

CareTrust REIT, Inc.
Form 10-Q
August 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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 (I.R.S.
incorporation or organization) Employer
Identification
No.)

905 Calle Amanecer, Suite 300, San Clemente, CA 92673
(Address of principal executive offices) (Zip Code)
(949) 542-3130
(Registrant's telephone number, including area code)

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

Large accelerated filer Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At August 5, 2016, there were 57,895,774 shares of common stock outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

CARETRUST REIT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	June 30, 2016	December 31, 2015
Assets:		
Real estate investments, net	\$776,227	\$645,614
Other real estate investments	8,992	8,477
Cash and cash equivalents	9,644	11,467
Accounts receivable	4,085	2,342
Prepaid expenses and other assets	1,197	2,083
Deferred financing costs, net	3,333	3,183
Total assets	\$803,478	\$673,166
Liabilities and Equity:		
Senior unsecured notes payable, net	\$254,762	\$254,229
Senior unsecured term loan, net	99,382	—
Unsecured revolving credit facility	68,000	45,000
Mortgage notes payable, net	—	94,676
Accounts payable and accrued liabilities	9,633	9,269
Dividends payable	9,847	7,704
Total liabilities	441,624	410,878
Commitments and contingencies (Note 11)		
Equity:		
Preferred stock, \$0.01 par value; 100,000,000 shares authorized, no shares issued and outstanding as of June 30, 2016 and December 31, 2015	—	—
Common stock, \$0.01 par value; 500,000,000 shares authorized, 57,548,876 and 47,664,742 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	575	477
Additional paid-in capital	516,243	410,217
Cumulative distributions in excess of earnings	(154,964)	(148,406)
Total equity	361,854	262,288
Total liabilities and equity	\$803,478	\$673,166
See accompanying notes to condensed consolidated financial statements.		

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CARETRUST REIT, INC.
 CONDENSED CONSOLIDATED INCOME STATEMENTS
 (in thousands, except per share amounts)
 (unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Rental income (related party rental income of \$0 and \$2,308 for the three months ended June 30, 2016 and 2015, respectively, and \$0 and \$16,308 for the six months ended June 30, 2016 and 2015, respectively – Note 6)	\$22,781	\$15,249	\$43,678	\$30,091
Tenant reimbursements (related party tenant reimbursements of \$0 and \$200 for the three months ended June 30, 2016 and 2015, respectively, and \$0 and \$1,406 for the six months ended June 30, 2016 and 2015, respectively – Note 6)	1,929	1,288	3,726	2,546
Independent living facilities	730	607	1,411	1,242
Interest and other income	261	232	515	455
Total revenues	25,701	17,376	49,330	34,334
Expenses:				
Depreciation and amortization	7,892	5,679	15,185	11,278
Interest expense	5,440	5,989	11,627	11,890
Property taxes	1,929	1,288	3,726	2,546
Independent living facilities	598	566	1,218	1,168
General and administrative	2,211	1,588	4,441	3,148
Total expenses	18,070	15,110	36,197	30,030
Net income	\$7,631	\$2,266	\$13,133	\$4,304
Earnings per common share:				
Basic	\$0.13	\$0.07	\$0.25	\$0.13
Diluted	\$0.13	\$0.07	\$0.25	\$0.13
Weighted-average number of common shares:				
Basic	57,478	31,278	52,789	31,268
Diluted	57,478	31,278	52,789	31,268
Dividends declared per common share	\$0.17	\$0.16	\$0.34	\$0.32
See accompanying notes to condensed consolidated financial statements.				

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

	Common Stock		Additional Paid-in Capital	Cumulative Distributions in Excess of Earnings	Total Equity
	Shares	Amount			
Balance as of 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)
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 as of December 31, 2015	47,664,742	477	410,217	(148,406)	262,288
Issuance of common stock, net	9,775,000	98	105,673	—	105,771
Vesting of restricted common stock, net of shares withheld for employee taxes	109,134	—	(515)	—	(515)
Amortization of stock-based compensation	—	—	868	—	868
Common dividends (\$0.34 per share)	—	—	—	(19,691)	(19,691)
Net income	—	—	—	13,133	13,133
Balance as of June 30, 2016	57,548,876	\$ 575	\$ 516,243	\$(154,964)	\$ 361,854

See accompanying notes to condensed consolidated financial statements.

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CARETRUST REIT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 13,133	\$ 4,304
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including a below-market ground lease)	15,191	11,278
Amortization of deferred financing costs	1,117	1,102
Write-off of deferred financing costs	326	—
Amortization of stock-based compensation	868	660
Noncash interest income	(515)	(455)
Change in operating assets and liabilities:		
Accounts receivable	(1,743)	(2,020)
Accounts receivable due from related party	—	2,275
Prepaid expenses and other assets	(291)	(545)
Accounts payable and accrued liabilities	27	(1,013)
Net cash provided by operating activities	28,113	15,586
Cash flows from investing activities:		
Acquisitions of real estate	(144,149)	(33,646)
Improvements to real estate	(170)	(143)
Purchases of equipment, furniture and fixtures	(89)	(227)
Escrow deposits for acquisition of real estate	—	(1,500)
Net cash used in investing activities	(144,408)	(35,516)
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net	105,889	—
Proceeds from the issuance of senior unsecured term loan	100,000	—
Borrowings under unsecured credit facility	115,000	—
Payments on unsecured credit facility	(92,000)	—
Borrowings under senior secured revolving credit facility	—	35,000
Payments on the mortgage notes payable	(95,022)	(1,351)
Payments of deferred financing costs	(1,332)	(139)
Net-settle adjustment on restricted stock	(515)	—
Dividends paid on common stock	(17,548)	(8,996)
Net cash provided by financing activities	114,472	24,514
Net (decrease) increase in cash and cash equivalents	(1,823)	4,584
Cash and cash equivalents beginning of period	11,467	25,320
Cash and cash equivalents end of period	\$ 9,644	\$ 29,904
Supplemental disclosures of cash flow information:		
Interest paid	\$ 10,791	\$ 10,800
Supplemental schedule of noncash operating, investing and financing activities:		
Increase in dividends payable	\$ 2,143	\$ 1,144
Increase in offering costs payable	\$ 218	\$ —
Application of escrow deposit to acquisition of real estate	\$ 1,250	\$ 500
See accompanying notes to condensed consolidated financial statements.		

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CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

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.

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 June 30, 2016, the Company owned and leased to independent operators, including Ensign, 144 skilled nursing, assisted living and independent living facilities consisting of 14,038 operational beds and units located in Arizona, California, Colorado, Florida, Georgia, Idaho, Indiana, Iowa, Maryland, Michigan, Minnesota, Nebraska, Nevada, North Carolina, Ohio, Texas, Utah, Virginia, Washington and Wisconsin. The Company also owns and operates three independent living facilities consisting of 264 units located in Texas and Utah. As of June 30, 2016, the Company also had one other real estate investment, consisting of a \$9.0 million preferred equity investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying condensed consolidated financial statements of the Company reflect, for all periods presented, the historical financial position, results of operations and cash flows of the Company and its consolidated subsidiaries consisting of (i) the leased skilled nursing, assisted living and independent living facilities, (ii) the operations of the three independent living facilities and (iii) the other real estate investment.

Management believes that the assumptions and estimates used in preparation of the underlying condensed consolidated financial statements are reasonable.

The accompanying condensed consolidated financial statements of the Company were prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and Article 10 of Regulation S-X. Accordingly, the condensed consolidated financial statements do not include all of the disclosures required by GAAP for a complete set of annual audited financial statements. The condensed consolidated financial statements should be read in conjunction with the audited consolidated and combined financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. In the opinion of management, all adjustments which are of a normal and recurring nature and considered necessary for a fair presentation of the results of the interim periods presented have been included. The results of operations for the interim periods are not necessarily indicative of results for the full year. 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.

Real Estate Depreciation and Amortization—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 expensed as incurred while 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:

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CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

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
Identified intangible assets	Shorter of lease term or expected useful life

Real Estate Acquisition Valuation— In accordance with Accounting Standard Codification ("ASC") Topic 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 accounted for as 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 accounted for as 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 are based on a number of assumptions, including with respect to 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 the Company's acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of the Company's net income.

As part of our asset acquisitions, the Company may commit to provide contingent payments to a seller or lessee, upon the applicable property achieving certain financial metrics. Typically, when the contingent payments are funded, cash rent is increased by the amount funded multiplied by a rate stipulated in the agreement. If the contingent payment is an earn-out provided to the seller, the payment is capitalized to the property's basis. If the contingent payment is an earn-out provided to the lessee, the payment is recorded as a lease incentive and is amortized as a yield adjustment over the life of the lease.

Impairment of Long-Lived Assets—At each reporting period, management evaluates the Company's real estate investments for impairment indicators, including the evaluation of its 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, it evaluates 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.

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CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

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 the applicable basis set forth in the preferred equity instrument based on the outstanding investment including any accrued and unpaid return. As the preferred member of any joint venture in which the Company has an investment, the Company is not entitled to share in such 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 the Company, 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 the Company 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 three 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 the Company's debt are capitalized and amortized on a straight-line basis over the terms of the related borrowings, which approximates the effective interest method. Amortization of deferred financing costs is classified as interest expense in the Company's condensed consolidated income statements. Accumulated amortization of deferred financing costs was \$3.1 million and \$3.3 million as of June 30, 2016 and December 31, 2015, 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 the Company's condensed consolidated income statements.

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 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 each of the three and six months ended June 30, 2016 and 2015, 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 payment history, the operations, the asset type and current economic conditions. If the Company's evaluation of these factors indicates it may not recover the full value of the receivable, it provides a reserve against the portion of the receivable that it estimates may not be recovered. This analysis requires the Company 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. The Company did not reserve any receivables as of June 30, 2016 or December 31, 2015.

Income Taxes—The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). 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,

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CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

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 as qualifying dividends all of its REIT taxable income 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.

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 reflects stock-based compensation expense of \$0.4 million and \$0.3 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.9 million and \$0.7 million for the six months ended June 30, 2016 and 2015, 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 Financial Accounting Standards Board ("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 Topic 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.

Recently Issued Accounting Standards—In May 2014, the FASB issued Accounting Standards Update ("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 the Company's consolidated financial statements when adopted.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10) (“ASU No. 2016-01”). ASU No. 2016-01 updates guidance related to recognition and measurement of financial assets and financial liabilities. ASU No. 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in ASU No. 2016-01 also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in

accordance with the fair value option for financial instruments. In addition, the amendments in ASU No. 2016-01 eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. ASU No. 2016-01 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements when adopted.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU No. 2016-02”). ASU No. 2016-02 supersedes guidance related to accounting for leases. ASU No. 2016-02 updates guidance around the recognition of

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CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The objective of ASU No. 2016-02 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. ASU No. 2016-02 does not fundamentally change lessor accounting. However, some changes have been made to lessor accounting to conform and align the guidance in ASU No. 2016-02 with the lessee guidance and other areas within GAAP. ASU No. 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements when adopted.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting ("ASU No. 2016-09"), which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU No. 2016-09 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, and early adoption is permitted. The Company is currently evaluating the impact adoption will have on its consolidated financial statements.

Recently Adopted Accounting Standards—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 a Securities and Exchange Commission ("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.

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 ("ASU No. 2015-03"). 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 consolidated financial statements.

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 adoption of ASU No. 2015-02 did not have a significant impact on the Company's 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 adoption of ASU No. 2015-16 did not have a significant impact on the Company's consolidated financial statements.

3. REAL ESTATE INVESTMENTS, NET

The following tables summarize our investment in owned properties as of June 30, 2016, and December 31, 2015 (dollars in thousands):

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CARETRUST REIT, INC.

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(Unaudited)

	June 30, 2016	December 31, 2015
Land	\$101,263	\$ 91,311
Buildings and improvements	755,052	627,453
Integral equipment, furniture and fixtures	61,241	54,388
Identified intangible assets	1,400	—
Real estate investments	918,956	773,152
Accumulated depreciation and amortization	(142,729)	(127,538)
Real estate investments, net	\$776,227	\$ 645,614

As of June 30, 2016, 94 of the Company's 147 facilities were leased to subsidiaries of Ensign under eight master leases (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 Lease will result in a default under all of the Ensign Master Leases. The initial annual revenues from the Ensign Master Leases were \$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 are 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 June 30, 2016, 50 of the Company's 147 facilities were leased to various other operators under triple-net leases. All of these leases contain annual escalators based on CPI, some of which are subject to a cap.

The Company's three remaining properties as of June 30, 2016 are the independent living facilities that the Company owns and operates.

The Company has only one identified intangible asset which relates to a below-market ground lease. This ground lease has a remaining term of 81 years.

As of June 30, 2016, our total future minimum rental revenues for all of our tenants were (dollars in thousands):

Year	Amount
Remaining 2016	\$46,979
2017	94,088
2018	94,173
2019	94,173
2020	94,173
Thereafter	890,778
	\$1,314,364

Recent Real Estate Acquisitions

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

New Haven Assisted Living, LLC

In February 2016, the Company acquired New Haven of San Angelo, a 30-unit assisted living and memory care facility located in San Angelo, Texas, for \$4.9 million, which includes capitalized acquisition costs. In connection with the acquisition, the Company entered into a triple-net master lease with New Haven Assisted Living, LLC. The lease carries an initial term of 12.5 years with two five-year renewal options and CPI-based rent escalators. The Company anticipates initial annual lease revenues of \$0.4 million following this acquisition.

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(Unaudited)

Trillium Healthcare Group, LLC

In February 2016, the Company acquired a nine facility 518-bed skilled nursing portfolio in Iowa for \$32.7 million, which includes capitalized acquisition costs. In connection with the acquisition, the Company amended its triple-net master lease with Trillium Healthcare Group, LLC. The amended lease carries a remaining term of 15 years with two five-year renewal options and CPI-based rent escalators. The base rent under the amended master lease increased by \$3.2 million per year following this acquisition. In March 2016, the Company acquired Cedar Falls Health Care Center, an 82-bed skilled nursing facility located in Cedar Falls, Iowa, for \$5.0 million, which includes capitalized acquisition costs. In connection with the acquisition, the Company further amended its triple-net master lease with Trillium Healthcare Group, LLC. The Company anticipates additional initial annual lease revenues of \$0.5 million following this acquisition.

Priority Life Care, LLC

In March 2016, the Company acquired three assisted living facilities consisting of 336 units located in Baltimore, Maryland, Fort Wayne, Indiana and West Allis, Wisconsin, for \$21.2 million, which includes capitalized acquisition costs. In connection with the acquisition, the Company entered into a triple-net master lease with Priority Life Care, 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 \$1.8 million following this acquisition.

Better Senior Living Consulting, LLC

In March 2016, the Company acquired a 74-unit assisted living facility located in Fort Myers, Florida, for \$5.7 million, which includes capitalized acquisition costs. In connection with the acquisition, the Company amended its triple-net master lease with Better Senior Living Consulting, LLC. The amended lease carries a remaining term of 14 years with two five-year renewal options and CPI-based rent escalators. The Company anticipates additional initial annual lease revenues of \$0.5 million following this acquisition.

Pristine Senior Living, LLC

In April 2016, the Company acquired Victory Park Nursing Home, a 55-bed skilled nursing facility, and Victoria Retirement Community, a skilled nursing and assisted living campus with 90 skilled nursing beds and 69 assisted living beds, both located in Cincinnati, Ohio, for \$14.7 million which includes capitalized acquisition costs. In connection with the acquisition, the Company amended its triple-net master lease with Pristine Senior Living, LLC. The Company anticipates additional initial annual lease revenues of \$1.4 million following this acquisition.

Cascadia Healthcare, LLC

In May 2016, the Company acquired Shaw Mountain at Cascadia, a 98-bed skilled nursing facility located in Boise, Idaho, for \$8.9 million, which includes capitalized acquisition costs. In connection with the acquisition, the Company entered into a triple-net master lease with Cascadia Healthcare, LLC. The lease carries an initial term of 15 years with three five-year renewal options and CPI-based rent escalators. The Company anticipates initial annual lease revenues of \$0.9 million following this acquisition.

Twenty/20 Management, Inc.

In May 2016, the Company acquired English Meadows Elks' Home, a 175-unit independent and assisted living campus located in Bedford, Virginia, for \$10.1 million and a contingent \$5.0 million earn-out (subject to the achievement of certain financial metrics) which includes capitalized acquisition costs. In connection with the acquisition, the Company amended its triple-net master lease with Twenty/20 Management, Inc. The Company anticipates additional initial annual lease revenues of \$0.9 million following this acquisition.

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Premier Senior Living, LLC

In May 2016, the Company acquired Croatan Village, a 46-unit assisted living and memory care facility located in New Bern, North Carolina, and Countryside Village, a 21-unit memory care facility located in Pikeville, North Carolina, for \$11.8 million, which includes capitalized acquisition costs. In connection with the acquisition, the Company entered into a triple-net master lease with Premier 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 \$1.0 million following this acquisition. Additionally, in June 2016, the Company acquired a four facility 188-bed assisted living and memory care portfolio located in Michigan for \$30.7 million which includes capitalized acquisition costs. In connection with the acquisition, the Company amended its triple-net master lease with Premier Senior Living. The Company anticipates additional initial annual lease revenues of \$2.5 million following this acquisition.

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 was completed at the end of the second quarter of 2016 and has begun lease-up in the third quarter of 2016. During the three months ended June 30, 2016 and 2015, respectively, the Company recognized \$0.3 million and \$0.2 million of interest income and these unpaid amounts were added to the outstanding carrying value of the investment. During the six months ended June 30, 2016 and 2015, respectively, the Company recognized \$0.5 million and \$0.5 million of interest income and these unpaid amounts were 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 three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

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

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

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

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 June 30, 2016 and December 31, 2015 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):

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

	June 30, 2016			December 31, 2015		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial assets:						
Preferred equity investment	\$7,500	\$8,992	\$8,992	\$7,500	\$8,477	\$8,477
Financial liabilities:						
Senior unsecured notes payable	\$260,000	\$254,762	\$262,600	\$260,000	\$254,229	\$263,575
Mortgage notes payable	\$—	\$—	\$—	\$95,022	\$94,676	\$97,067

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 carrying amount is accounted for at the unpaid principal balance, plus accrued return, net of reserves, assuming a hypothetical liquidation of the book value of the joint venture. 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. In future periods, the fair value of the preferred equity investment may not be equal to the carrying amount.

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 and senior unsecured term loan: The fair values approximate their carrying values as the interest rates are variable and approximate prevailing market interest rates for similar debt arrangements.

Mortgage notes payable: The fair value of the Company's notes payable were estimated using a discounted cash flow analysis based on management's estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio, type of collateral and other credit enhancements. 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 measured fair value using (i) a valuation technique that used 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 was consistent with the principles of fair value measurement, such as the income approach or the market approach. The Company classified these inputs as Level 3 inputs.

6. RELATED PARTY TRANSACTIONS

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 but wholly-owned 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 six months ended June 30, 2015, the Company recognized \$16.3 million in rental income from Ensign while Mr. Christensen sat on the Board of the Company as well as \$1.4 million of 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.

7. DEBT

The following table summarizes the balance of our indebtedness as of June 30, 2016 and December 31, 2015 (in thousands):

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(Unaudited)

	June 30, 2016			December 31, 2015		
	Principal Amount	Deferred Loan Fees	Carrying Value	Principal Amount	Deferred Loan Fees	Carrying Value
Senior unsecured notes payable	\$260,000	\$(5,238)	\$254,762	\$260,000	\$(5,771)	\$254,229
Senior unsecured term loan	100,000	(618)	99,382	—	—	—
Unsecured revolving credit facility	68,000	—	68,000	45,000	—	45,000
Mortgage notes payable	—	—	—	\$95,022	\$(346)	94,676
	\$428,000	\$(5,856)	\$422,144	\$400,022	\$(6,117)	\$393,905

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. The Company 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 December 2014 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 may redeem the Notes any time before 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. At any time on or before 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 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 June 30, 2016, the Company was in compliance with all applicable financial covenants under the indenture.

Unsecured Revolving Credit Facility and Term Loan

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

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(Unaudited)

initially provided for an unsecured asset-based revolving credit facility (the “Credit Facility”) with commitments in an aggregate principal amount of \$300.0 million from a syndicate of banks and other financial institutions. A portion of the proceeds of the Credit 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. On February 1, 2016, the Company 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, (ii) a new \$100.0 million non-amortizing unsecured term loan (the “Term Loan”) was funded, and (iii) the uncommitted incremental facility was increased by \$50.0 million to \$250.0 million. The Credit Facility continues to mature on August 5, 2019, subject to 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. Approximately \$95.0 million of the proceeds of the Term Loan were used to pay off and terminate the Company’s existing secured mortgage indebtedness under the Fifth Amended and Restated Loan Agreement, dated May 30, 2014 (the “GECC Loan”), with General Electric Capital Corporation, as agent and lender, and the other lenders party thereto (the “Refinancing”). The Company expects to use borrowings under the Credit Facility for working capital purposes, to fund acquisitions and for general corporate purposes.

As of June 30, 2016, there was \$68.0 million outstanding under the Credit Facility.

The interest rates 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 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 pays a commitment fee on the unused portion of the commitments under the Credit Facility of 0.15% or 0.25% per annum, based upon usage of the Credit 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).

Pursuant to the Amendment, the interest rates applicable to the Term Loan are, at the Company’s option, equal to either a base rate plus a margin ranging from 0.95% to 1.60% per annum or 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).

The Credit Facility and Term Loan 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 June 30, 2016, the Company was in compliance with all applicable financial covenants under the Credit Agreement.

GECC Loan

Ten of the Company's properties were subject to secured mortgage indebtedness which it assumed in connection with the Spin-Off. On February 1, 2016, the GECC Loan was paid off in conjunction with the Refinancing.

Interest Expense

During the three months ended June 30, 2016, the Company incurred \$5.4 million of interest expense. Included in interest expense was \$0.6 million of amortization of deferred financing costs. During the three months ended June 30, 2015,

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(Unaudited)

the Company incurred \$6.0 million of interest expense. Included in interest expense was \$0.6 million of amortization of deferred financing costs. During the six months ended June 30, 2016, the Company incurred \$11.6 million of interest expense. Included in interest expense was \$1.1 million of amortization of deferred financing costs and a \$0.3 million write-off of deferred financing costs associated with the Refinancing. During the six months ended June 30, 2015, the Company incurred \$11.9 million of interest expense. Included in interest expense was \$1.1 million of amortization of deferred financing costs. As of June 30, 2016 and December 31, 2015, the Company's interest payable was \$1.3 million and \$1.9 million, respectively.

8. EQUITY

Common Stock

Offering of Common Stock—On March 28, 2016, the Company completed an underwritten public offering of 9.78 million newly issued shares of its common stock pursuant to an effective registration statement. The Company received net proceeds of \$105.8 million from the offering, after giving effect to the issuance and sale of all 9.78 million shares of common stock (which included 1.28 million shares sold to the underwriters upon exercise of their option to purchase additional shares), at a price to the public of \$11.35 per share.

Dividends on Common Stock—During the first quarter of 2016, the Company's Board of Directors declared a quarterly cash dividend of \$0.17 per share of common stock, payable on April 15, 2016 to stockholders of record as of March 31, 2016. During the second quarter of 2016, the Company's Board of Directors declared a quarterly cash dividend of \$0.17 per share of common stock, payable on July 15, 2016 to stockholders of record as of June 30, 2016.

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.

Restricted Stock Awards — 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 six months ended June 30, 2016, 28,000 shares vested or were forfeited. As of June 30, 2016, there were 60,830 unvested restricted stock awards outstanding.

In May 2016, the Compensation Committee of the Company's Board of Directors granted 20,770 shares of restricted stock to members of the Board of Directors. Each share had a fair market value on the date of grant of \$13.13 per share, based on the market price of the Company's common stock on that date, and the shares vest over one year. During the three months ended June 30, 2016 and 2015, the Company recognized \$0.4 million and \$0.3 million of stock-based compensation expense, respectively. During the six months ended June 30, 2016 and 2015, the Company recognized \$0.9 million and \$0.7 million of stock-based compensation expense, respectively. As of June 30, 2016, there was \$3.1 million of unamortized stock-based compensation expense related to unvested awards and the weighted-average remaining vesting period of such awards was 2.8 years.

10. EARNINGS PER COMMON SHARE

The following table presents the calculation of basic and diluted EPS for the Company's common stock for the three and six months ended June 30, 2016 and 2015, 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 (amounts in thousands, except per share amounts):

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	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
Numerator:				
Net income	\$7,631	\$2,266	\$13,133	\$4,304
Less: Net income allocated to participating securities	(69)	(81)	(147)	(117)
Numerator for basic and diluted earnings available to common stockholders	\$7,562	\$2,185	\$12,986	\$4,187
Denominator:				
Weighted-average basic common shares outstanding	57,478	31,278	52,789	31,268
Weighted-average diluted common shares outstanding	57,478	31,278	52,789	31,268
Earnings per common share, basic	\$0.13	\$0.07	\$0.25	\$0.13
Earnings per common share, diluted	\$0.13	\$0.07	\$0.25	\$0.13

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 per diluted share for both the three and six months ended June 30, 2016 and 2015, 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.

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 – As of June 30, 2016, Ensign leased 94 skilled nursing, assisted living and independent living facilities which had a total of 10,121 licensed beds 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

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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. Further, in April 2016, the Company acquired a 55-bed skilled nursing facility and a skilled nursing and assisted living campus with 90 skilled nursing beds and 69 assisted living beds, both located in Cincinnati, Ohio, for approximately \$14.7 million. In connection with the acquisition, the Company amended its triple-net master lease with Pristine Senior Living and anticipates additional initial annual lease revenues of approximately \$1.4 million following this acquisition. Ensign is subject to the registration and 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 financial statements, as filed with the SEC, can be found at Ensign's website <http://www.ensigngroup.net>. Audited financial statements of Pristine are available in Amendment No. 1 to the Company's Current Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on March 16, 2016.

13. SUMMARIZED CONDENSED CONSOLIDATING INFORMATION

The 5.875% Senior Notes due 2021 issued by the CTR Partnership, L.P. and CareTrust Capital Corp. 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.

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 the books and records maintained by the Company.

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CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEETS

JUNE 30, 2016

(in thousands, except share and per share amounts)

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Combined Non- Guarantor Subsidiaries	Elimination	Consolidated
Assets:						
Real estate investments, net	\$	—\$396,908	\$ 339,787	\$ 39,532	\$	—\$ 776,227
Other real estate investments	—	—	8,992	—	—	8,992
Cash and cash equivalents	—	9,644	—	—	—	9,644
Accounts receivable	—	2,219	1,710	156	—	4,085
Prepaid expenses and other assets	147	1,044	6	—	—	1,197
Deferred financing costs, net	—	3,333	—	—	—	—