	\$11,893

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

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

Overview

Recent Transactions

Results of Operations

Liquidity and Capital Resources

Obligations and Commitments

Capital Expenditures

Critical Accounting Policies

Impact of Inflation

Off-Balance Sheet Arrangements

Overview

CareTrust REIT, Inc. was formed on October 29, 2013, as a wholly owned subsidiary of The Ensign Group, Inc. On June 1, 2014, Ensign completed the separation of its healthcare business and its real estate business into two separate and independent publicly traded companies through the distribution of all of the outstanding shares of common stock of the Company to Ensign stockholders on a pro rata basis. The Spin-Off was effective from and after June 1, 2014, with shares of our common stock distributed to Ensign stockholders on June 2, 2014. CareTrust holds substantially all of the real property that was previously owned by Ensign. As of December 31, 2015, CareTrust's leased portfolio consisted of 119 SNFs, ALFs and ILFs of which 94 properties are leased to Ensign on a triple-net basis under multiple long-term leases, 14 properties are leased to affiliates of Pristine under a long-term, triple-net lease that is guaranteed by Pristine and two of its principals, and the remaining 11 properties are leased to seven other tenants on a triple-net basis. We also own and operate three ILFs. As of December 31, 2015, the 94 facilities leased to Ensign had a total of 10,121 beds and units and are located in Arizona, California, Colorado, Idaho, Iowa, Nebraska, Nevada, Texas, Utah

and Washington, the 14 facilities leased to Pristine had a

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total of 1,258 beds and units and are located in Ohio, and the 11 other leased properties had a total of 765 units and are located in Colorado, Florida, Georgia, Idaho, Minnesota, Virginia and Washington. The three ILFs that we own and operate had a total of 264 units and are located in Texas and Utah. As of December 31, 2015, the Company had one other real estate investment, consisting of an \$8.5 million preferred equity investment.

We are a separate and independent publicly traded, self-administered, self-managed REIT primarily engaged in the ownership, acquisition and leasing of healthcare-related properties. We generate revenues primarily by leasing healthcare-related properties to healthcare operators in triple-net lease arrangements, under which the tenant is solely responsible for the costs related to the property (including property taxes, insurance, and maintenance and repair costs). We conduct and manage our business as one operating segment for internal reporting and internal decision making purposes. We expect to grow our portfolio by pursuing opportunities to acquire additional properties that will be leased to a diverse group of local, regional and national healthcare providers, which may include Ensign, as well as senior housing operators and related businesses. We also anticipate diversifying our portfolio over time, including by acquiring properties in different geographic markets, and in different asset classes.

We have elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. We believe that we have been organized and have operated, and we intend to continue to operate, in a manner to qualify for taxation as a REIT. We operate through an umbrella partnership, commonly referred to as an UPREIT structure, in which substantially all of our properties and assets are held through our Operating Partnership, CTR Partnership, L.P. The Operating Partnership is managed by CareTrust's wholly owned subsidiary, CareTrust GP, LLC, which is the sole general partner of the Operating Partnership. To maintain REIT status, we must meet a number of organizational and operational requirements, including a requirement that we annually distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains.

Recent Transactions

Offering of Common Stock

On August 18, 2015, we completed an underwritten public offering of 16.33 million newly issued shares of our common stock pursuant to an effective registration statement. We received net proceeds, before offering costs, of \$163.7 million from the offering, after giving effect to the issuance and sale of all 16.33 million shares of common stock (which included 2.13 million shares sold to the underwriters upon exercise of their option to purchase additional shares), at a price to the public of \$10.50 per share.

Unsecured Credit Facility and GECC Refinancing

See “- Liquidity and Capital Resources” below for a description of the Company's unsecured credit facility, which the Company entered into in August 2015 and amended in February 2016. We used approximately \$95.0 million of proceeds from the new \$100.0 million non-amortizing unsecured term loan funded in February 2016 to pay off and terminate our secured mortgage indebtedness with General Electric Capital Corporation (the "GECC Loan").

Liberty Acquisition

On October 1, 2015, the Operating Partnership completed the acquisition, from affiliates of Liberty, of a 14 facility skilled nursing and assisted living portfolio, for approximately \$176.5 million, inclusive of transaction costs of approximately \$3.5 million. The facilities are located throughout Ohio and collectively include 1,102 SNF beds, 100 ALF units and 56 ILF units available for occupancy.

In connection with the Liberty acquisition, the Operating Partnership entered into a triple-net basis, long-term lease (the “Pristine Master Lease”), dated July 30, 2015, with affiliates of Pristine. The Pristine Master Lease carries an initial term of 15 years with two five-year renewal options and rent escalators based on the Consumer Price Index. The

beginning annual rent under the Pristine Master Lease is \$17.0 million. The Pristine Master Lease also includes a right of first refusal in favor of the Operating Partnership with respect to any transaction between the tenant and a party other than the Operating Partnership or its affiliates for the tenant to operate, own, develop, finance, lease, manage, invest in, participate in or otherwise receive revenues from a SNF, ALF, ILF, memory care facility or other healthcare facility (subject to certain exceptions), until the earlier of seven years after the commencement date under the Pristine Master Lease or the date on which the tenants have leased at least five healthcare facilities from the Operating Partnership. The tenants' obligations under the Pristine Master Lease are guaranteed by Pristine and two of its principals pursuant to a Guaranty of Pristine Master Lease.

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Results of Operations

Basis of Presentation

Prior to the Spin-Off, the combined financial statements were prepared on a stand-alone basis and were derived from the accounting records of Ensign (which are not included in this report). These statements reflect the combined historical financial condition and results of operations of the carve-out business of the entities that own the SNFs, ALFs and ILFs that we own, and the operations of the three ILFs that we operate, in accordance with GAAP.

Subsequent to the Spin-Off, the financial statements were prepared on a consolidated basis as the entities that own the properties are now wholly owned subsidiaries of the Company. All intercompany transactions and accounts have been eliminated.

Operating Results

Our primary business consists of acquiring, financing and owning real property to be leased to third party tenants in the healthcare sector.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

	Year Ended December 31,		Increase	Percentage	
	2015	2014	(Decrease)	Difference	
	(dollars in thousands)				
Revenues:					
Rental income	\$65,979	\$51,367	\$14,612	28	%
Tenant reimbursements	5,497	4,956	541	11	%
Independent living facilities	2,510	2,519	(9)	—	%
Interest and other income	965	55	910	1,655	%
Expenses:					
Depreciation and amortization	24,133	23,000	1,133	5	%
Interest expense	25,256	21,622	3,634	17	%
Loss on extinguishment of debt	—	4,067	(4,067)	(100)	%
Property taxes	5,497	4,956	541	11	%
Acquisition costs	—	47	(47)	(100)	%
Independent living facilities	2,376	2,243	133	6	%
General and administrative	7,655	11,105	(3,450)	(31)	%

Rental income. Rental income was \$66.0 million for the year ended December 31, 2015 compared to \$51.4 million for the year ended December 31, 2014. The \$14.6 million increase in rental income is due primarily to \$4.8 million of new incremental rent in place after the Spin-Off and \$9.8 million from new investments made after October 1, 2014.

Independent living facilities. Revenues from our three ILFs that we own and operate were \$2.5 million for the year ended December 31, 2015 compared to \$2.5 million for the year ended December 31, 2014. Occupancy and average monthly rates stayed constant. Expenses were \$2.4 million for the year ended December 31, 2015 compared to \$2.2 million for the year ended December 31, 2014. The \$0.1 million increase was due to higher costs associated with operating the facilities.

Interest and other income. Interest and other income increased \$0.9 million for the year ended December 31, 2015 to \$1.0 million compared to \$0.1 million for the year ended December 31, 2014. The increase was due to the preferred equity investment made in December 2014.

Depreciation and amortization. Depreciation and amortization expense increased \$1.1 million or 5% for the year ended December 31, 2015 to \$24.1 million compared to \$23.0 million for the year ended December 31, 2014. The \$1.1 million increase was primarily due to new investments made after October 1, 2014 offset by certain assets which were not transferred to the Company in connection with the Spin-Off.

Interest expense. Interest expense increased \$3.6 million or 17% for the year ended December 31, 2015 to \$25.3 million compared to \$21.6 million for the year ended December 31, 2014. The increase was due to higher net borrowings after the Spin-Off and a \$1.2 million write-off of deferred financing fees associated with the payoff and termination of our senior secured revolving credit facility, offset by a \$1.7 million loss on the settlement of an interest

rate swap in 2014.

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General and administrative expense. General and administrative expense decreased \$3.5 million for the year ended December 31, 2015 to \$7.7 million compared to \$11.1 million for the year ended December 31, 2014. The \$3.5 million decrease is primarily related to decreases in legal and other costs related to the Spin-Off, offset by higher wages and amortization of stock-based compensation.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

	Year Ended December 31,		Increase	Percentage	
	2014	2013	(Decrease)	Difference	
	(dollars in thousands)				
Revenues:					
Rental income	\$51,367	\$41,242	\$10,125	25	%
Tenant reimbursements	4,956	5,168	(212)	(4)	%
Independent living facilities	2,519	2,386	133	6	%
Interest and other income	55	—	55	*	
Expenses:					
Depreciation and amortization	23,000	23,418	(418)	(2)	%
Interest expense	21,622	12,647	8,975	71	%
Loss on extinguishment of debt	4,067	—	4,067	*	
Property taxes	4,956	5,168	(212)	(4)	%
Acquisition costs	47	255	(208)	(82)	%
Independent living facilities	2,243	2,138	105	5	%
General and administrative	11,105	5,442	5,663	104	%
Provision for income taxes	—	123	(123)	(100)	%

*not meaningful

Rental income. Rental income was \$51.4 million for the year ended December 31, 2014 compared to \$41.2 million for the year ended December 31, 2013. The \$10.1 million increase in rental income is due primarily to \$7.4 million of new incremental rent in place after the Spin-Off and \$2.6 million from properties acquired after January 1, 2013.

Independent living facilities. Revenues from our three ILFs that we own and operate were \$2.5 million for the year ended December 31, 2014 compared to \$2.4 million for the year ended December 31, 2013. The increase was due to an increase in occupancy offset by a slight decline in average monthly rate. Expenses were \$2.2 million for the year ended December 31, 2014 compared to \$2.1 million for the year ended December 31, 2013. The \$0.1 million increase was due to higher costs associated with operating the facilities.

Depreciation and amortization. Depreciation and amortization expense decreased \$0.4 million or 2% for the year ended December 31, 2014 to \$23.0 million compared to \$23.4 million for the year ended December 31, 2013. The \$0.4 million net change in depreciation and amortization was primarily due to certain assets which were not transferred to the Company in connection with the Spin-Off offset by properties acquired after January 1, 2013 and improvements made to properties after January 1, 2013.

Interest expense. Interest expense increased \$9.0 million or 71% for the year ended December 31, 2014 to \$21.6 million compared to \$12.6 million for the year ended December 31, 2013. The increase was due to higher net borrowings after the Spin-Off as compared to the prior year and a \$1.7 million loss on the settlement of an interest rate swap in 2014 as a result of the early retirement of Ensign's senior credit facility.

General and administrative expense. General and administrative expense increased \$5.7 million for the year ended December 31, 2014 to \$11.1 million compared to \$5.4 million for the year ended December 31, 2013. The \$5.7 million increase is primarily related to costs associated with being a stand-alone public company such as compensation, legal and other professional fees, and other costs related to the Spin-Off.

Liquidity and Capital Resources

We are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains, to our stockholders on an annual basis in order to qualify as a REIT for federal

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income tax purposes. Accordingly, we intend to make, but are not contractually bound to make, regular quarterly dividends to common stockholders from cash flow from operating activities. All such dividends are at the discretion of our board of directors.

In connection with the Company's intention to qualify as a REIT in 2014, on October 17, 2014, the Company's Board of Directors declared the Special Dividend of \$132.0 million, or approximately \$5.88 per common share, which represented the amount of accumulated earnings and profits allocated to the Company as a result of the Spin-Off. The Special Dividend was paid on December 10, 2014, to stockholders of record as of October 31, 2014, in a combination of both cash and stock. The cash portion totaled \$33.0 million and the stock portion totaled \$99.0 million. The Company issued 8,974,249 shares of common stock in connection with the stock portion of the Special Dividend. We believe that our available cash, expected operating cash flows and the availability under our Credit Facility will provide sufficient funds for our operations, anticipated scheduled debt service payments and dividend requirements for at least the next twelve months.

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

We have also filed a shelf registration statement with the SEC that expires in January 2019, which will allow us to offer and sell shares of common stock, preferred stock, and warrants through underwriters, dealers or agents or directly to purchasers, on a continuous or delayed basis, in amounts, at prices and on terms we determine at the time of the offering.

Although we are subject to restrictions on our ability to incur indebtedness, we expect that we will be able to refinance existing indebtedness or incur additional indebtedness for acquisitions or other purposes, if needed. However, there can be no assurance that we will be able to refinance our indebtedness, incur additional indebtedness or access additional sources of capital, such as by issuing common stock or other debt or equity securities, on terms that are acceptable to us or at all.

Cash Flows

The following table presents selected data from our consolidated and combined statements of cash flows for the years presented:

	Year Ended December 31,		
	2015	2014	2013
	(dollars in thousands)		
Net cash provided by operating activities	\$40,254	\$21,906	\$26,632
Net cash used in investing activities	(234,649)	(53,596)	(54,733)
Net cash provided by financing activities	180,542	56,115	28,261
Net (decrease) increase in cash and cash equivalents	(13,853)	24,425	160
Cash and cash equivalents at beginning of period	25,320	895	735
Cash and cash equivalents at end of period	\$11,467	\$25,320	\$895

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net cash provided by operating activities for the year ended December 31, 2015 was \$40.3 million compared to \$21.9 million for the year ended December 31, 2014, an increase of \$18.3 million. The increase was primarily due to net income in 2015 compared to a net loss in 2014 totaling \$17.9 million, including noncash charges, and a net increase in operating assets and liabilities of \$0.4 million.

Net cash used in investing activities for the year ended December 31, 2015 was \$234.6 million compared to \$53.6 million for the year ended December 31, 2014, an increase of \$181.1 million. The increase was primarily due to greater

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investments in real estate in 2015 compared to 2014 offset by lesser purchases of furniture, fixtures and equipment in 2015 compared to 2014 and no preferred equity investments made in 2015.

Net cash provided by financing activities for the year ended December 31, 2015 was \$180.5 million compared to \$56.1 million for the year ended December 31, 2014, an increase of \$124.4 million. This increase was primarily due to net proceeds of \$163.0 million from our offering of common stock, \$184.3 million in lower payments on debt, \$11.2 million in lower dividends paid, and \$11.1 million in lower deferred financing fees offset by lower net borrowings in 2015 of \$240.7 million and no net contributions from Ensign in 2015.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net cash provided by operating activities for the year ended December 31, 2014 was \$21.9 million compared to \$26.6 million for the year ended December 31, 2013, a decrease of \$4.7 million. The decrease was primarily due to larger net loss in 2014 after adding back noncash charges which totaled \$3.8 million and a net decrease in operating assets and liabilities of \$0.9 million.

Net cash used in investing activities for the year ended December 31, 2014 was \$53.6 million compared to \$54.7 million for the year ended December 31, 2013, a decrease of \$1.1 million. The decrease was primarily the result of lower investments in real estate in 2014 compared to 2013.

Net cash provided by financing activities for the year ended December 31, 2014 was \$56.1 million compared to \$28.3 million for the year ended December 31, 2013, an increase of \$27.9 million. This increase was due to the following: issuance of debt totaling \$320.7 million for the year ended December 31, 2014 compared to \$58.7 million for the year ended December 31, 2013, an increase of \$262.0 million; payments on debt totaling \$222.5 million for the year ended December 31, 2014 compared to \$7.2 million for the year ended December 31, 2013, an increase of \$215.3 million; payments of deferred financing costs totaling \$13.4 million for the year ended December 31, 2014 compared to \$0.7 million for the year ended December 31, 2013, an increase of \$12.7 million; net contribution from Ensign totaling \$4.4 million for the year ended December 31, 2014 compared to a net distribution from Ensign of \$22.5 million for the year ended December 31, 2013, a change of \$26.9 million; and cash dividends paid on common stock in 2014 of \$33.0 million.

Indebtedness

Senior Unsecured Notes

On May 30, 2014, the Operating Partnership, and its wholly owned subsidiary, CareTrust Capital Corp. (together with the Operating Partnership, the "Issuers"), completed a private offering of \$260.0 million aggregate principal amount of 5.875% Senior Notes due 2021 (the "Notes"). The Notes were issued at par, resulting in gross proceeds of \$260.0 million and net proceeds of approximately \$253.0 million after deducting underwriting fees and other offering expenses. We transferred approximately \$220.8 million of the net proceeds of the offering of the Notes to Ensign, and used the remaining net proceeds of the offering to pay the cash portion of the Special Dividend. The Notes mature on June 1, 2021 and bear interest at a rate of 5.875% per year. Interest on the Notes is payable on June 1 and December 1 of each year, beginning on December 1, 2014. The Issuers subsequently exchanged the Notes for substantially identical notes registered under the Securities Act of 1933.

The Issuers may redeem the Notes any time prior to June 1, 2017 at a redemption price of 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest on the Notes, if any, to, but not including, the redemption date, plus a "make whole" premium described in the indenture governing the Notes and, at any time on or after June 1, 2017, at the redemption prices set forth in the indenture. In addition, at any time on or prior to June 1, 2017, up to 35% of the aggregate principal amount of the Notes may be redeemed with the net proceeds of certain equity offerings if at least 65% of the originally issued aggregate principal amount of the Notes remains outstanding. If certain changes of control of CareTrust occur, holders of the Notes will have the right to require the Issuers to repurchase their Notes at 101% of the principal amount plus accrued and unpaid interest, if any, to, but not including, the repurchase date.

The obligations under the Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by CareTrust and certain of CareTrust's wholly owned existing and, subject to certain exceptions, future material

subsidiaries (other than the Issuers); provided, however, that such guarantees are subject to automatic release under certain customary circumstances, including if the subsidiary guarantor is sold or sells all or substantially all of its assets, the subsidiary guarantor is designated “unrestricted” for covenant purposes under the indenture, the subsidiary guarantor’s guarantee of other indebtedness which resulted in the creation of the guarantee of the Notes is terminated or released, or the requirements for legal

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defeasance or covenant defeasance or to discharge the indenture have been satisfied. See Note 13, Summarized Condensed Consolidating and Combining Information.

The indenture contains covenants limiting the ability of CareTrust and its restricted subsidiaries to: incur or guarantee additional indebtedness; incur or guarantee secured indebtedness; pay dividends or distributions on, or redeem or repurchase, capital stock; make certain investments or other restricted payments; sell assets; enter into transactions with affiliates; merge or consolidate or sell all or substantially all of their assets; and create restrictions on the ability of the Issuers and their restricted subsidiaries to pay dividends or other amounts to the Issuers. The indenture also requires CareTrust and its restricted subsidiaries to maintain a specified ratio of unencumbered assets to unsecured indebtedness. These covenants are subject to a number of important and significant limitations, qualifications and exceptions. The indenture also contains customary events of default.

As of December 31, 2015, we were in compliance with all applicable financial covenants under the indenture.

Unsecured Credit Facility

On August 5, 2015, the Company, CareTrust GP, LLC, the Operating Partnership, as the borrower, and certain of its wholly owned subsidiaries entered into a credit and guaranty agreement with KeyBank National Association, as administrative agent, an issuing bank and swingline lender, and the lenders party thereto (the "Credit Agreement"). The Credit Agreement initially provided for an unsecured asset-based revolving credit facility (the "Revolving Facility") with commitments in an aggregate principal amount of \$300.0 million from a syndicate of banks and other financial institutions, and an accordion feature that allows the Operating Partnership to increase the borrowing availability by up to an additional \$200.0 million. A portion of the proceeds of the Revolving Facility were used to pay off and terminate the Company's existing secured asset-based revolving credit facility under a credit agreement dated May 30, 2014, with SunTrust Bank, as administrative agent, and the lenders party thereto (the "SunTrust Refinancing"). As of December 31, 2015, there was \$45.0 million outstanding under the Credit Facility.

After the end of the fiscal year, on February 1, 2016, the Company, CareTrust GP, LLC, the Operating Partnership, as the borrower, and certain of its wholly owned subsidiaries entered into the First Amendment (the "Amendment") to the Credit Agreement. Pursuant to the Amendment, (i) commitments in respect of the Credit Facility were increased by \$100.0 million to \$400.0 million total, (ii) a new \$100.0 million non-amortizing unsecured term loan (the "Term Loan" and, together with the Revolving Facility, the "Credit Facility") was funded and (iii) the uncommitted incremental facility was increased by \$50.0 million to \$250.0 million. Approximately \$95.0 million of the proceeds of the Term Loan were used to pay off and terminate the GECC Loan (the "GECC Refinancing"). See "General Electric Capital Corporation Loan" below.

The Credit Agreement has a maturity date of August 5, 2019, and includes two, six-month extension options. The Term Loan, which matures on February 1, 2023, may be prepaid at any time subject to a 2% premium in the first year after issuance and a 1% premium in the second year after issuance.

The Credit Agreement initially provided that, subject to customary conditions, including obtaining lender commitments and pro forma compliance with financial maintenance covenants under the Credit Agreement, the Operating Partnership may seek to increase the aggregate principal amount of the revolving commitments and/or establish one or more new tranches of incremental revolving or term loans under the Credit Facility in an aggregate amount not to exceed \$200.0 million. Pursuant to the Amendment, the uncommitted incremental facility was increased by \$50.0 million to \$250.0 million effective February 1, 2016. The Company does not currently have any commitments for such increased loans.

The interest rates applicable to loans under the Revolving Facility are, at the Company's option, equal to either a base rate plus a margin ranging from 0.75% to 1.40% per annum or applicable LIBOR plus a margin ranging from 1.75% to 2.40% per annum based on the debt to asset value ratio of the Company and its subsidiaries (subject to decrease at the Company's election if the Company obtains certain specified investment grade ratings on its senior long term unsecured debt). Pursuant to the Amendment, the interest rates applicable to the Term Loan are, at the Company's option equal to a base rate plus a margin ranging from 0.95% to 1.60% per annum or applicable LIBOR plus a margin ranging from 1.95% to 2.60% per annum based on the debt to asset value ratio of the Company and its subsidiaries (subject to decrease at the Company's election if the Company obtains certain specified investment grade ratings on its senior long term unsecured debt).

In addition, the Company will pay a commitment fee on the unused portion of the commitments under the Revolving Facility of 0.15% or 0.25% per annum, based upon usage of the Revolving Facility (unless the Company obtains certain specified investment grade ratings on its senior long term unsecured debt and elects to decrease the applicable margin as described above, in which case the Company will pay a facility fee on the revolving commitments ranging from 0.125% to 0.30% per annum based upon the credit ratings of its senior long term unsecured debt).

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The Credit Facility is guaranteed, jointly and severally, by the Company and its wholly owned subsidiaries that are party to the Credit Agreement (other than the Operating Partnership). The Credit Agreement contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its subsidiaries to grant liens on their assets, incur indebtedness, sell assets, make investments, engage in acquisitions, mergers or consolidations, amend certain material agreements and pay certain dividends and other restricted payments. The Credit Agreement requires the Company to comply with financial maintenance covenants to be tested quarterly, consisting of a maximum debt to asset value ratio, a minimum fixed charge coverage ratio, a minimum tangible net worth, a maximum cash distributions to operating income ratio, a maximum secured debt to asset value ratio and a maximum secured recourse debt to asset value ratio. The Credit Agreement also contains certain customary events of default, including that the Company is required to operate in conformity with the requirements for qualification and taxation as a REIT.

As of December 31, 2015, the Company was in compliance with all applicable financial covenants under the Credit Agreement.

General Electric Capital Corporation Loan

As of December 31, 2015, ten of our properties were subject to secured mortgage indebtedness to the GECC Loan, which we assumed in connection with the Spin-Off. The outstanding amount of this mortgage indebtedness was approximately \$95.0 million as of December 31, 2015, including an advance of approximately \$50.7 million that was made on May 30, 2014. This advance bears interest at a floating rate equal to three-month LIBOR plus 3.35%, reset monthly and subject to a LIBOR floor of 0.50%, with monthly principal and interest payments based on a 25 year amortization. The remaining indebtedness under the GECC Loan bears interest at a blended rate of 7.25% per annum until, but not including, June 29, 2016, and then converts to the floating rate described above. The GECC Loan matures on May 30, 2017, subject to two 12-month extension options, the exercise of which is conditioned, in each case, on the absence of any then-existing default and the payment of an extension fee equal to 0.25% of the then-outstanding principal balance. Provided there is no then-existing default and upon 30 days written notice, the original portion of the GECC Loan, approximately \$46.2 million as of December 31, 2015, is prepayable without penalty, in whole but not in part, after January 31, 2016. The new portion of the GECC Loan, approximately \$48.9 million as of December 31, 2015, is prepayable without penalty, in whole but not in part, after January 31, 2016. The GECC Loan is guaranteed by the Company, contains customary affirmative and negative covenants, as well as customary events of default, and requires us to comply with specified financial maintenance covenants.

As of December 31, 2015, the Company was in compliance with all applicable financial covenants under the GECC Loan.

As of February 1, 2016, in connection with the Amendment, the GECC Loan was paid off and terminated as part of the GECC Refinancing.

Obligations and Commitments

The following table summarizes our contractual obligations and commitments at December 31, 2015 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1 Year to Less than 3 Years	3 Years to Less than 5 Years	More than 5 years
Senior Unsecured Notes (1)	\$344,013	\$15,275	\$30,550	\$30,550	\$267,638
Credit Facility (2)	51,525	1,826	3,641	46,058	—
Mortgage Notes Payable (3)	102,785	8,009	94,776	—	—
Operating lease	560	129	271	160	—
Total	\$498,883	\$25,239	\$129,238	\$76,768	\$267,638

(1) Amounts include interest payments of \$84.0 million.

(2)

Represents borrowings of \$45.0 million outstanding at December 31, 2015 and the unused Credit Facility fee. On February 1, 2016, we entered into an amendment to the Credit Facility which, among other things, increased commitments in respect of the Credit Facility to \$400.0 million and provided for a \$100.0 million Term Loan. See "Indebtedness-Unsecured Credit Facility" above for further information.

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Amounts include interest payments of \$7.8 million. The \$48.9 million variable rate portion of the GECC debt (3) assumes an interest rate of 3.85%. As described above, the GECC Loan was paid off and terminated on February 1, 2016 as part of the GECC Refinancing.

Capital Expenditures

We anticipate incurring average annual capital expenditures of \$400 to \$500 per unit in connection with the operations of our three ILFs. Capital expenditures for each property leased under triple-net leases are generally the responsibility of the tenant, except that, for the Ensign Master Leases, the tenant will have an option to require us to finance certain capital expenditures up to an aggregate of 20% of our initial investment in such property.

Critical Accounting Policies

Basis of Presentation. The accompanying consolidated and combined financial statements of the Company reflect, for all periods presented, the historical financial position, results of operations and cash flows of (i) the skilled nursing, assisted living and independent living facilities that Ensign contributed to us immediately prior to the Spin-Off, (ii) the operations of the three independent living facilities that we operated immediately following the Spin-Off, and (iii) the new investments that we have made after the Spin-Off. Our financial statements, prior to the Spin-Off, have been prepared on a “carve-out” basis from Ensign’s consolidated financial statements using the historical results of operations, cash flows, assets and liabilities attributable to such skilled nursing, assisted living and independent living facilities. The combined statements of operations, prior to the Spin-Off, reflect allocations of general corporate expenses from Ensign including, but not limited to, executive management, finance, legal, information technology, human resources, employee benefits administration, treasury, risk management, procurement, and other shared services. See Note 6, Related Party Transactions.

Management believes that the assumptions and estimates used in preparation of the underlying consolidated and combined financial statements are reasonable. However, the consolidated and combined financial statements herein do not necessarily reflect what our financial position, results of operations or cash flows would have been if the Company had been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of our future results of operations, financial position or cash flows.

Estimates and Assumptions. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Real Estate Depreciation and Amortization. Real estate costs related to the acquisition and improvement of properties are capitalized and amortized over the expected useful life of the asset on a straight-line basis. Repair and maintenance costs are charged to expense as incurred and significant replacements and betterments are capitalized. Repair and maintenance costs include all costs that do not extend the useful life of the real estate asset. We consider the period of future benefit of an asset to determine its appropriate useful life. Expenditures for tenant improvements are capitalized and amortized over the shorter of the tenant’s lease term or expected useful life. We anticipate the estimated useful lives of our assets by class to be generally as follows:

Buildings	25-40 years
Building improvements	10-25 years
Tenant improvements	Shorter of lease term or expected useful life
Integral equipment, furniture and fixtures	5 years

Real Estate Acquisition Valuation. In accordance with Accounting Standard Codification ("ASC") 805, Business Combinations, we record the acquisition of income-producing real estate as a business combination. If the acquisition does not meet the definition of a business, we record the acquisition as an asset acquisition. Under both methods, all assets acquired and liabilities assumed are measured at their acquisition date fair values. For transactions that are business combinations, acquisition costs are expensed as incurred and restructuring costs that do not meet the definition of a liability at the acquisition date are expensed in periods subsequent to the acquisition date. For transactions that are an asset acquisition, acquisition costs are capitalized as incurred.

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We assess the acquisition date fair values of all tangible assets, identifiable intangibles and assumed liabilities using methods similar to those used by independent appraisers, generally utilizing a discounted cash flow analysis that applies appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it were vacant.

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

Impairment of Long-Lived Assets. Management periodically evaluates our real estate investments for impairment indicators, including the evaluation of our assets' useful lives. Management also assesses the carrying value of our real estate investments whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The judgment regarding the existence of impairment indicators is based on factors such as, but not limited to, market conditions, operator performance and legal structure. If indicators of impairment are present, management evaluates the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying facilities. Provisions for impairment losses related to long-lived assets are recognized when expected future undiscounted cash flows are determined to be less than the carrying values of the assets. An adjustment is made to the net carrying value of the real estate investments for the excess of carrying value over fair value. All impairments are taken as a period cost at that time and depreciation is adjusted going forward to reflect the new value assigned to the asset.

If we decide to sell real estate properties, we evaluate the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell.

In the event of impairment, the fair value of the real estate investment is determined by market research, which includes valuing the property in its current use as well as other alternative uses, and involves significant judgment. Our estimates of cash flows and fair values of the properties are based on current market conditions and reflect matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties, and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers. Our ability to accurately estimate future cash flows and estimate and allocate fair values impacts the timing and recognition of impairments. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on financial results.

Other Real Estate Investments. Preferred equity investments with characteristics of debt instruments are accounted for as acquisition, development and construction loans held for investment, stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses and accrued interest, net of reserves. We recognize interest income on a quarterly basis based on the outstanding investment including any accrued and unpaid interest.

We periodically evaluate each of our investments for indicators of impairment. An investment is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. A reserve is established for the excess of the carrying value of the investment over its fair value, or, as a practical expedient, the value of the collateral if the loan is collateral dependent.

Deferred Financing Costs. External costs incurred from placement of our debt are capitalized and amortized on a straight-line basis over the terms of the related borrowings, which approximates the effective interest method. For our senior unsecured notes payable and our mortgage notes payable, deferred financing costs are netted against the outstanding debt amounts on the balance sheet. For our Credit Facility, deferred financing costs are shown gross and are included in assets on our balance sheet. See Note 2 Summary of Significant Accounting Policies-Recently Adopted Accounting Standards in our financial statements for further discussion.

Revenue Recognition. We recognize rental revenue, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, if any, from tenants under lease arrangements with minimum fixed and determinable increases on a straight-line basis over the non-cancellable term of the related leases when collectability is reasonably assured. Tenant recoveries related to the reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the expenses are incurred and presented gross if we are the primary obligor and, with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and bear

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the associated credit risk. For the years ended December 31, 2015, 2014 and 2013, such tenant reimbursement revenues consist of real estate taxes. Contingent revenue, if any, is not recognized until all possible contingencies have been eliminated.

We evaluate the collectability of rents and other receivables on a regular basis based on factors including, among others, payment history, the operations, the asset type and current economic conditions. If our evaluation of these factors indicates we may not recover the full value of the receivable, we provide a reserve against the portion of the receivable that we estimate may not be recovered. This analysis requires us to determine whether there are factors indicating a receivable may not be fully collectible and to estimate the amount of the receivable that may not be collected. We did not reserve any receivables as of December 31, 2015 and 2014.

Income Taxes. Our operations have historically been included in Ensign's U.S. federal and state income tax returns and all income taxes have been paid by Ensign. Income tax expense and other income tax related information contained in these consolidated financial statements are presented on a separate tax return basis as if we filed our own tax returns. Management believes that the assumptions and estimates used to determine these tax amounts are reasonable. However, the consolidated financial statements herein may not necessarily reflect our income tax expense or tax payments in the future, or what our tax amounts would have been if we had been a stand-alone company during the periods presented.

We have elected to be taxed as a REIT under the Code, and intend to operate as such beginning with our taxable year ended December 31, 2014. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to our stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, we generally will not be subject to federal income tax to the extent we distribute qualifying dividends to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions.

In connection with our intention to qualify as a REIT in 2014, on October 17, 2014, our board of directors declared a special dividend of \$132.0 million, or approximately \$5.88 per common share, which represents the amount of accumulated earnings and profits, or "E&P," allocated to us as a result of the Spin-Off. The Special Dividend was intended to purge us of accumulated E&P attributable to the period prior to our first taxable year as a REIT. The Special Dividend was paid on December 10, 2014, to stockholders of record as of October 31, 2014, in a combination of both cash and stock. The cash portion totaled \$33.0 million and the stock portion totaled \$99.0 million. We issued 8,974,249 shares of common stock in connection with the stock portion of the Special Dividend.

Stock-Based Compensation. We account for share-based awards in accordance with ASC Topic 718, Compensation - Stock Compensation ("ASC 718"). ASC 718 requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. ASC 718 requires all entities to apply a fair value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans.

Impact of Inflation

Our rental income in future years will be impacted by changes in inflation. All of our triple-net lease agreements, including the Ensign Master Leases, provide for an annual rent escalator based on the percentage change in the Consumer Price Index (but not less than zero), subject to maximum fixed percentages.

Off-Balance Sheet Arrangements

None.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

As of December 31, 2015, our primary market risk exposure was interest rate risk with respect to our variable rate indebtedness under the GECC Loan. Approximately \$48.9 million of the GECC Loan bears interest at a floating rate equal to three month LIBOR plus 3.35%, reset monthly and subject to a LIBOR floor of 0.50%, with monthly

principal and interest payments based on a 25 year amortization. The remaining approximately \$46.2 million of the GECC Loan bears interest at a blended rate of 7.25% per annum until, but not including, June 29, 2016, and thereafter at the floating rate described above. As of February 1, 2016, the GECC Loan was paid off and terminated as part of the GECC Refinancing.

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As of December 31, 2015, our Credit Agreement provided for revolving commitments in an aggregate principal amount of \$300.0 million from a syndicate of banks and other financial institutions. At December 31, 2015, we had \$45.0 million of outstanding borrowings under the Revolving Facility. As of February 1, 2016, pursuant to the Amendment, (i) commitments in respect of the Revolving Facility were increased by \$100.0 million to \$400.0 million total, and (ii) the \$100.0 million Term Loan was funded. Interest rates per annum applicable to loans under the Credit Facility are, at the Company's option, equal to either a base rate plus a margin ranging from 0.75% to 1.40% per annum, for revolving loans, and 0.95% to 1.60% per annum, for term loans, or LIBOR plus a margin ranging from 1.75% to 2.40% per annum, for revolving loans, and 1.95% to 2.60% per annum, for term loans, based on the debt to asset value ratio of the Company and its subsidiaries (subject to decrease at the Company's election if the Company obtains certain specified investment grade ratings on its senior long term unsecured debt).

An increase in interest rates could make the financing of any acquisition by us more costly as well as increase the costs of our variable rate debt obligations. Rising interest rates could also limit our ability to refinance our debt when it matures or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. Assuming a 100 basis point increase in the interest rate related to our variable rate debt, and assuming no change in our outstanding debt balance as described above, annual interest expense under the floating rate portion of the GECC Loan and the Credit Facility would have increased \$0.9 million for the year ended December 31, 2015. We may, in the future, manage, or hedge, interest rate risks related to our borrowings by means of interest rate swap agreements. However, the REIT provisions of the Code substantially limit our ability to hedge our assets and liabilities. See "Risk Factors - Risks Related to Our Status as a REIT - Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities." As of December 31, 2015, we had no swap agreements to hedge our interest rate risks. We also expect to manage our exposure to interest rate risk by maintaining a mix of fixed and variable rates for our indebtedness.

ITEM 8. Financial Statements and Supplementary Data

See the Index to Consolidated and Combined Financial Statements included in this report.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and regulations and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2015, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles,

and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and (iii) provide reasonable assurance regarding

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prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management evaluated the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

Attestation Report of the Independent Registered Public Accounting Firm

As long as we remain an “emerging growth company,” as defined in the JOBS Act, we will not be required to comply with the auditor attestation requirements related to internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required under Item 10 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015 in connection with our 2016 Annual Meeting of Stockholders.

Code of Conduct and Ethics

We have adopted a code of business conduct and ethics that applies to all employees, including employees of our subsidiaries, as well as each member of our Board of Directors. The code of business conduct and ethics is available at our website at www.caretrustreit.com under the Investors-Corporate Governance section. We intend to satisfy any disclosure requirement under applicable rules of the Securities and Exchange Commission or NASDAQ Stock Market regarding an amendment to, or waiver from, a provision of this code of business conduct and ethics by posting such information on our website, at the address specified above.

ITEM 11. Executive Compensation

The information required under Item 11 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015 in connection with our 2016 Annual Meeting of Stockholders.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required under Item 12 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015 in connection with our 2016 Annual Meeting of Stockholders.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required under Item 13 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015 in connection with our 2016 Annual Meeting of Stockholders.

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ITEM 14. Principal Accountant Fees and Services

The information required under Item 14 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015 in connection with our 2016 Annual Meeting of Stockholders.

PART IV

ITEM 15. Exhibits, Financial Statements and Financial Statement Schedules

(a)(1) Financial Statements

See Index to Consolidated and Combined Financial Statements on page F-1 of this report.

(a)(2) Financial Statement Schedules

Schedule III: Real Estate Assets and Accumulated Depreciation

Note: All other schedules have been omitted because the required information is presented in the financial statements and the related notes or because the schedules are not applicable.

(a)(3) Exhibits

2.1 Separation and Distribution Agreement, dated as of May 23, 2014, by and between The Ensign Group, Inc. and CareTrust REIT, Inc. (incorporated by reference to Exhibit 2.1 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).

2.2 Purchase and Sale Agreement and Joint Escrow Instructions, dated May 13, 2015, by and among CTR Partnership, L.P. and the entities party thereto as sellers (incorporated by reference to Exhibit 10.1 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on August 10, 2015, is incorporated herein by reference).

2.3 First Amendment to Purchase and Sale Agreement and Joint Escrow Instructions, dated as of July 30, 2015, by and among CTR Partnership, L.P. and the entities party thereto as sellers (incorporated by reference to Exhibit 10.2 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on August 10, 2015, is incorporated herein by reference).

3.1 Articles of Amendment and Restatement of CareTrust REIT, Inc. (incorporated by reference to Exhibit 3.1 to CareTrust REIT, Inc.'s Registration Statement on Form 10, filed on May 13, 2014).

3.2 Amended and Restated Bylaws of CareTrust REIT, Inc. (incorporated by reference to Exhibit 3.2 to CareTrust REIT, Inc.'s Registration Statement on Form 10, filed on May 13, 2014).

4.1 Indenture, dated as of May 30, 2014, among CTR Partnership, L.P. and CareTrust Capital Corp., as Issuers, the guarantors named therein, and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).

4.2 Form of 2021 Note (included in Exhibit 4.1 above).

4.3 Specimen Stock Certificate of CareTrust REIT, Inc. (incorporated by reference to Exhibit 4.1 to CareTrust REIT, Inc.'s Registration Statement on Form 10, filed on April 15, 2014).

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- 10.1 Form of Master Lease by and among certain subsidiaries of The Ensign Group, Inc. and certain subsidiaries of CareTrust REIT, Inc. (incorporated by reference to Exhibit 10.1 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).
- 10.2 Form of Guaranty of Master Lease by The Ensign Group, Inc. in favor of certain subsidiaries of CareTrust REIT, Inc., as landlords under the Ensign Master Leases (incorporated by reference to Exhibit 10.2 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).
- 10.3 Master Lease, dated as of July 30, 2015, by and among CTR Partnership, L.P. and the entities party thereto as tenants (incorporated by reference to Exhibit 10.3 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on August 10, 2015).
- 10.4 Guaranty of Master Lease, dated as of July 30, 2015, by Pristine Senior Living, LLC, Christopher T. Cook, and Stephen Ryan in favor of CTR Partnership, L.P. (incorporated by reference to Exhibit 10.4 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on August 10, 2015, is incorporated herein by reference).
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- 10.5 Nomination Agreement, dated as of July 30, 2015, by and among CTR Partnership, L.P., Pristine Senior Living of Mansfield, LLC and Pristine Senior Living of Fremont, LLC. (incorporated by reference to Exhibit 10.5 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on August 10, 2015, is incorporated herein by reference).
- 10.6 Opportunities Agreement, dated as of May 30, 2014, by and between The Ensign Group, Inc. and CareTrust REIT, Inc. (incorporated by reference to Exhibit 10.3 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).
- 10.7 Transition Services Agreement, dated as of May 30, 2014, by and between The Ensign Group, Inc. and CareTrust REIT, Inc. (incorporated by reference to Exhibit 10.4 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).
- 10.8 Tax Matters Agreement, dated as of May 30, 2014, by and between The Ensign Group, Inc. and CareTrust REIT, Inc. (incorporated by reference to Exhibit 10.5 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).
- 10.9 Employee Matters Agreement, dated as of May 30, 2014, by and between The Ensign Group, Inc. and CareTrust REIT, Inc. (incorporated by reference to Exhibit 10.6 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).
- 10.10 Contribution Agreement, dated as of May 30, 2014, by and among CTR Partnership L.P., CareTrust GP, LLC, CareTrust REIT, Inc. and The Ensign Group, Inc. (incorporated by reference to Exhibit 10.7 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).
- 10.11 Credit and Guaranty Agreement, dated August 5, 2015, by and among CareTrust REIT, Inc., CareTrust GP, LLC, CTR Partnership, L.P., certain of its wholly owned subsidiaries, KeyBank National Association and the lenders party thereto (incorporated by reference to Exhibit 10.1 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on August 6, 2015).
- 10.12 First Amendment to Credit and Guaranty Agreement, dated February 1, 2016, by and among CareTrust REIT, Inc., CTR Partnership, L.P., the other guarantors therein and KeyBank National Association, as administrative agent, and the other lenders party thereto (which includes as Annex A thereto an amended and restatement of the Credit and Guaranty Agreement) (incorporated by reference to Exhibit 10.1 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on February 4, 2016).
- 10.13 Fifth Amended and Restated Loan Agreement, dated as of May 30, 2014, by and among certain subsidiaries of CareTrust REIT, Inc. as borrowers, and General Electric Capital Corporation as agent and lender (incorporated by reference to Exhibit 10.10 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).
- 10.14 Form of Indemnification Agreement between CareTrust REIT, Inc. and its directors and officers (incorporated by reference to Exhibit 10.11 to CareTrust REIT, Inc.'s Current Report on Form 8-K, filed on June 5, 2014).
- 10.15 Incentive Award Plan (incorporated by reference to Exhibit 10.9 to CareTrust REIT, Inc.'s Registration Statement on Form 10, filed on May 13, 2014).

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- 10.16 Amended and Restated Partnership Agreement of CTR Partnership, L.P. (incorporated by reference to Exhibit 3.4 to CareTrust REIT, Inc.'s Registration Statement on Form S-4, filed on August 28, 2014).
- +10.17 Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.15 to CareTrust REIT, Inc.'s Annual Report on Form 10-K, filed on February 11, 2015).
- +10.18 Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.16 to CareTrust REIT, Inc.'s Annual Report on Form 10-K, filed on February 11, 2015).
- *21.1 List of Subsidiaries of CareTrust REIT, Inc.
- *23.1 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- *23.2 Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
- *31.1 Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *31.2 Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- **32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

**Furnished herewith.

+Management contract or compensatory plan or arrangement.

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SIGNATURES

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

CARETRUST REIT, INC.

By: /S/ GREGORY K. STAPLEY
 Gregory K. Stapley
 President and Chief Executive Officer

Dated: February 11, 2016

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

Name	Title	Date
/s/ GREGORY K. STAPLEY Gregory K. Stapley	Director, President and Chief Executive Officer (Principal Executive Officer)	February 11, 2016
/s/ WILLIAM M. WAGNER William M. Wagner	Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer and Principal Accounting Officer)	February 11, 2016
/s/ ALLEN C. BARBIERI Allen C. Barbieri	Director	February 11, 2016
/s/ JON D. KLINE Jon D. Kline	Director	February 11, 2016
/s/ DAVID G. LINDAHL David G. Lindahl	Director	February 11, 2016
/s/ GARY B. SABIN Gary B. Sabin	Director	February 11, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
CareTrust REIT, Inc.

We have audited the accompanying consolidated balance sheets of CareTrust REIT, Inc. (the “Company”), as of December 31, 2015 and 2014, and the related consolidated and combined statements of operations, comprehensive income (loss), equity, and cash flows for each of the two years in the period ended December 31, 2015. Our audit also included the financial statement schedule listed in the Index at Item 15(a)(2), Schedule III - Real Estate and Accumulated Depreciation. These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of CareTrust REIT, Inc. as of December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its presentation of debt issuance costs as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, effective for interim and annual reporting periods January 1, 2016, which effective December 31, 2015, the Company elected to early adopt.

/s/ ERNST & YOUNG LLP

Irvine, California

February 11, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Ensign Group, Inc.

Mission Viejo, California

We have audited the accompanying combined statements of operations, comprehensive income (loss), equity, and cash flows of Ensign Properties (the "Company"), as defined in the notes to the combined financial statements, for the year ended December 31, 2013. Our audit also included the financial statement schedule for the year ended December 31, 2013, listed in the Index. These combined financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements and the financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the results of operations and cash flows of Ensign Properties for the year ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic combined financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As described in Note 1 and Note 2, the accompanying combined financial statements of the Company are comprised of the real property interests and independent living facility businesses of The Ensign Group, Inc., and contain related party transactions that may not be reflective of the actual amounts which would have been incurred had the Company operated as a separate entity apart from The Ensign Group, Inc. Included in Note 6 to the combined financial statements is a summary of related party transactions.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California

March 14, 2014 (August 28, 2014 as to the earnings (loss) per share information described in Note 10 and the condensed combining information in Note 13)

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CARETRUST REIT, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31,	
	2015	2014
Assets:		
Real estate investments, net	\$645,614	\$436,215
Other real estate investments	8,477	7,532
Cash and cash equivalents	11,467	25,320
Accounts receivable (related party receivables of \$0 at December 31, 2015 and \$2,275 at December 31, 2014 - Note 6)	2,342	2,291
Prepaid expenses and other assets	2,083	809
Deferred financing costs, net	3,183	2,973
Total assets	\$673,166	\$475,140
Liabilities and Equity:		
Senior unsecured notes payable, net	\$254,229	\$253,165
Unsecured revolving credit facility	45,000	—
Mortgage notes payable, net	94,676	97,608
Accounts payable and accrued liabilities	9,269	6,959
Dividends payable	7,704	3,946
Total liabilities	410,878	361,678
Commitments and contingencies (Note 11)		
Equity:		
Preferred stock, \$0.01 par value; 100,000,000 shares authorized, no shares issued and outstanding as of December 31, 2015 and 2014	—	—
Common stock, \$0.01 par value; 500,000,000 shares authorized, 47,664,742 and 31,251,157 shares issued and outstanding as of December 31, 2015 and 2014, respectively	477	313
Additional paid-in capital	410,217	246,041
Cumulative distributions in excess of earnings	(148,406	) (132,892)
Total equity	262,288	113,462
Total liabilities and equity	\$673,166	\$475,140
See accompanying notes to consolidated and combined financial statements.		

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CARETRUST REIT, INC.

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Year Ended December 31,		
	2015	2014	2013
Revenues:			
Rental income (related party rental income of \$16,308, \$32,667 and \$0 for the year ended December 31, 2015, 2014 and 2013, respectively – Note 6)	\$65,979	\$51,367	\$41,242
Tenant reimbursements (related party tenant reimbursements of \$1,406, \$2,842 and \$0 for the year ended December 31, 2015, 2014 and 2013, respectively – Note 6)	5,497	4,956	5,168
Independent living facilities	2,510	2,519	2,386
Interest and other income	965	55	—
Total revenues	74,951	58,897	48,796
Expenses:			
Depreciation and amortization	24,133	23,000	23,418
Interest expense	25,256	21,622	12,647
Loss on extinguishment of debt	—	4,067	—
Property taxes	5,497	4,956	5,168
Acquisition costs	—	47	255
Independent living facilities	2,376	2,243	2,138
General and administrative	7,655	11,105	5,442
Total expenses	64,917	67,040	49,068
Income (loss) before provision for income taxes	10,034	(8,143)	) (272)
Provision for income taxes	—	—	123
Net income (loss)	\$10,034	\$(8,143)	) \$(395)
Earnings (loss) per common share:			
Basic	\$0.26	\$(0.36)	) \$(0.02)
Diluted	\$0.26	\$(0.36)	) \$(0.02)
Weighted-average number of common shares:			
Basic	37,380	22,788	22,228
Diluted	37,380	22,788	22,228

See accompanying notes to consolidated and combined financial statements.

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CARETRUST REIT, INC.

CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Year Ended December 31,		
	2015	2014	2013
Net income (loss)	\$10,034	\$(8,143)	\$(395)
Other comprehensive income:			
Unrealized gain on interest rate swap	—	167	1,038
Reclassification adjustment on interest rate swap	—	1,661	—
Comprehensive income (loss)	\$10,034	\$(6,315)	\$643

See accompanying notes to consolidated and combined financial statements.

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CARETRUST REIT, INC.
CONSOLIDATED AND COMBINED STATEMENTS OF EQUITY
(in thousands, except share and per share amounts)

	Common Stock		Additional Paid-in Capital	Cumulative Distributions in Excess of Earnings	Invested Equity	Accumulated Other Comprehensive Income (Loss)	Total Equity
	Shares	Amount					
Balance at January 1, 2013	—	\$—	\$—	\$—	\$187,414	\$ (2,866)	\$184,548
Unrealized gain on interest rate swap	—	—	—	—	—	1,038	1,038
Net capital distribution to Ensign	—	—	—	—	(22,502)	—	(22,502)
Issuance of common stock	1,000	—	—	—	—	—	—
Net loss	—	—	—	—	(395)	—	(395)
Balance at December 31, 2013	1,000	—	—	—	164,517	(1,828)	162,689
Net capital contribution from Ensign	—	—	—	—	4,356	—	4,356
Unrealized gain on interest rate swap	—	—	—	—	—	167	167
Reclassification adjustment on interest rate swap	—	—	—	—	—	1,661	1,661
Net capital distribution to Ensign	—	—	—	—	(10,475)	—	(10,475)
Reclassification of invested equity to common stock and additional paid-in capital in conjunction with the Spin-Off (Note 1)	22,227,358	222	146,980	—	(147,202)	—	—
Vesting of restricted common stock	48,550	1	(1)	—	—	—	—
Amortization of stock-based compensation	—	—	154	—	—	—	154
Special dividend at \$5.88 per share	8,974,249	90	98,908	(131,999)	—	—	(33,001)
Common dividend at \$0.125 per share	—	—	—	(3,946)	—	—	(3,946)
Net income (loss)	—	—	—	3,053	(11,196)	—	(8,143)
Balance at December 31, 2014	31,251,157	313	246,041	(132,892)	—	—	113,462
Issuance of common stock, net	16,330,000	163	162,800	—	—	—	162,963
Vesting of restricted common stock, net of shares withheld for employee taxes	83,585	1	(146)	—	—	—	(145)

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Amortization of stock-based compensation	—	—	1,522	—	—	—	1,522
Common dividends (\$0.64 per share)	—	—	—	(25,548)	—	(25,548)
Net income	—	—	—	10,034	—	—	10,034
Balance at December 31, 2015	47,664,742	\$477	\$410,217	\$(148,406	)	\$—	\$262,288

See accompanying notes to consolidated and combined financial statements.

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CARETRUST REIT, INC.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income (loss)	\$10,034	\$(8,143)	(395)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	24,133	23,000	23,418
Amortization of deferred financing costs and debt discount	2,200	1,603	821
Write-off of deferred financing costs	1,208	—	—
Amortization of stock-based compensation	1,522	154	—
Noncash interest income	(945)	(32)	—
Loss on extinguishment of debt	—	1,998	—
Loss on settlement of interest rate swap	—	1,661	—
Loss on disposition of equipment, furniture and fixtures	—	—	206
Change in operating assets and liabilities:			
Accounts receivable	(2,326)	4	5
Accounts receivable due from related party	2,275	(2,275)	—
Prepaid expenses and other assets	(86)	445	266
Interest rate swap	—	(1,661)	—
Accounts payable and accrued liabilities	2,239	5,152	2,311
Net cash provided by operating activities	40,254	21,906	26,632
Cash flows from investing activities:			
Acquisition of real estate	(232,466)	(25,742)	(35,656)
Improvements to real estate	(187)	(579)	—
Purchases of equipment, furniture and fixtures	(276)	(19,275)	(19,931)
Preferred equity investment	—	(7,500)	—
Escrow deposits for acquisition of real estate	(1,750)	(500)	—
Net proceeds from the sale of vacant land	30	—	—
Cash proceeds from sale of equipment, furniture and fixtures	—	—	854
Net cash used in investing activities	(234,649)	(53,596)	(54,733)
Cash flows from financing activities:			
Proceeds from the issuance of common stock, net	162,963	—	—
Proceeds from the issuance of senior unsecured notes payable	—	260,000	—
Borrowings under unsecured credit facility	45,000	—	—
Borrowings under senior secured revolving credit facility	35,000	10,000	58,700
Proceeds from the issuance of mortgage notes payable	—	50,676	—
Repayments of borrowings under senior secured revolving credit facility	(35,000)	(88,701)	—
Payments on the mortgage notes payable	(3,183)	(68,155)	(3,457)
Payments on senior secured term loan	—	(65,624)	(3,750)
Payments of deferred financing costs	(2,303)	(13,436)	(730)
Net-settle adjustment on restricted stock	(145)	—	—
Dividends paid on common stock	(21,790)	(33,001)	—
Net contribution from (distribution to) Ensign (Note 6)	—	4,356	(22,502)
Net cash provided by financing activities	180,542	56,115	28,261
Net (decrease) increase in cash and cash equivalents	(13,853)	24,425	160
Cash and cash equivalents, beginning of period	25,320	895	735

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Cash and cash equivalents, end of period	\$11,467	\$25,320	895
Supplemental disclosures of cash flow information:			
Interest paid	\$21,687	\$17,243	\$12,657
Income taxes paid	\$—	\$104	\$100
Supplemental schedule of noncash operating, investing and financing activities:			
Increase in dividends payable	\$3,758	\$3,946	\$—
Application of escrow deposit to acquisition of real estate	\$500	\$—	\$—
Distributions paid to common stockholders through common stock issuances	\$—	\$98,998	\$—
Holdback of purchase price to acquire real estate	\$—	\$300	\$—
Operating assets and liabilities that were not transferred to CareTrust	\$—	\$1,042	\$—
Equipment, furniture and fixtures that were not transferred to CareTrust	\$—	\$(11,684)	\$—
Net capital distribution to Ensign	\$—	\$10,475	\$—
See accompanying notes to consolidated and combined financial statements.			

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CARETRUST REIT, INC.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION

Separation from Ensign—Prior to June 1, 2014, CareTrust REIT, Inc. (“CareTrust” or the “Company”) was a wholly owned subsidiary of The Ensign Group, Inc. (“Ensign”). On June 1, 2014, Ensign completed the separation of its healthcare business and its real estate business into two separate and independent publicly traded companies through the distribution of all of the outstanding shares of common stock of CareTrust to Ensign stockholders on a pro rata basis (the “Spin-Off”). Ensign stockholders received one share of CareTrust common stock for each share of Ensign common stock held at the close of business on May 22, 2014, the record date for the Spin-Off. The Spin-Off was effective from and after June 1, 2014, with shares of CareTrust common stock distributed by Ensign on June 2, 2014. The Company was formed on October 29, 2013 and had minimal activity prior to the Spin-Off.

Prior to the Spin-Off, the Company and Ensign entered into a Separation and Distribution Agreement, setting forth the mechanics of the Spin-Off, certain organizational matters and other ongoing obligations of the Company and Ensign. The Company and Ensign or their respective subsidiaries, as applicable, also entered into a number of other agreements to govern the relationship between Ensign and the Company after the Spin-Off, including eight long-term leases (the “Ensign Master Leases”), under which Ensign leases 94 healthcare facilities on a triple-net basis.

In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 505-60, Equity—Spinoffs and Reverse Spinoffs, the accounting for the separation of the Company follows its legal form, with Ensign as the legal and accounting spinor and the Company as the legal and accounting spinnee, due to the relative significance of Ensign’s healthcare business, the relative fair values of the respective companies, the retention of all senior management (except Mr. Gregory K. Stapley) by Ensign, and other relevant indicators. The assets and liabilities contributed to the Company from Ensign, or incurred in connection with the Spin-Off in the case of certain debt, were as follows (dollars in thousands):

Real estate investments, net	\$421,846	
Cash	78,731	
Accounts receivable and prepaid assets and other current assets	1,900	
Deferred financing costs, net	11,088	
Debt	(359,512)
Other liabilities	(6,838)
Net contribution	\$147,215	

Description of Business—The Company’s primary business consists of acquiring, financing and owning real property to be leased to third-party tenants in the healthcare sector. As of December 31, 2015, the Company owned and leased to independent operators, including Ensign, 119 skilled nursing, assisted living and independent living facilities which had a total of 12,144 beds and units located in Arizona, California, Colorado, Florida, Georgia, Idaho, Iowa, Minnesota, Nebraska, Nevada, Ohio, Texas, Utah, Virginia and Washington. The Company also owns and operates three independent living facilities which had a total of 264 units located in Texas and Utah. As of December 31, 2015, the Company also had one other real estate investment, consisting of an \$8.5 million preferred equity investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated and combined financial statements of the Company reflect, for all periods presented, the historical financial position, results of operations and cash flows of (i) the skilled nursing, assisted living and independent living facilities that Ensign contributed to the Company immediately prior to the Spin-Off and (ii) the operations of the three independent living facilities that the Company operated immediately following the Spin-Off. The consolidated and combined financial statements included in this report also reflect the new investments that the Company has made after the Spin-Off. For the periods prior to the Spin-Off, the Company’s financial statements have been prepared on a “carve-out” basis from Ensign’s consolidated financial statements using the

historical results of operations, cash flows, assets and liabilities attributable to such skilled nursing, assisted living and independent living facilities (the “Ensign Properties”).

For the periods prior to the Spin-Off, the combined statements of operations reflect allocations of general corporate expenses from Ensign including, but not limited to, executive management, finance, legal, information technology, human

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CARETRUST REIT, INC.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

resources, employee benefits administration, treasury, risk management, procurement, and other shared services. See further discussion in Note 6, Related Party Transactions.

Management believes that the assumptions and estimates used in preparation of the underlying consolidated and combined financial statements are reasonable. However, the consolidated and combined financial statements for the periods prior to June 1, 2014, do not necessarily reflect what the Company's financial position, results of operations or cash flows would have been if the Company had been a stand-alone company during those periods presented. The historical financial information prior to June 1, 2014, is not necessarily indicative of the Company's future results of operations, financial position or cash flows.

The accompanying consolidated and combined financial statements of the Company were prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and reflect the financial position, results of operations and cash flows for the Company. All intercompany transactions and account balances within the Company have been eliminated.

Estimates and Assumptions—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications—Certain amounts in the Company's consolidated and combined 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.

Real Estate Depreciation and Amortization—Real estate costs related to the acquisition and improvement of properties are capitalized and amortized over the expected useful life of the asset on a straight-line basis. Repair and maintenance costs are charged to expense as incurred and significant replacements and betterments are capitalized. Repair and maintenance costs include all costs that do not extend the useful life of the real estate asset. The Company considers the period of future benefit of an asset to determine its appropriate useful life. Expenditures for tenant improvements are capitalized and amortized over the shorter of the tenant's lease term or expected useful life. The Company anticipates the estimated useful lives of its assets by class to be generally as follows:

Building	25-40 years
Building improvements	10-25 years
Tenant improvements	Shorter of lease term or expected useful life
Integral equipment, furniture and fixtures	5 years

Real Estate Acquisition Valuation— In accordance with ASC 805, Business Combinations, the Company records the acquisition of income-producing real estate as a business combination. If the acquisition does not meet the definition of a business, the Company records the acquisition as an asset acquisition. Under both methods, all assets acquired and liabilities assumed are measured at their acquisition date fair values. For transactions that are business combinations, acquisition costs are expensed as incurred and restructuring costs that do not meet the definition of a liability at the acquisition date are expensed in periods subsequent to the acquisition date. For transactions that are asset acquisitions, acquisition costs are capitalized as incurred.

The Company assesses the acquisition date fair values of all tangible assets, identifiable intangibles and assumed liabilities using methods similar to those used by independent appraisers, generally utilizing a discounted cash flow analysis that applies appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it were vacant.

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities require the Company to make significant assumptions to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property will be held for investment.

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CARETRUST REIT, INC.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The use of inappropriate assumptions would result in an incorrect valuation of the Company's acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of the Company's net income.

Impairment of Long-Lived Assets—At least annually, management evaluates the Company's real estate investments for impairment indicators, including the evaluation of our assets' useful lives. Management also assesses the carrying value of the Company's real estate investments whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The judgment regarding the existence of impairment indicators is based on factors such as, but not limited to, market conditions, operator performance and legal structure. If indicators of impairment are present, management evaluates the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying facilities. Provisions for impairment losses related to long-lived assets are recognized when expected future undiscounted cash flows are determined to be less than the carrying values of the assets. An adjustment is made to the net carrying value of the real estate investments for the excess of carrying value over fair value. All impairments are taken as a period cost at that time, and depreciation is adjusted going forward to reflect the new value assigned to the asset.

If the Company decides to sell real estate properties, we evaluate the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell.

In the event of impairment, the fair value of the real estate investment is determined by market research, which includes valuing the property in its current use as well as other alternative uses, and involves significant judgment. The Company's estimates of cash flows and fair values of the properties are based on current market conditions and consider matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties, and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers. The Company's ability to accurately estimate future cash flows and estimate and allocate fair values impacts the timing and recognition of impairments. While the Company believes its assumptions are reasonable, changes in these assumptions may have a material impact on financial results.

Other Real Estate Investments — Preferred equity investments are accounted for at unpaid principal balance, plus accrued return, net of reserves. The Company recognizes return income on a quarterly basis based on the outstanding investment including any accrued and unpaid return. As the preferred member of the joint venture, the Company is not entitled to share in the joint venture's earnings or losses. Rather, the Company is entitled to receive a preferred return, which is deferred if the cash flow of the joint venture is insufficient to pay all of the accrued preferred return. The unpaid accrued preferred return is added to the balance of the preferred equity investment up to the estimated economic outcome assuming a hypothetical liquidation of the book value of the joint venture. Any unpaid accrued preferred return, whether recorded or unrecorded by us, will be repaid upon redemption.

The Company periodically evaluates each of its other real estate investments for indicators of impairment. An investment is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. A reserve is established for the excess of the carrying value of the investment over its fair value.

Cash and Cash Equivalents—Cash and cash equivalents consist of bank term deposits and money market funds with original maturities of 3 months or less at time of purchase and therefore approximate fair value. The fair value of these investments is determined based on "Level 1" inputs, which consist of unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets. The Company places its cash and short-term investments with high credit quality financial institutions.

The Company's cash and cash equivalents balance periodically exceeds federally insurable limits. The Company monitors the cash balances in its operating accounts and adjusts the cash balances as appropriate; however, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, the Company has experienced no loss or lack of access to cash in its operating accounts.

Deferred Financing Costs—External costs incurred from placement of our debt are capitalized and amortized on a straight-line basis over the terms of the related borrowings, which approximates the effective interest method. For our

senior unsecured notes payable and our mortgage notes payable, deferred financing costs are netted against the outstanding debt amounts on the balance sheet. For our unsecured revolving credit facility, deferred financing costs are shown gross and are

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CARETRUST REIT, INC.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

included in assets on our balance sheet, as discussed further in the Recently Adopted Accounting Standards section below. See Note 7, Debt, for the new presentation of deferred financing costs. Amortization of deferred financing costs is classified as interest expense in our consolidated and combined statements of operations. Accumulated amortization of deferred financing costs was \$3.3 million and \$2.2 million at December 31, 2015 and December 31, 2014, respectively.

When financings are terminated, unamortized deferred financing costs, as well as charges incurred for the termination, are expensed at the time the termination is made. Gains and losses from the extinguishment of debt are presented within income from continuing operations in our consolidated and combined statements of operations.

Revenue Recognition —The Company recognizes rental revenue, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, if any, from tenants under lease arrangements with minimum fixed and determinable increases on a straight-line basis over the non-cancellable term of the related leases when collectability is reasonably assured. Tenant recoveries related to the reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the expenses are incurred and presented gross if the Company is the primary obligor and, with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier and bears the associated credit risk. For the years ended December 31, 2015, 2014 and 2013, such tenant reimbursement revenues consist of real estate taxes. Contingent revenue, if any, is not recognized until all possible contingencies have been eliminated.

The Company evaluates the collectability of rents and other receivables on a regular basis based on factors including, among others, payment history, the operations, the asset type and current economic conditions. If our evaluation of these factors indicates we may not recover the full value of the receivable, we provide a reserve against the portion of the receivable that we estimate may not be recovered. This analysis requires us to determine whether there are factors indicating a receivable may not be fully collectible and to estimate the amount of the receivable that may not be collected. We did not reserve any receivables as of December 31, 2015 or December 31, 2014.

Income Taxes—The Company's operations prior to the Spin-Off were historically included in Ensign's U.S. federal and state income tax returns and all income taxes for periods prior to the Spin-Off were paid by Ensign. Income tax expense and other income tax related information contained in these consolidated and combined financial statements are presented on a separate tax return basis as if the Company filed its own tax returns for all periods. Management believes that the assumptions and estimates used to determine these tax amounts are reasonable. However, the consolidated and combined financial statements herein may not necessarily reflect the Company's income tax expense or tax payments in the future, or what its tax amounts would have been if the Company had been a stand-alone company prior to the Spin-Off.

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), beginning with its taxable year ended December 31, 2014. The Company believes it has been organized and has operated, and the Company intends to continue to operate, in a manner to qualify for taxation as a REIT under the Code. To qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the Company's annual REIT taxable income to its stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent it distributes qualifying dividends to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the Internal Revenue Service grants the Company relief under certain statutory provisions.

In connection with the Company's intention to qualify as a real estate investment trust in 2014, on October 17, 2014, the Company's board of directors declared a special dividend (the "Special Dividend") of \$132.0 million, or

approximately \$5.88 per common share, which represents the amount of accumulated earnings and profits, or “E&P,” allocated to the Company as a result of the Spin-Off. The Special Dividend was intended to purge the Company of accumulated E&P attributable to the period prior to the Company’s first taxable year as a REIT. The Special Dividend was paid on December 10, 2014, to stockholders of record on October 31, 2014, in a combination of both cash and stock. The cash portion totaled \$33.0 million and the stock portion totaled \$99.0 million. The Company issued 8,974,249 shares of common stock in connection with the stock portion of the Special Dividend.

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Derivatives and Hedging Activities—The Company evaluates variable and fixed interest rate risk exposure on a routine basis and to the extent the Company believes that it is appropriate, it will offset most of its variable rate risk exposure by entering into interest rate swap agreements. It is the Company’s policy to only utilize derivative instruments for hedging purposes (i.e., not for speculation). The Company formally designates its interest rate swap agreements as hedges and documents all relationships between hedging instruments and hedged items. The Company formally assesses effectiveness of its hedging relationships, both at the hedge inception and on an ongoing basis, then measures and records ineffectiveness. The Company would discontinue hedge accounting prospectively (i) if it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item, (ii) when the derivative expires or is sold, terminated or exercised, (iii) if it is no longer probable that the forecasted transaction will occur, or (iv) if management determines that designation of the derivative as a hedge instrument is no longer appropriate.

Effective May 30, 2014, the Company de-designated its interest rate swap contract that historically qualified for cash flow hedge accounting. This was due to the termination of the interest rate swap agreement related to the early retirement of the senior secured credit facility in place prior to the Spin-Off. As a result, the loss previously recorded in accumulated other comprehensive loss related to the interest rate swap was recognized in interest expense in the consolidated and combined statements of operations during the year ended December 31, 2014. There was no outstanding interest rate swap contract as of December 31, 2015.

Stock-Based Compensation—The Company accounts for share-based payment awards in accordance with ASC Topic 718, Compensation – Stock Compensation (“ASC 718”). ASC 718 requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. ASC 718 requires all entities to apply a fair value-based measurement method in accounting for share-based payment transactions with directors, officers and employees except for equity instruments held by employee share ownership plans. Net income (loss) reflects stock-based compensation expense of \$1.5 million and \$0.2 million for the years ended December 31, 2015 and 2014, respectively.

Concentration of Credit Risk—The Company is subject to concentrations of credit risk consisting primarily of operating leases on our owned properties. See Note 12, Concentration of Risk, for a discussion of major operator concentration.

Segment Disclosures —The FASB accounting guidance regarding disclosures about segments of an enterprise and related information establishes standards for the manner in which public business enterprises report information about operating segments. The Company has one reportable segment consisting of investments in healthcare-related real estate assets.

Earnings (Loss) Per Share—The Company calculates earnings (loss) per share (“EPS”) in accordance with ASC 260, Earnings Per Share. Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially-dilutive securities. Basic and diluted EPS for the years ended December 31, 2014 and 2013 were retroactively restated for the number of basic and diluted shares outstanding immediately following the Spin-Off.

Beds, Units, Occupancy and Other Measures—Beds, units, occupancy and other non-financial measures used to describe real estate investments included in these Notes to the Consolidated and Combined Financial Statements are presented on an unaudited basis.

Recently Issued Accounting Standards Update— In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU No. 2014-09”). ASU No. 2014-09 requires an entity to recognize the revenue 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 and services. ASU No. 2014-09 supersedes the revenue requirements in Revenue Recognition (Topic 605) and most industry-specific guidance throughout the Industry Topics of the Codification. ASU No. 2014-09 does not apply to lease contracts within the scope of Leases (Topic 840). In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of its new revenue recognition standard by one year. The standard will be effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company is currently assessing the impact of adopting ASU No.

2014-09 but does not believe it will have a material effect on income from operations or the Company's financial position.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU No. 2014-15"). The amendments in ASU No. 2014-15 require management to evaluate, for each annual and interim reporting period, whether there

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CARETRUST REIT, INC.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or are available to be issued when applicable) and, if so, provide related disclosures. ASU No. 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. We believe the adoption of this guidance will not have a material effect on income from operations or the Company's financial position.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU No. 2015-02"), which makes certain changes to both the variable interest model and the voting model, including changes to (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. ASU No. 2015-02 is effective for fiscal years, and interim periods within these fiscal years, beginning after December 15, 2015. The Company does not expect the adoption of ASU No. 2015-02 to have a significant impact on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments ("ASU No. 2015-16"). ASU No. 2015-16 eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date. ASU No. 2015-16 is effective for fiscal years, and interim periods within these fiscal years, beginning after December 15, 2015, with early adoption permitted. The Company does not expect the adoption of ASU No. 2015-16 to have a significant impact on its consolidated financial statements.

Recently Adopted Accounting Standards—On December 31, 2015, the Company retrospectively early adopted, for all comparative periods presented, ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU No. 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The adoption of ASU No. 2015-03 resulted in a change to the location where debt issuance costs are presented in the balance sheet and did not have any other material impact on the Company's financial statements.

In August 2015, the FASB issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update) ("ASU No. 2015-15"). ASU No. 2015-15 was issued by the FASB in response to questions that arose after the issuance of ASU No. 2015-03, to incorporate an SEC staff announcement that the SEC staff will not object to an entity presenting the cost of securing a revolving line of credit as an asset, regardless of whether a balance is outstanding. ASU No. 2015-15 was effective upon announcement.

3. REAL ESTATE INVESTMENTS, NET

The following tables summarize our investment in owned properties at December 31, 2015, and December 31, 2014 (dollars in thousands):

	December 31, 2015	December 31, 2014
Land	\$91,311	\$75,072
Buildings and improvements	627,453	417,414
Integral equipment, furniture and fixtures	54,388	47,134
Real estate investments	773,152	539,620

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Accumulated depreciation	(127,538) (103,405)
Real estate investments, net	\$645,614	\$436,215	

As of December 31, 2015, all but 25 of the Company's net-leased facilities were leased to subsidiaries of Ensign under the Ensign Master Leases which commenced on June 1, 2014. The obligations under the Ensign Master Leases are guaranteed by Ensign. A default by any subsidiary of Ensign with regard to any facility leased pursuant to an Ensign Master

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Lease will result in a default under all of the Ensign Master Leases. The annual revenues from the Ensign Master Leases are \$56.0 million during each of the first two years of the Ensign Master Leases. Commencing on June 1, 2016, the annual revenues from the Ensign Master Leases will be escalated annually by an amount equal to the product of (1) the lesser of the percentage change in the Consumer Price Index ("CPI") (but not less than zero) or 2.5%, and (2) the prior year's rent. In addition to rent, the subsidiaries of Ensign that are tenants under the Ensign Master Leases are solely responsible for the costs related to the leased properties (including property taxes, insurance, and maintenance and repair costs).

As of December 31, 2015, our total future minimum rental revenues for all of our tenants were (dollars in thousands):

Year	Amount
2016	\$80,439
2017	80,439
2018	80,439
2019	80,439
2020	80,439
Thereafter	753,620
	\$1,155,815

Recent Real Estate Acquisitions

The following recent real estate acquisitions were accounted for as asset acquisitions:

Bethany Rehabilitation Center

In January 2015, the Company acquired the Bethany Rehabilitation Center, a skilled nursing facility located in Lakewood, Colorado, for \$18.1 million, which includes capitalized acquisition costs of \$0.1 million.

In connection with the acquisition, the Company entered into a triple-net master lease with Eduro Healthcare LLC. The lease carries an initial term of 15 years with two five-year renewal options and CPI-based rent escalators. The Company anticipates initial annual lease revenues of \$1.7 million.

Mira Vista Care Center

In April 2015, the Company acquired the Mira Vista Care Center, a skilled nursing facility located in Mount Vernon, Washington, for \$9.3 million, which includes capitalized acquisition costs of \$0.2 million.

In connection with the acquisition, the Company entered into a triple-net master lease with Five Oaks Healthcare, LLC (the "Five Oaks Master Lease"). The lease carries an initial term of 15 years with two five-year renewal options and CPI-based rent escalators. The Company anticipates initial annual lease revenues of \$0.9 million.

Shoreline Health & Rehabilitation Center

In June 2015, the Company acquired the Shoreline Health & Rehabilitation Center, a skilled nursing facility located in Shoreline, Washington, for \$6.8 million, which includes capitalized acquisition costs of \$0.2 million.

In connection with the acquisition, the Company amended the Five Oaks Master Lease to include the Shoreline Health & Rehabilitation Center and anticipates additional annual lease revenues of \$0.7 million as a result of the amendment.

Bristol Court Assisted Living

In July 2015, the Company acquired Bristol Court Assisted Living, a memory care facility located in St. Petersburg, Florida, for \$8.5 million, which includes capitalized acquisition costs of \$72,000.

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In connection with the acquisition, the Company entered into a triple-net master lease with Better Senior Living Consulting, LLC (the "BSLC Master Lease"). The BSLC Master Lease carries an initial term of 15 years with two five-year renewal options and CPI-based rent escalators. The Company anticipates initial annual lease revenues of \$0.7 million.

Shamrock Nursing and Rehabilitation Center

In July 2015, the Company acquired the Shamrock Nursing and Rehabilitation Center, a skilled nursing facility located in Dublin, Georgia, for \$8.3 million, which includes capitalized acquisition costs of \$49,000.

In connection with the acquisition, the Company entered into a triple-net master lease with Trillium Healthcare Group, LLC. The lease carries an initial term of 15 years with two five-year renewal options and CPI-based rent escalators. The Company anticipates initial annual lease revenues of \$0.8 million.

Asbury Place Assisted Living

In September 2015, the Company acquired Asbury Place Assisted Living, an assisted living and memory care facility located in Pensacola, Florida, for \$5.4 million, which includes capitalized acquisition costs of \$49,000.

In connection with the acquisition, the Company amended the BSLC Master Lease to include Asbury Place Assisted Living and anticipates additional annual lease revenues of \$0.5 million as a result of the amendment.

Liberty Healthcare Portfolio

On October 1, 2015, the Company acquired the Liberty Healthcare Portfolio, a 14 facility skilled nursing and assisted living portfolio in Ohio, for \$176.5 million inclusive of transaction costs. The acquisition was primarily funded with the net proceeds from the Company's common stock offering of \$163.0 million in August 2015, with the remainder funded by a draw on the unsecured revolving credit facility. Prior to the acquisition, the Liberty Healthcare Portfolio was owner-occupied and unaffiliated with the Company or the current tenant.

In connection with the acquisition, the Company entered into a triple-net master lease with Pristine Senior Living, LLC. The lease carries an initial term of 15 years with two five-year renewal options and CPI-based rent escalators. The Company anticipates initial annual lease revenues of \$17.0 million.

4. OTHER REAL ESTATE INVESTMENTS

In December 2014, the Company completed a \$7.5 million preferred equity investment with Signature Senior Living, LLC and Milestone Retirement Communities. The preferred equity investment yields 12.0% calculated on a quarterly basis on the outstanding carrying value of the investment. The investment will be used to develop Signature Senior Living at Arvada, a planned 134-unit upscale assisted living and memory care community in Arvada, Colorado that will be constructed on a five-acre site. In connection with its investment, CareTrust obtained an option to purchase the Arvada development at a fixed-formula price upon stabilization, with an initial lease yield of at least 8.0%. The project is expected to be completed in mid 2016.

During the years ended December 31, 2015 and 2014, the Company recognized \$0.9 million and \$32,000 of interest income and this unpaid amount was added to the outstanding carrying value of the investment.

5. FAIR VALUE MEASUREMENTS

Under GAAP, the Company is required to measure certain financial instruments at fair value on a recurring basis. In addition, the Company is required to measure other financial instruments and balances at fair value on a non-recurring basis (e.g., carrying value of impaired long-lived assets). Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The GAAP fair value framework uses a 3-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

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Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

Financial Instruments: Considerable judgment is necessary to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. A summary of the face values, carrying amounts and fair values of the Company's financial instruments as of December 31, 2015 and December 31, 2014 using Level 2 inputs, for the senior unsecured notes payable, and Level 3 inputs, for all other financial instruments, is as follows (dollars in thousands):

	December 31, 2015			December 31, 2014		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial assets:						
Preferred equity investment	\$7,500	\$8,477	\$8,477	\$7,500	\$7,532	\$7,532
Financial liabilities:						
Senior unsecured notes payable	\$260,000	\$254,229	\$263,575	\$260,000	\$253,165	\$265,200
Mortgage notes payable	\$95,022	\$94,676	\$97,067	\$98,205	\$97,608	\$101,822

Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities: These balances approximate their fair values due to the short-term nature of these instruments.

Preferred equity investment: The fair value of the preferred equity investment is estimated using an internal valuation model that considered the expected future cash flows of the investment, the underlying collateral value and other credit enhancements.

Senior unsecured notes payable: The fair value of the senior unsecured notes payable was determined using third-party quotes derived from orderly trades.

Unsecured revolving credit facility: The fair value approximates its carrying value as the interest rate is variable and approximates prevailing market interest rates for similar debt arrangements.

Mortgage notes payable: The fair value of the Company's notes payable is 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. Additionally, when determining the fair value of liabilities in circumstances in which a quoted price in an active market for an identical liability is not available, the Company measures fair value using (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach. The Company classifies these inputs as Level 3 inputs.

6. RELATED PARTY TRANSACTIONS

Allocation of corporate expenses—For the years ended December 31, 2014 and 2013, the consolidated and combined statements of operations of the Company include Ensign revenues and expenses that are specifically identifiable or otherwise attributable to the Company. The specific identification methodology was utilized for all of the items on the statements of operations excluding general corporate expenses. For the periods prior to the Spin-Off, Ensign Properties' operations were fully integrated with Ensign, including executive management, finance, treasury, corporate income tax, human resources, legal services and other shared services. These costs were allocated to the Company on a systematic basis utilizing a direct usage basis when identifiable, with the remainder allocated on time study, or percentage of the total revenues. The primary allocation method was a time study based on time devoted to Ensign

Properties' activities.

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Allocated expenses for these general and administrative services of \$7.4 million and \$5.4 million for the years ended December 31, 2014 and 2013 are reflected in general and administrative expense, in addition to direct expenses which are included in total expenses. There was no allocation for the year ended December 31, 2015. The Company's financial statements may not be indicative of future performance and do not necessarily reflect what the results of operations, financial position and cash flows would have been had the Company operated as an independent, publicly-traded company during the years ended December 31, 2014 and 2013.

Rental income from Ensign—The Company derives a majority of its rental income through operating lease agreements with Ensign. Ensign is a holding company with no direct operating assets, employees or revenue. All of Ensign's operations are conducted by separate independent subsidiaries, each of which has its own management, employees and assets. See Note 12, Concentration of Risk, for a discussion of major operator concentration.

Christopher R. Christensen, one of the Company's directors from June 1, 2014 through April 15, 2015, serves as the chief executive officer of Ensign as well as a member of Ensign's board of directors. As such, all rental income and tenant reimbursements earned related to the Ensign Master Leases during Mr. Christensen's tenure on our board are considered related party in nature. For the years ended December 31, 2015 and 2014, the Company recognized \$16.3 million and \$32.7 million in rental income, respectively, from Ensign while Mr. Christensen sat on the Board of Directors of the Company as well as \$1.4 million and \$2.8 million of tenant reimbursements, respectively. As of December 31, 2014, the Company also had accounts receivable totaling \$2.3 million due from Ensign for tenant reimbursements. After April 15, 2015, the effective date of Mr. Christensen's resignation from our board of directors, rental income and tenant reimbursements related to the Ensign Master Leases, and any related accounts receivable, are not considered earned or due from a related party.

Centralized cash management system—Prior to the Spin-Off, the Company participated in Ensign's centralized cash management system. In conjunction therewith, the intercompany transactions between the Company and Ensign had been considered to be effectively settled in cash in these financial statements. The net effect of the settlement of these intercompany transactions, in addition to cash transfers to and from Ensign, are reflected in "Net contribution from Ensign" on the consolidated and combined statements of cash flows. The "Net contribution (distribution) from/to Ensign" was \$4.4 million and \$(22.5) million for the years ended December 31, 2014 and 2013, respectively.

7. DEBT

The following table summarizes the balance of our indebtedness as of December 31, 2015 and 2014 (in thousands):

	December 31, 2015			December 31, 2014		
	Principal Amount	Deferred Loan Fees	Carrying Value	Principal Amount	Deferred Loan Fees	Carrying Value
Senior unsecured notes payable	\$260,000	\$(5,771)	)\$254,229	\$260,000	\$(6,835)	)\$253,165
Mortgage notes payable	95,022	(346)	)94,676	98,205	(597)	)97,608
Unsecured revolving credit facility	45,000	—	45,000	—	—	—
	\$400,022	\$(6,117)	)\$393,905	\$358,205	\$(7,432)	)\$350,773

Senior Unsecured Notes Payable

On May 30, 2014, the Company's wholly owned subsidiary, CTR Partnership, L.P. (the "Operating Partnership"), and its wholly owned subsidiary, CareTrust Capital Corp. (together with the Operating Partnership, the "Issuers"), completed a private offering of \$260.0 million aggregate principal amount of 5.875% Senior Notes due 2021 (the "Notes"). The Notes were issued at par, resulting in gross proceeds of \$260.0 million and net proceeds of approximately \$253.0 million after deducting underwriting fees and other offering expenses. We transferred approximately \$220.8 million of the net proceeds of the offering of the Notes to Ensign, and used the remaining portion of the net proceeds of the offering to pay the cash portion of the Special Dividend. The Notes mature on June 1, 2021 and bear interest at a rate

of 5.875% per year. Interest on the Notes is payable on June 1 and December 1 of each year, beginning on December 1, 2014. The Issuers subsequently exchanged the Notes for substantially identical notes registered under the Securities Act of 1933.

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The Issuers may redeem the Notes any time prior to June 1, 2017 at a redemption price of 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest on the Notes, if any, to, but not including, the redemption date, plus a “make whole” premium described in the indenture governing the Notes and, at any time on or after June 1, 2017, at the redemption prices set forth in the indenture. In addition, at any time on or prior to June 1, 2017, up to 35% of the aggregate principal amount of the Notes may be redeemed with the net proceeds of certain equity offerings if at least 65% of the originally issued aggregate principal amount of the Notes remains outstanding. If certain changes of control of the Company occur, holders of the Notes will have the right to require the Issuers to repurchase their Notes at 101% of the principal amount plus accrued and unpaid interest, if any, to, but not including, the repurchase date.

The obligations under the Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by the Company and certain of the Company’s wholly owned existing and, subject to certain exceptions, future material subsidiaries (other than the Issuers); provided, however, that such guarantees are subject to automatic release under certain customary circumstances, including if the subsidiary guarantor is sold or sells all or substantially all of its assets, the subsidiary guarantor is designated “unrestricted” for covenant purposes under the indenture, the subsidiary guarantor’s guarantee of other indebtedness which resulted in the creation of the guarantee of the Notes is terminated or released, or the requirements for legal defeasance or covenant defeasance or to discharge the indenture have been satisfied. See Note 13, Summarized Condensed Consolidating and Combining Information.

The indenture contains covenants limiting the ability of the Company and its restricted subsidiaries to: incur or guarantee additional indebtedness; incur or guarantee secured indebtedness; pay dividends or distributions on, or redeem or repurchase, capital stock; make certain investments or other restricted payments; sell assets; enter into transactions with affiliates; merge or consolidate or sell all or substantially all of their assets; and create restrictions on the ability of the Issuers and their restricted subsidiaries to pay dividends or other amounts to the Issuers. The indenture also requires the Company and its restricted subsidiaries to maintain a specified ratio of unencumbered assets to unsecured indebtedness. These covenants are subject to a number of important and significant limitations, qualifications and exceptions. The indenture also contains customary events of default.

As of December 31, 2015, the Company was in compliance with all applicable financial covenants under the indenture.

Unsecured Revolving Credit Facility

On August 5, 2015, the Company, CareTrust GP, LLC, the Operating Partnership, as the borrower, and certain of its wholly owned subsidiaries entered into a credit and guaranty agreement with KeyBank National Association, as administrative agent, an issuing bank and swingline lender, and the lenders party thereto (the “Credit Agreement”). The Credit Agreement provides for an unsecured asset-based revolving credit facility (the “Revolving Facility”) with commitments in an aggregate principal amount of \$300.0 million from a syndicate of banks and other financial institutions, and an accordion feature that allows the Operating Partnership to increase the borrowing availability by up to an additional \$200.0 million. A portion of the proceeds of the Revolving Facility were used to pay off and terminate the Company’s existing secured asset-based revolving credit facility under a credit agreement dated May 30, 2014, with SunTrust Bank, as administrative agent, and the lenders party thereto (the “SunTrust Refinancing”). As of December 31, 2015, there was \$45.0 million outstanding under the Credit Facility.

The Credit Agreement has a maturity date of August 5, 2019, and includes two, six-month extension options.

The Credit Agreement also provides that, subject to customary conditions, including obtaining lender commitments and pro forma compliance with financial maintenance covenants under the Credit Agreement, the Operating Partnership may seek to increase the aggregate principal amount of the revolving commitments and/or establish one or more new tranches of incremental revolving or term loans under the Credit Agreement in an aggregate amount not to exceed \$200.0 million. The Company does not currently have any commitments for such increased loans.

The interest rates applicable to loans under the Revolving Facility are, at the Company’s option, equal to either a base rate plus a margin ranging from 0.75% to 1.40% per annum or applicable LIBOR plus a margin ranging from 1.75%

to 2.40% per annum based on the debt to asset value ratio of the Company and its subsidiaries (subject to decrease at the Company's election if the Company obtains certain specified investment grade ratings on its senior long term unsecured debt). In addition, the Company will pay a commitment fee on the unused portion of the commitments under the Revolving Facility of 0.15% or 0.25% per annum, based upon usage of the Revolving Facility (unless the Company obtains certain specified investment grade ratings on its senior long term unsecured debt and elects to decrease the applicable margin as described above,

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in which case the Company will pay a facility fee on the revolving commitments ranging from 0.125% to 0.30% per annum based upon the credit ratings of its senior long term unsecured debt).

The Obligations under the Credit Agreement are guaranteed, jointly and severally, by the Company and its wholly owned subsidiaries that are party to the Credit Agreement (other than the Operating Partnership). The Credit Agreement contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its subsidiaries to grant liens on their assets, incur indebtedness, sell assets, make investments, engage in acquisitions, mergers or consolidations, amend certain material agreements and pay certain dividends and other restricted payments. The Credit Agreement requires the Company to comply with financial maintenance covenants to be tested quarterly, consisting of a maximum debt to asset value ratio, a minimum fixed charge coverage ratio, a minimum tangible net worth, a maximum cash distributions to operating income ratio, a maximum secured debt to asset value ratio and a maximum secured recourse debt to asset value ratio. The Credit Agreement also contains certain customary events of default, including that the Company is required to operate in conformity with the requirements for qualification and taxation as a REIT.

As of December 31, 2015, the Company was in compliance with all applicable financial covenants under the Credit Agreement.

Senior Secured Revolving Credit Facility

On May 30, 2014, the Operating Partnership entered into a credit and guaranty agreement (the “Secured Credit Agreement”), which governed our senior secured revolving credit facility (the “Secured Credit Facility”), with several banks and other financial institutions and lenders (the “Lenders”) and SunTrust Bank, in its capacity as administrative agent for the Lenders, as an issuing bank and swingline lender. The Secured Credit Agreement provided for a borrowing capacity of \$150.0 million and included an accordion feature that allowed the Operating Partnership to increase the borrowing availability by up to an additional \$75.0 million, subject to terms and conditions. The Secured Credit Facility was secured by mortgages on certain of the real properties owned by the Company’s subsidiaries and the amount available to be borrowed under the Secured Credit Agreement was based on a borrowing base calculation relating to the mortgaged properties, determined according to, among other factors, the mortgageability cash flow as such term is defined in the Secured Credit Agreement. The Secured Credit Facility was also secured by certain personal property of the Company’s subsidiaries that have provided mortgages, the Company’s interests in the Operating Partnership and the Company’s and its subsidiaries’ equity interests in the Company’s subsidiaries that have guaranteed the Operating Partnership’s obligations under the Secured Credit Agreement. The Secured Credit Agreement was paid off and terminated as a part of the SunTrust Refinancing.

GECC Loan

As of December 31, 2015, ten of our properties were subject to secured mortgage indebtedness to General Electric Capital Corporation (the “GECC Loan”), which we assumed in connection with the Spin-Off. The outstanding amount of this mortgage indebtedness was approximately \$95.0 million as of December 31, 2015, including an advance of approximately \$50.7 million that was made on May 30, 2014. This advance bears interest at a floating rate equal to 3-month LIBOR plus 3.35%, reset monthly and subject to a LIBOR floor of 0.50%, with monthly principal and interest payments based on a 25 year amortization. The remaining indebtedness under the GECC Loan bears interest at a blended rate of 7.25% per annum until, but not including, June 29, 2016, and then converts to the floating rate described above. The GECC Loan matures on May 30, 2017, subject to two 12-month extension options, the exercise of which is conditioned, in each case, on the absence of any then-existing default and the payment of an extension fee equal to 0.25% of the then-outstanding principal balance. Provided there is no then-existing default and upon 30 days written notice, the original portion of the GECC Loan, approximately \$46.2 million as of December 31, 2015, is prepayable without penalty, in whole but not in part, after January 31, 2016. The new portion of the GECC Loan, approximately \$48.9 million as of December 31, 2015, is prepayable without penalty, in whole but not in part, after January 31, 2016.

The GECC Loan is guaranteed by the Company, contains customary affirmative and negative covenants, as well as customary events of default, and requires us to comply with specified financial maintenance covenants. As of December 31, 2015, the Company was in compliance with all applicable financial covenants under the GECC Loan.

Promissory Notes with Johnson Land Enterprises, LLC

On October 1, 2009, Ensign entered into four separate promissory notes with Johnson Land Enterprises, LLC, for an aggregate of \$10.0 million. On May 30, 2014, in connection with the Spin-Off, three of the promissory notes were paid in full and the remaining promissory note was assumed by the Company. This promissory note was paid off in July 2015.

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CARETRUST REIT, INC.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Interest Expense

During the years ended December 31, 2015, 2014 and 2013, the Company incurred \$25.3 million, \$21.6 million and \$12.6 million of interest expense, respectively. Included in interest expense for the year ended December 31, 2015 was \$2.2 million of amortization of deferred financing costs and a \$1.2 million write-off of deferred financing fees associated with the SunTrust Refinancing. Included in interest expense for the year ended December 31, 2014 was \$1.6 million of amortization of deferred financing costs, \$0.1 million of amortization of debt discount and a \$1.7 million loss on settlement of interest rate swap. Included in interest expense for the year ended December 31, 2013 was \$0.7 million of amortization of deferred financing costs and \$0.1 million of amortization of debt discount. As of December 31, 2015 and December 31, 2014, the Company's interest payable was \$1.9 million and \$1.7 million, respectively.

Schedule of Debt Maturities

As of December 31, 2015, our debt maturities were (dollars in thousands):

Year	Amount
2016	\$2,765
2017	92,257
2018	—
2019	45,000
2020	—
Thereafter	260,000
	\$400,022

8. EQUITY

Common Stock

Offering of Common Stock - On August 18, 2015, the Company completed an underwritten public offering of 16.33 million newly issued shares of its common stock pursuant to an effective registration statement. The Company received net proceeds, before offering costs, of \$163.7 million from the offering, after giving effect to the issuance and sale of all 16.33 million shares of common stock (which included 2.13 million shares sold to the underwriters upon exercise of their option to purchase additional shares), at a price to the public of \$10.50 per share.

Special Dividend - In connection with the Company's intention to qualify as a real estate investment trust in 2014, on October 17, 2014, the Company's Board of Directors declared the Special Dividend of \$132.0 million, or approximately \$5.88 per common share, which represents the amount of accumulated E&P allocated to the Company as a result of the Spin-Off. The Special Dividend was paid on December 10, 2014, to stockholders of record as of October 31, 2014, in a combination of both cash and stock. The cash portion totaled \$33.0 million and the stock portion totaled \$99.0 million. The Company issued 8,974,249 shares of common stock in connection with the stock portion of the Special Dividend.

Dividends on Common Stock — During the fourth quarter of 2014, our Board of Directors declared a quarterly cash dividend of \$0.125 per share of common stock, payable on January 15, 2015 to stockholders of record as of December 31, 2014.

During the first quarter of 2015, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on April 15, 2015 to stockholders of record as of March 31, 2015. During the second quarter of 2015, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on July 15, 2015 to stockholders of record as of June 30, 2015. During the third quarter of 2015, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on October 15, 2015 to stockholders of record as of September 30, 2015. During the fourth quarter of 2015, our Board of Directors declared a quarterly cash dividend of \$0.16 per share of common stock, payable on January 15, 2016 to stockholders of record as of December 31, 2015.

9. STOCK-BASED COMPENSATION

All stock-based awards are subject to the terms of the CareTrust REIT, Inc. and CTR Partnership, L.P. Incentive Award Plan (the “Plan”). The Plan provides for the granting of stock-based compensation, including stock options, restricted stock, performance awards, restricted stock units and other incentive awards to officers, employees and directors in connection with their employment with or services provided to the Company.

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CARETRUST REIT, INC.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The following table summarizes our restricted stock awards at December 31, 2015:

	Shares	Weighted Average Share Price
Unvested balance at December 31, 2014	155,040	\$ 12.23
Granted	272,300	12.70
Vested	(32,643	) 12.23
Unvested balance at December 31, 2015	394,697	\$ 12.56

The Company recognized \$1.5 million and \$0.2 million of compensation expense associated with all grants for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, there was \$3.7 million of unamortized stock-based compensation expense related to these unvested awards and the weighted-average remaining vesting period of such awards was 3.2 years.

In connection with the Spin-Off, employees of Ensign who had unvested shares of restricted stock were given one share of CareTrust unvested restricted stock totaling 207,580 shares at the Spin-Off. These restricted shares are subject to a time vesting provision only and the Company does not recognize any stock compensation expense associated with these awards. During the year ended December 31, 2015, 70,200 shares vested or were forfeited. At December 31, 2015, there were 88,830 unvested restricted stock awards outstanding.

10. EARNINGS PER COMMON SHARE

The following table presents the calculation of basic and diluted EPS for the Company's common stock for the years ended December 31, 2015, 2014 and 2013, and reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS for the years ended December 31, 2015, 2014 and 2013 (amounts in thousands, except per share amounts):

	Year Ended December 31,		
	2015	2014	2013
Numerator:			
Net income (loss)	\$ 10,034	\$ (8,143	) \$(395
Less: Net income allocated to participating securities	(286) —	—
Numerator for basic and diluted earnings (loss) available to common stockholders	\$ 9,748	\$ (8,143	) \$(395
Denominator:			
Weighted-average basic common shares outstanding	37,380	22,788	22,228
Weighted-average diluted common shares outstanding	37,380	22,788	22,228
Earnings (loss) per common share, basic	\$ 0.26	\$ (0.36	) \$(0.02
Earnings (loss) per common share, diluted	\$ 0.26	\$ (0.36	) \$(0.02

The Company's unvested restricted shares associated with its incentive award plan and unvested restricted shares issued to employees of Ensign at the Spin-Off have been excluded from the above calculation of earnings (loss) per share for the years ended December 31, 2015, 2014 and 2013, as their inclusion would have been anti-dilutive.

11. COMMITMENTS AND CONTINGENCIES

U.S. Government Settlement—In October 2013, Ensign completed and executed a settlement agreement (the "Settlement Agreement") with the U.S. Department of Justice ("DOJ"). This settlement agreement fully and finally resolved a DOJ investigation of Ensign related primarily to claims submitted to the Medicare program for rehabilitation services provided at skilled nursing facilities in California and certain ancillary claims. Pursuant to the Settlement Agreement, Ensign made a single lump-sum remittance to the government in the amount of \$48.0 million in October 2013. Ensign denied engaging in any illegal conduct and agreed to the settlement amount without any admission of wrongdoing in

order to resolve the allegations and avoid the uncertainty and expense of protracted litigation.

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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

In connection with the settlement and effective as of October 1, 2013, Ensign entered into a five-year corporate integrity agreement with the Office of Inspector General-HHS (the "CIA"). The CIA acknowledges the existence of Ensign's current compliance program, and requires that Ensign continue during the term of the CIA to maintain a compliance program designed to promote compliance with the statutes, regulations, and written directives of Medicare, Medicaid, and all other Federal health care programs. Ensign is also required to maintain several elements of its existing program during the term of the CIA, including maintaining a compliance officer, a compliance committee of the board of directors, and a code of conduct. The CIA requires that Ensign conduct certain additional compliance-related activities during the term of the CIA, including various training and monitoring procedures, and maintaining a disciplinary process for compliance obligations.

Participation in federal healthcare programs by Ensign is not affected by the Settlement Agreement or the CIA. In the event of an uncured material breach of the CIA, Ensign could be excluded from participation in federal healthcare programs and/or subject to prosecution. The Company is subject to certain continuing operational obligations as part of Ensign's compliance program pursuant to the CIA, but otherwise has no liability related to the DOJ investigation. Legal Matters—None of the Company or any of its subsidiaries is a party to, and none of their respective properties are the subject of, any material legal proceedings.

12. CONCENTRATION OF RISK

Major operator concentration – The Company has one major tenant, Ensign, from which the Company derived the majority of its overall revenue during the years ended December 31, 2015, 2014 and 2013. As of December 31, 2015, Ensign leased 94 skilled nursing, assisted living and independent living facilities which had a total of 10,121 beds and units and are located in Arizona, California, Colorado, Idaho, Iowa, Nebraska, Nevada, Texas, Utah and Washington. The four states in which Ensign leases the highest concentration of properties are California, Texas, Utah and Arizona. Additionally, on October 1, 2015, the Company acquired the Liberty Healthcare Portfolio, a 14 facility skilled nursing and assisted living portfolio in Ohio, for \$176.5 million inclusive of transaction costs. The Company has leased these 14 facilities to subsidiaries of Pristine Senior Living ("Pristine") pursuant to a triple-net master lease entered into effective as of October 1, 2015, which has an initial term of 15 years, two five year renewal options and no purchase options. The annual revenues from the Pristine master lease are \$17.0 million and will be escalated annually by an amount equal to the product of (1) the lesser of the percentage change in the Consumer Price Index (but not less than zero) or 3.0%, and (2) the prior year's rent. The Pristine master lease is guaranteed by Pristine and two of its principals.

Ensign's financial statements can be found at Ensign's website <http://www.ensigngroup.net>.

13. SUMMARIZED CONDENSED CONSOLIDATING AND COMBINING INFORMATION

The 5.875% Senior Notes due 2021 issued by the Issuers on May 30, 2014 are jointly and severally, fully and unconditionally, guaranteed by CareTrust REIT, Inc., as the parent guarantor (the "Parent Guarantor"), and certain 100% owned subsidiaries of the Parent Guarantor other than the Issuers (collectively, the "Subsidiary Guarantors" and, together with the Parent Guarantor, the "Guarantors"), subject to automatic release under certain customary circumstances, including if the Subsidiary Guarantor is sold or sells all or substantially all of its assets, the Subsidiary Guarantor is designated "unrestricted" for covenant purposes under the indenture governing the Notes, the Subsidiary Guarantor's guarantee of other indebtedness which resulted in the creation of the guarantee of the Notes is terminated or released, or the requirements for legal defeasance or covenant defeasance or to discharge the Indenture have been satisfied.

The following provides information regarding the entity structure of the Parent Guarantor, the Issuers and the Subsidiary Guarantors:

CareTrust REIT, Inc. – The Parent Guarantor was formed on October 29, 2013 in anticipation of the Spin-Off and the related transactions and was a wholly owned subsidiary of Ensign prior to the effective date of the Spin-Off on June 1, 2014. The Parent Guarantor did not conduct any operations or have any business prior to the date of issuance of the Notes and the consummation of the Spin-Off related transactions.

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CARETRUST REIT, INC.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

CTR Partnership, L.P. and CareTrust Capital Corp. – The Issuers, each of which is a 100% owned subsidiary of the Parent Guarantor, were formed on May 8, 2014 and May 9, 2014, respectively, in anticipation of the Spin-Off and the related transactions. The Issuers did not conduct any operations or have any business prior to the date of issuance of the Notes and the consummation of the Spin-Off related transactions.

Subsidiary Guarantors – Each of the Subsidiary Guarantors is a 100% owned subsidiary of the Parent Guarantor. Prior to the consummation of the Spin-Off, each of the Subsidiary Guarantors was a wholly owned subsidiary of Ensign. The Ensign Properties entities consist of the Subsidiary Guarantors (other than the general partner of the Operating Partnership which was formed on May 8, 2014 in anticipation of the Spin-Off and the related transactions) and the subsidiaries of the Parent Guarantor that are not Subsidiary Guarantors or Issuers (collectively, the “Non-Guarantor Subsidiaries”).

Pursuant to Rule 3-10 of Regulation S-X, the following summarized consolidating information is provided for the Parent Guarantor, the Issuers, the Subsidiary Guarantors and the Non-Guarantor Subsidiaries with respect to the Notes. This summarized financial information has been prepared from the financial statements of the Company and Ensign Properties and the books and records maintained by the Company and Ensign Properties. As described above, the Parent Guarantor and the Issuers did not conduct any operations or have any business during the periods prior to June 1, 2014.

The summarized financial information may not necessarily be indicative of the results of operations or financial position had the Parent Guarantor, the Issuers, the Subsidiary Guarantors or the Non-Guarantor Subsidiaries all been in existence or operated as independent entities during the relevant period or had the Ensign Properties entities been operated as subsidiaries of the Parent Guarantor during such period.

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CARETRUST REIT, INC.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING BALANCE SHEETS

DECEMBER 31, 2015

(in thousands, except share and per share amounts)