

CareTrust REIT, Inc.
Form 10-Q
August 02, 2017
Table of Contents

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, 2017

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

Large accelerated filer

Accelerated filer

Edgar Filing: CareTrust REIT, Inc. - Form 10-Q

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

As of August 1, 2017, there were 75,902,014 shares of common stock outstanding.

Table of Contents

INDEX

PART I—FINANCIAL INFORMATION

Item 1. <u>Financial Statements</u> (Unaudited)	
<u>Condensed Consolidated Balance Sheets</u>	<u>1</u>
<u>Condensed Consolidated Income Statements</u>	<u>2</u>
<u>Condensed Consolidated Statements of Equity</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>5</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
Item 4. <u>Controls and Procedures</u>	<u>36</u>

PART II—OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	<u>37</u>
Item 1A. <u>Risk Factors</u>	<u>37</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>37</u>
Item 6. <u>Exhibits</u>	<u>39</u>
<u>Signatures</u>	<u>40</u>

Table of Contents

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, 2017	December 31, 2016
Assets:		
Real estate investments, net	\$972,832	\$893,918
Other real estate investments	5,192	13,872
Cash and cash equivalents	35,066	7,500
Accounts and other receivables	9,425	5,896
Prepaid expenses and other assets	5,282	1,369
Deferred financing costs, net	2,260	2,803
Total assets	\$1,030,057	\$925,358
Liabilities and Equity:		
Senior unsecured notes payable, net	\$294,043	\$255,294
Senior unsecured term loan, net	99,469	99,422
Unsecured revolving credit facility	—	95,000
Accounts payable and accrued liabilities	14,521	12,137
Dividends payable	14,048	11,075
Total liabilities	422,081	472,928
Commitments and contingencies (Note 10)		
Equity:		
Preferred stock, \$0.01 par value; 100,000,000 shares authorized, no shares issued and outstanding as of June 30, 2017 and December 31, 2016	—	—
Common stock, \$0.01 par value; 500,000,000 shares authorized, 75,466,982 and 64,816,350 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	755	648
Additional paid-in capital	782,073	611,475
Cumulative distributions in excess of earnings	(174,852)	(159,693)
Total equity	607,976	452,430
Total liabilities and equity	\$1,030,057	\$925,358

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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,	
	2017	2016	2017	2016
Revenues:				
Rental income	\$28,511	\$22,781	\$55,850	\$43,678
Tenant reimbursements	2,389	1,929	4,710	3,726
Independent living facilities	789	730	1,582	1,411
Interest and other income	1,140	261	1,295	515
Total revenues	32,829	25,701	63,437	49,330
Expenses:				
Depreciation and amortization	9,335	7,892	18,411	15,185
Interest expense	6,219	5,440	12,098	11,301
Loss on the extinguishment of debt	11,883	—	11,883	326
Property taxes	2,389	1,929	4,710	3,726
Independent living facilities	644	598	1,305	1,218
Impairment of real estate investment	890	—	890	—
General and administrative	2,977	2,211	5,367	4,441
Total expenses	34,337	18,070	54,664	36,197
Other income:				
Gain on disposition of other real estate investment	3,538	—	3,538	—
Net income	\$2,030	\$7,631	\$12,311	\$13,133
Earnings per common share:				
Basic	\$0.03	\$0.13	\$0.17	\$0.25
Diluted	\$0.03	\$0.13	\$0.17	\$0.25
Weighted-average number of common shares:				
Basic	72,564	57,478	69,773	52,789
Diluted	72,564	57,478	69,773	52,789
Dividends declared per common share	\$0.185	\$0.17	\$0.37	\$0.34

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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, 2015	47,664,742	\$ 477	\$410,217	\$(148,406)	\$262,288
Issuance of common stock, net	17,023,824	170	200,228	—	200,398
Vesting of restricted common stock, net of shares withheld for employee taxes	127,784	1	(516)	—	(515)
Amortization of stock-based compensation	—	—	1,546	—	1,546
Common dividends (\$0.68 per share)	—	—	—	(40,640)	(40,640)
Net income	—	—	—	29,353	29,353
Balance as of December 31, 2016	64,816,350	648	611,475	(159,693)	452,430
Issuance of common stock, net	10,573,089	106	170,329	—	170,435
Vesting of restricted common stock, net of shares withheld for employee taxes	77,543	1	(867)	—	(866)
Amortization of stock-based compensation	—	—	1,136	—	1,136
Common dividends (\$0.37 per share)	—	—	—	(27,470)	(27,470)
Net income	—	—	—	12,311	12,311
Balance as of June 30, 2017	75,466,982	\$ 755	\$782,073	\$(174,852)	\$607,976

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CARETRUST REIT, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)
 (Unaudited)

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 12,311	\$ 13,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including a below-market ground lease)	18,419	15,191
Amortization of deferred financing costs	1,131	1,117
Loss on extinguishment of debt	11,883	326
Amortization of stock-based compensation	1,136	868
Straight-line rental income	(115)	—
Non-cash interest income	(320)	(515)
Interest income distribution from other real estate investment	1,500	—
Impairment of real estate investment	890	—
Change in operating assets and liabilities:		
Accounts and other receivables	(3,414)	(1,743)
Prepaid expenses and other assets	(311)	(291)
Accounts payable and accrued liabilities	1,791	27
Net cash provided by operating activities	44,901	28,113
Cash flows from investing activities:		
Acquisitions of real estate	(96,641)	(144,149)
Improvements to real estate	(598)	(170)

Edgar Filing: CareTrust REIT, Inc. - Form 10-Q

Purchases of equipment, furniture and fixtures	(233))	(89))
Sale of other real estate investment	7,500		—	
Escrow deposit for acquisitions of real estate	(4,335))	—	
Net cash used in investing activities	(94,307))	(144,408))
Cash flows from financing activities:				
Proceeds from the issuance of common stock, net	170,485		105,889	
Proceeds from the issuance of senior unsecured notes payable	300,000		—	
Proceeds from the issuance of senior unsecured term loan	—		100,000	
Borrowings under unsecured revolving credit facility	63,000		115,000	
Payments on senior unsecured notes payable	(267,639))	—	
Payments on unsecured revolving credit facility	(158,000))	(92,000))
Payments on the mortgage notes payable	—		(95,022))
Payments of deferred financing costs	(5,511))	(1,332))
Net-settle adjustment on restricted stock	(866))	(515))
Dividends paid on common stock	(24,497))	(17,548))
Net cash provided by financing activities	76,972		114,472	
Net increase (decrease) in cash and cash equivalents	27,566		(1,823))
Cash and cash equivalents beginning of period	7,500		11,467	
Cash and cash equivalents end of period	\$ 35,066		\$ 9,644	
Supplemental disclosures of cash flow information:				
Interest paid	\$ 10,585		\$ 10,791	

Supplemental schedule
of noncash investing
and financing activities:

Increase in dividends payable	\$	2,973	\$	2,143
Increase in deferred financing costs payable	\$	525	\$	—
Increase in offering costs payable	\$	50	\$	218
Application of escrow deposit to acquisition of real estate		700	\$	1,250

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

1. ORGANIZATION

Description of Business—CareTrust REIT, Inc.’s (“CareTrust REIT” or the “Company”) 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, 2017, the Company owned and leased to independent operators, including The Ensign Group, Inc. (“Ensign”), 161 skilled nursing, skilled nursing campuses, assisted living and independent living facilities consisting of 15,894 operational beds and units located in Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Maryland, Michigan, Minnesota, Nebraska, Nevada, New Mexico, 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, 2017, the Company also had two other real estate investments, consisting of \$5.2 million of preferred equity investments.

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 net-leased skilled nursing, assisted living and independent living facilities, (ii) the operations of the three independent living facilities that the Company owns and operates and (iii) the preferred equity investments.

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, 2016. 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. Management believes that the assumptions and estimates used in preparation of the underlying condensed consolidated financial statements are reasonable. Actual results, however, could differ from those estimates and assumptions.

Reclassifications—Prior period results reflect reclassifications, for comparative purposes, in the Company’s condensed consolidated financial statements, including a \$0.3 million write-off of deferred financing costs in the six months ended June 30, 2016 reclassified from interest expense to loss on extinguishment of debt in the condensed consolidated income statement. 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 expensed 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:

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

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

Real Estate Acquisition Valuation— In accordance with Accounting Standards Codification (“ASC”) Topic 805, Business Combinations, the Company records the acquisition of income-producing real estate as an asset acquisition. If the acquired assets meet the definition of a business, the Company records the acquisition as a business combination. 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 the Company’s asset acquisitions, the Company may commit to provide contingent payments to a seller or lessee (e.g., an earn-out payable 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. Generally, 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.

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, to the extent there is outside contributed equity or cumulative earnings from operations. 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

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

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 or as available cash flow is distributed from the joint venture.

The Company evaluates at each reporting period 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 \$2.2 million and \$4.2 million as of June 30, 2017 and December 31, 2016, 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 reimbursements 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, 2017 and 2016, 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. As of June 30, 2017, accounts and other receivables included net pre-fundings of approximately \$3.0 million for property taxes and franchise permit fees related to the Company’s properties net-leased to subsidiaries of Pristine Senior Living, LLC (“Pristine”). Consistent with the Company’s practices, the Company obtains monthly financial and operational information from Pristine that it reviews to monitor the ability of Pristine and its affiliates to meet their obligations to the Company under the Pristine master lease and related guaranties. Based on information received, the Company expects that Pristine and its affiliates will be able to satisfy their rental payment obligations to

the Company under the Pristine master lease as amended. The Company did not reserve any contractual cash rent as of June 30, 2017 or December 31, 2016.

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

7

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

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 to its stockholders at least 90% of the Company's annual REIT taxable income (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 \$0.6 million and \$0.4 million for the three months ended June 30, 2017 and 2016, respectively, and \$1.1 million and \$0.9 million for the six months ended June 30, 2017 and 2016, respectively.

Concentration of Credit Risk—The Company is subject to concentrations of credit risk consisting primarily of operating leases on the Company's owned properties. See Note 11, 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.

Recent Accounting Pronouncements — In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). ASU 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 2014-09 supersedes the revenue requirements in Revenue Recognition (Topic 605) and most industry-specific guidance throughout the Industry Topics of the ASC. ASU 2014-09 does not apply to lease contracts within the scope of Leases (Topic 840). In August 2015, the FASB issued ASU 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 continues to evaluate the potential effect that the adoption of ASU 2014-09 will have on the Company's consolidated financial statements and disclosures. The evaluation includes identifying revenue streams by like contracts to allow for ease of implementation. Based on review of the Company's revenue streams, independent living facilities on the Company's consolidated financial statements include revenues generated through services provided to residents of independent living facilities that are ancillary to the residents' contractual rights to occupy living and common-area space at the communities, such as meals, transportation and activities. While these revenue streams are subject to the application of ASC 606, the Company believes that the recognition of income will be consistent with the current accounting model because currently the revenues associated

with these services are generally recognized on a monthly basis, the period in which the related services are performed. In addition, the Company is monitoring specific developments for the senior living industry and evaluating potential changes to its business processes, systems, and controls to support the recognition and disclosure under the new standard.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10) (“ASU 2016-01”). ASU 2016-01 updates guidance related to recognition and measurement of financial assets and financial liabilities. ASU 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 2016-01 also require an entity to present separately in other comprehensive income the portion of the

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

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 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 2016-01 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”) that sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASU 2016-02 is expected to result in the recognition of a right-to-use asset and related liability to account for the Company’s future obligations for which it is the lessee. As of June 30, 2017, the remaining contractual payments under the Company’s lease agreements aggregated \$0.4 million. Additionally, ASU 2016-02 will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. Under ASU 2016-02, allocated payroll costs and other costs that are incurred regardless of whether the lease is obtained will no longer be capitalized as initial direct costs and instead will be expensed as incurred. Lessors will continue to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The standard permits the use of the modified retrospective transition method. The Company continues to assess the potential effect that the adoption of ASU 2016-02 will have on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) (“ASU 2016-13”) that changes the impairment model for most financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the other-than-temporary impairment model. ASU 2016-13 will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases, and off-balance-sheet credit exposures (e.g., loan commitments). ASU 2016-13 is effective for reporting periods beginning after December 15, 2019, with early adoption permitted, and will be applied as a cumulative adjustment to retained earnings as of the effective date. The Company is currently assessing the potential effect the adoption of ASU 2016-13 will have on the Company’s consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which provided guidance on certain specific cash flow issues, including, but not limited to, debt prepayment or extinguishment costs, contingent consideration payments made after a business combination and distributions received from equity method investees. ASU 2016-15 is effective for periods beginning after December 15, 2017, with early adoption permitted and shall be applied retrospectively where practicable. The Company does not believe that there will be an impact upon its consolidated financial statements upon adoption.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230) (“ASU 2016-18”) that will require companies to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will require a disclosure of a reconciliation between the statement of financial position and the statement of cash flows when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. Entities with material restricted cash and restricted cash equivalents balances will be required to disclose the nature of the restrictions. ASU 2016-18 is effective for reporting periods beginning after December 15, 2017, with early adoption permitted, and will be applied retrospectively to all periods presented. As of June 30, 2017 and December 31, 2016, the Company did not have any restricted cash. The Company does not believe that there will be an impact upon its consolidated financial statements upon adoption.

Recent Accounting Standards Adopted by the Company

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

On January 1, 2017, the Company early adopted ASU No. 2017-01, Business Combinations: Clarifying the Definition of a Business (Topic 805) (“ASU 2017-01”) that clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer transactions being accounted for as business combinations. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. This update will be applied on a prospective basis and the Company expects that acquisitions of real estate or in-substance real estate will not meet the revised definition of a business because substantially all of the fair value is concentrated in a single identifiable asset or group of similar identifiable assets (i.e., land, buildings, and related intangible assets) or because the acquisition does not include a substantive process in the form of an acquired workforce or an acquired contract that cannot be replaced without significant cost, effort or delay.

On January 1, 2017, the Company adopted ASU No. 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), that simplifies several aspects of employee share-based payment accounting, including the accounting for forfeitures. ASU 2016-09 allows an entity to make an accounting policy election either to continue to estimate the total number of awards that are expected to vest (current method) or to account for forfeitures when they occur. This entity-wide accounting policy election only applies to service conditions; for performance conditions, the entity continues to assess the probability that such conditions will be achieved. If an entity elects to account for forfeitures when they occur, all nonforfeitable dividends paid on share-based payment awards are initially charged to retained earnings and reclassified to compensation cost only when forfeitures of the underlying awards occur. Under current guidance, nonforfeitable dividends paid on share-based payment awards that are not expected to vest are recognized as additional compensation cost. The adoption of ASU 2016-09 did not have a material effect on the Company’s consolidated financial statements as the Company elected to account for forfeitures when they occur.

3. REAL ESTATE INVESTMENTS, NET

The following tables summarize the Company’s investment in owned properties as of June 30, 2017, and December 31, 2016 (dollars in thousands):

	June 30, 2017	December 31, 2016
Land	\$119,439	\$ 110,648
Buildings and improvements	952,653	875,567
Integral equipment, furniture and fixtures	68,681	64,120
Identified intangible assets	2,382	1,914
Escrowed cash for acquisitions	6,254	—
Real estate investments	1,149,409	1,052,249
Accumulated depreciation and amortization	(176,577)	(158,331)
Real estate investments, net	\$972,832	\$ 893,918

As of June 30, 2017, 92 of the Company’s 164 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. As of June 30, 2017, annualized revenues from the Ensign Master Leases were \$57.7 million and 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, 2017, 69 of the Company’s 164 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, or fixed rent escalators. The Company’s three remaining properties as of June 30, 2017 are the independent living facilities that the Company owns and operates.

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

Escrowed cash for acquisitions represents cash in escrow for two asset acquisitions that closed on July 1, 2017. See further discussion in Note 13, Subsequent Events.

The Company has only two identified intangible assets which relate to a below-market ground lease and five acquired operating leases. The ground lease has a remaining term of 81 years.

As of June 30, 2017, the Company's total future minimum rental revenues for all of its tenants were (dollars in thousands):

Year	Amount
Remaining 2017	\$58,419
2018	116,902
2019	114,998
2020	113,671
2021	113,671
Thereafter	998,447
	\$ 1,516,108

Recent Real Estate Acquisitions

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

Premier Senior Living, LLC

In February 2017, the Company acquired two assisted living and memory care facilities with 96 beds in the Milwaukee metropolitan area for \$26.1 million, which includes capitalized acquisition costs. In connection with the acquisition, the Company amended its triple-net master lease with subsidiaries of Premier Senior Living, LLC. The amended lease has a remaining initial term of approximately 14 years, with two five-year renewal options and CPI-based rent escalators. Annual cash rent under the amended lease increased by \$2.2 million.

WLC Management Firm, LLC

In March 2017, the Company acquired a five facility 455-bed skilled nursing portfolio in Illinois for \$29.2 million, which includes capitalized acquisition costs. In connection with the acquisition, the Company entered into a triple-net master lease with affiliates of WLC Management Firm, LLC. The lease carries an initial term of 15 years with two five-year renewal options and CPI-based rent escalators. Initial annual cash rent is \$2.9 million under the lease.

Better Senior Living Consulting, LLC

In May 2017, the Company acquired an assisted living and memory care facility with 170 beds in Brooksville, Florida for \$2.0 million, which includes capitalized acquisition costs. In connection with the acquisition, the Company amended its triple-net master lease with subsidiaries of Better Senior Living Consulting, LLC. The amended lease has a remaining initial term of approximately 13 years, with two five-year renewal options and CPI-based rent escalators. Annual cash rent under the amended lease increased by \$0.3 million.

Cascadia Healthcare, LLC

In May 2017, the Company acquired a skilled nursing facility with 119 units in the Nampa, Idaho valued at \$6.5 million, which includes capitalized acquisition costs. This facility acquisition is part of a three-skilled nursing facility portfolio acquisition. Of the two remaining facilities, one was acquired on July 1, 2017 and the other is scheduled to be completed in or around the third quarter of 2017. In connection with the acquisition, the Company amended its triple-net master lease with subsidiaries of Cascadia Healthcare, LLC. The amended lease has a remaining initial term of approximately 14 years, with two five-year renewal options and CPI-based rent escalators. Annual cash rent under the amended lease increased by \$0.6 million.

OnPointe Health, LLC

11

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

In June 2017, the Company acquired a skilled nursing facility in Brownsville, Texas with 126 units and a skilled nursing facility in Albuquerque, New Mexico with 136 units for \$27.3 million, which includes capitalized acquisition costs. The two facilities are leased to affiliates of OnPointe Health, LLC under two leases. Current contractual annual cash rent totals \$2.5 million under the leases. The leases carry remaining terms of approximately 17 and 19 years, respectively, with CPI-based rent escalators. The tenant has an option to purchase the Brownsville, Texas facility at a fixed price of \$14.3 million that becomes exercisable on a periodic basis beginning in 2024.

Impairment of Real Estate Investment

During the three and six months ended June 30, 2017, the Company recorded an impairment loss of \$0.9 million related to its investment in La Villa Rehab & Healthcare Center (“La Villa”). In April 2017, the Company and Ensign mutually determined that La Villa had reached the natural end of its useful life as a skilled nursing facility and that the facility was no longer economically viable, the improvements thereon could not be economically repurposed to any other use, and the cost to remove the obsolete improvements and reclaim the underlying land for redevelopment was expected to exceed the market value of the land. Ensign agreed to wind up and terminate the operations of the facility and the Company transferred title to the property to Ensign. There was no adjustment to the contractual rent under the applicable master lease. Additionally, the Company and Ensign agreed that the licensed beds will be transferred to another facility included in the Ensign Master Leases.

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 yielded 12.0% calculated on a quarterly basis on the outstanding carrying value of the investment. The investment was used to develop Signature Senior Living at Arvada, a planned 134-unit upscale assisted living and memory care community in Arvada, Colorado constructed on a five-acre site. In connection with its investment, CareTrust REIT 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 began lease-up in the third quarter of 2016. In May 2017, the property was sold to a third party. In connection with the sale, the Company received back in cash its initial investment of \$7.5 million, a cumulative contractual preferred return of \$2.5 million, and an additional cash payment of \$3.5 million that was not included with the original agreement, which the Company recognized as a gain on the sale of other real estate investment. The Company also recognized interest income of \$1.0 million during the three months ended June 30, 2017, which included a previously unrecognized preferred return of \$0.5 million related to prior periods.

In July 2016, the Company completed a \$2.2 million preferred equity investment with an affiliate of Cascadia Development, LLC. The preferred equity investment yields a return equal to prime plus 9.5% but in no event less than 12% calculated on a quarterly basis on the outstanding carrying value of the investment. The investment will be used to develop a 99-bed skilled nursing facility in Nampa, Idaho. In connection with its investment, CareTrust REIT obtained an option to purchase the development at a fixed-formula price upon stabilization, with an initial lease yield of at least 9.0%. The project is expected to be completed by October 2017.

In September 2016, the Company completed a \$2.3 million preferred equity investment with an affiliate of Cascadia Development, LLC. The preferred equity investment yields a return equal to prime plus 9.5% but in no event less than 12% calculated on a quarterly basis on the outstanding carrying value of the investment. The investment will be used to develop a 99-bed skilled nursing facility in Boise, Idaho. In connection with its investment, CareTrust REIT

obtained an option to purchase the development at a fixed-formula price upon stabilization, with an initial lease yield of at least 9.0%. The project is expected to be completed by early 2018.

During the three months ended June 30, 2017 and 2016, the Company recognized \$1.1 million and \$0.3 million, respectively, in interest income of which \$975,000 and \$0 respectively, was received in cash from its preferred equity investments. During the six months ended June 30, 2017 and 2016, the Company recognized \$1.3 million and \$0.5 million, respectively, in interest income of which \$975,000 and \$0 respectively, was received in cash from its preferred equity investments. Any unpaid amounts were added to the outstanding carrying values of the preferred equity investments.

5. FAIR VALUE MEASUREMENTS

12

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

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, 2017 and December 31, 2016 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):

	June 30, 2017			December 31, 2016		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial assets:						
Preferred equity investments	\$4,531	\$5,192	\$5,066	\$12,031	\$13,872	\$14,289

Financial liabilities:

Senior unsecured notes payable \$300,000 \$294,043 \$308,250 \$260,000 \$255,294 \$265,850

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

Preferred equity investments: The carrying amounts were accounted for at the unpaid principal balance, plus accrued return, net of reserves, assuming a hypothetical liquidation of the book values of the joint ventures. The fair value of the preferred equity investments were 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 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.

6. DEBT

The following table summarizes the balance of the Company's indebtedness as of June 30, 2017 and December 31, 2016 (dollars in thousands):

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

	June 30, 2017			December 31, 2016		
	Principal Amount	Deferred Loan Fees	Carrying Value	Principal Amount	Deferred Loan Fees	Carrying Value
Senior unsecured notes payable	\$300,000	\$(5,957)	\$294,043	\$260,000	\$(4,706)	\$255,294
Senior unsecured term loan	100,000	(531)	99,469	100,000	(578)	99,422
Unsecured revolving credit facility	—	—	—	95,000	—	95,000
	\$400,000	\$(6,488)	\$393,512	\$455,000	\$(5,284)	\$449,716

Senior Unsecured Notes Payable

On May 10, 2017, 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 an underwritten public offering of \$300.0 million aggregate principal amount of 5.25% Senior Notes due 2025 (the "Notes"). The Notes were issued at par, resulting in gross proceeds of \$300.0 million and net proceeds of approximately \$294.0 million after deducting underwriting fees and other offering expenses. The Company used the net proceeds from the offering of the Notes to redeem all \$260.0 million aggregate principal amount outstanding of its 5.875% Senior Notes due 2021, including payment of the redemption price at 102.938% and all accrued and unpaid interest thereon. The Company used the remaining portion of the net proceeds of the offering to pay borrowings outstanding under its senior unsecured revolving credit facility. The Notes mature on June 1, 2025 and bear interest at a rate of 5.25% per year. Interest on the Notes is payable on June 1 and December 1 of each year, beginning on December 1, 2017.

The Issuers may redeem the Notes any time before June 1, 2020 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, 2020, at the redemption prices set forth in the indenture. At any time on or before June 1, 2020, up to 40% of the aggregate principal amount of the Notes may be redeemed with the net proceeds of certain equity offerings if at least 60% of the originally issued aggregate principal amount of the Notes remains outstanding. In such case, the redemption price will be equal to 105.25% of the aggregate principal amount of the Notes to be redeemed plus accrued and unpaid interest, if any, to, but not including, the redemption date. 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 12, Summarized Condensed Consolidating Information.

The indenture contains customary covenants such as 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, 2017, the Company was in compliance with all applicable financial covenants under the indenture.

Unsecured Revolving Credit Facility and Term Loan

14

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

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 “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, 2017, there were no amounts 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 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).

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, 2017, the Company was in compliance with all applicable financial covenants under the Credit Agreement.

Interest Expense

During the three months ended June 30, 2017, the Company incurred \$6.2 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, 2016,

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

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 six months ended June 30, 2017, the Company incurred \$12.1 million of interest expense. Included in interest expense was \$1.1 million of amortization of deferred financing costs. During the six months ended June 30, 2016, the Company incurred \$11.3 million of interest expense. Included in interest expense was \$1.1 million of amortization of deferred financing costs. As of June 30, 2017 and December 31, 2016, the Company's interest payable was \$1.7 million and \$1.3 million, respectively.

Loss on the Extinguishment of Debt

During the three and six months ended June 30, 2017, the loss on the extinguishment of debt included the redemption price, stated at 102.938%, of \$7.6 million and a \$4.2 million write-off of deferred financing costs associated with the redemption of the Company's 5.875% Senior Notes due 2021. During the six months ended June 30, 2016, the loss on the extinguishment of debt included a \$0.3 million write-off of deferred financing costs associated with the payoff of the GECC Loan.

7. EQUITY**Common Stock**

At-The-Market Offering—During the second quarter of 2017, the Company entered into a new equity distribution agreement to issue and sell, from time to time, up to \$300.0 million in aggregate offering price of our common stock through an “at-the-market” equity offering program (the “ATM Program”). At June 30, 2017, we had approximately \$236.1 million available for future issuances under the ATM Program. At the time the ATM Program commenced in May 2017, our at-the-market equity offering program entered into during 2016, which had been substantially depleted, was permanently discontinued.

The following table summarizes the ATM Program activity for 2017 (shares and dollars in thousands):

	For the Three Months Ended		
	March 31, 2017	June 30, 2017	Total
Number of shares	7,175	3,399	10,574
Average sales price per share	\$ 15.31	\$ 18.82	\$ 16.43
Gross proceeds	\$ 109,813	\$ 63,947	\$ 173,760

Dividends on Common Stock—During the first quarter of 2017, the Company's Board of Directors declared a quarterly cash dividend of \$0.185 per share of common stock, payable on April 14, 2017 to common stockholders of record as of March 31, 2017. During the second quarter of 2017, the Company's Board of Directors declared a quarterly cash dividend of \$0.185 per share of common stock, payable on July 14, 2017 to common stockholders of record as of June 30, 2017.

8. 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 separation of Ensign's healthcare business and its real estate business into two separate and independently publicly traded companies (the “Spin-Off”), employees of Ensign who had unvested shares of restricted stock were given one share of CareTrust REIT 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, 2017, 15,860 shares vested or were forfeited. As of June 30, 2017, there were 26,320 unvested restricted stock awards outstanding.

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

In February 2017, the Compensation Committee of the Company's Board of Directors granted 233,768 shares of restricted stock to officers and employees. Each share had a fair market value on the date of grant of \$15.21 per share, based on the market price of the Company's common stock on that date, and the shares vest in three equal annual installments beginning on the first anniversary of the grant date.

During the three months ended June 30, 2017 and 2016, the Company recognized \$0.6 million and \$0.4 million of stock-based compensation expense, respectively. During the six months ended June 30, 2017 and 2016, the Company recognized \$1.1 million and \$0.9 million of stock-based compensation expense, respectively. As of June 30, 2017, there was \$4.8 million of unamortized stock-based compensation expense related to unvested awards and the weighted-average remaining vesting period of such awards was 2.2 years.

9. 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, 2017 and 2016, 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):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income	\$2,030	\$7,631	\$12,311	\$13,133
Less: Net income allocated to participating securities	(91)	(69)	(193)	(147)
Numerator for basic and diluted earnings available to common stockholders	\$1,939	\$7,562	\$12,118	\$12,986
Denominator:				
Weighted-average basic common shares outstanding	72,564	57,478	69,773	52,789
Weighted-average diluted common shares outstanding	72,564	57,478	69,773	52,789
Earnings per common share, basic	\$0.03	\$0.13	\$0.17	\$0.25
Earnings per common share, diluted	\$0.03	\$0.13	\$0.17	\$0.25

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 the three and six months ended June 30, 2017 and 2016, as their inclusion would have been anti-dilutive.

10. 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 (the "CIA") with the Office of Inspector General-HHS. 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—The Company and its subsidiaries are and may become from time to time a party to various claims and lawsuits arising in the ordinary course of business, which are not individually or in the aggregate anticipated to have a material adverse effect on the Company's results of operations, financial condition or cash flows. Claims and lawsuits may include matters involving general or professional liability asserted against the Company's tenants, which are the responsibility of the Company's tenants and for which the Company is entitled to be indemnified by its tenants under the insurance and indemnification provisions in the applicable leases.

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

11. CONCENTRATION OF RISK

Major operator concentrations – As of June 30, 2017, Ensign leased 92 skilled nursing, assisted living and independent living facilities which had a total of 9,754 operational 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 and leased such facilities to subsidiaries of Pristine. The Company has now leased 16 facilities 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. As of June 30, 2017, the annual revenues from the Pristine master lease are \$18.6 million and are 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, one of its subsidiaries, and its sole principal.

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>.

12. SUMMARIZED CONDENSED CONSOLIDATING INFORMATION

The 5.25% Senior Notes due 2025 issued by the Operating Partnership and CareTrust Capital Corp. on May 10, 2017 are jointly and severally, fully and unconditionally, guaranteed by CareTrust REIT, Inc., as the parent guarantor (the "Parent Guarantor"), and the wholly 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 the consummation of the Spin-Off related transactions.

CTR Partnership, L.P. and CareTrust Capital Corp. – The Issuers, each of which is a wholly 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 the consummation of the Spin-Off related transactions.

Subsidiary Guarantors – The Subsidiary Guarantors consist of all of the subsidiaries of the Parent Guarantor other than the Issuers.

Pursuant to Rule 3-10 of Regulation S-X, the following summarized consolidating information is provided for the Parent Guarantor, the Issuers, and the Subsidiary Guarantors. There are no subsidiaries of the Company other than the Issuers and the Subsidiary Guarantors. This summarized financial information has been prepared from the financial

statements of the Company and the books and records maintained by the Company. The Company has conformed prior period presentation in the Combined Subsidiary Guarantor designation, due to the issuance of the Notes.

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEETS

JUNE 30, 2017

(in thousands, except share and per share amounts)

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Elimination	Consolidated
Assets:					
Real estate investments, net	\$—	\$617,036	\$355,796	\$—	\$972,832
Other real estate investments	—	—	5,192	—	5,192
Cash and cash equivalents	—	35,066	—	—	35,066
Accounts and other receivables	—	7,470	1,955	—	9,425
Prepaid expenses and other assets	—	5,280	2	—	5,282
Deferred financing costs, net	—	2,260	—	—	2,260
Investment in subsidiaries	622,024	424,123	—	(1,046,147)	—
Intercompany	—	—	63,365	(63,365)	—
Total assets	\$622,024	\$1,091,235	\$426,310	\$(1,109,512)	\$1,030,057
Liabilities and Equity:					
Senior unsecured notes payable, net	\$—	\$294,043	\$—	\$—	\$294,043
Senior unsecured term loan, net	—	99,469	—	—	99,469
Unsecured revolving credit facility	—	—	—	—	—
Accounts payable and accrued liabilities	—	12,334	2,187	—	14,521
Dividends payable	14,048	—	—	—	14,048
Intercompany	—	63,365	—	(63,365)	—
Total liabilities	14,048	469,211	2,187	(63,365)	422,081
Equity:					
Common stock, \$0.01 par value; 500,000,000 shares authorized, 75,466,982 issued and outstanding as of June 30, 2017	755	—	—	—	755
Additional paid-in capital	782,073	574,384	321,761	(896,145)	782,073
Cumulative distributions in excess of earnings	(174,852)	47,640	102,362	(150,002)	(174,852)
Total equity	607,976	622,024	424,123	(1,046,147)	607,976
Total liabilities and equity	\$622,024	\$1,091,235	\$426,310	\$(1,109,512)	\$1,030,057

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEETS

DECEMBER 31, 2016

(in thousands, except share and per share amounts)

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Elimination	Consolidated
Assets:					
Real estate investments, net	\$—	\$527,639	\$366,279	\$—	\$893,918
Other real estate investments	—	—	13,872	—	13,872
Cash and cash equivalents	—	7,500	—	—	7,500
Accounts and other receivables	—	3,743	2,153	—	5,896
Prepaid expenses and other assets	—	1,366	3	—	1,369
Deferred financing costs, net	—	2,803	—	—	2,803
Investment in subsidiaries	463,505	401,328	—	(864,833)	—
Intercompany	—	—	21,445	(21,445)	—
Total assets	\$463,505	\$944,379	\$403,752	\$(886,278)	\$925,358
Liabilities and Equity:					
Senior unsecured notes payable, net	\$—	\$255,294	\$—	\$—	\$255,294
Unsecured revolving credit facility	—	95,000	—	—	95,000
Senior unsecured term loan, net	—	99,422	—	—	99,422
Accounts payable and accrued liabilities	—	9,713	2,424	—	12,137
Dividends payable	11,075	—	—	—	11,075
Intercompany	—	21,445	—	(21,445)	—
Total liabilities	11,075	480,874	2,424	(21,445)	472,928
Equity:					
Common stock, \$0.01 par value; 500,000,000 shares authorized, 64,816,350 shares issued and outstanding as of December 31, 2016	648	—	—	—	648
Additional paid-in capital	611,475	429,453	321,761	(751,214)	611,475
Cumulative distributions in excess of earnings	(159,693)	34,052	79,567	(113,619)	(159,693)
Total equity	452,430	463,505	401,328	(864,833)	452,430
Total liabilities and equity	\$463,505	\$944,379	\$403,752	\$(886,278)	\$925,358

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

CONDENSED CONSOLIDATING INCOME STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2017

(in thousands)

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Elimination	Consolidated
Revenues:					
Rental income	\$ —	\$ 14,294	\$ 14,217	\$ —	\$ 28,511
Tenant reimbursements	—	1,158	1,231	—	2,389
Independent living facilities	—	—	789	—	789
Interest and other income	—	—	1,140	—	1,140
Total revenues	—	15,452	17,377	—	32,829
Expenses:					
Depreciation and amortization	—	4,529	4,806	—	9,335
Interest expense	—	6,219	—	—	6,219
Loss on the extinguishment of debt	—	11,883	—	—	11,883
Property taxes	—	1,158	1,231	—	2,389
Independent living facilities	—	—	644	—	644
Impairment of real estate investment	—	—	890	—	890
General and administrative	728	2,187	62	—	2,977
Total expenses	728	25,976	7,633	—	34,337
Gain on disposition of other real estate investment	—	—	3,538	—	3,538
Income in Subsidiary	2,758	13,282	—	(16,040)	—
Net income	\$ 2,030	\$ 2,758	\$ 13,282	\$ (16,040)	\$ 2,030

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

CONDENSED CONSOLIDATING INCOME STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2016

(in thousands)

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Elimination	Consolidated
Revenues:					
Rental income	\$ —	\$8,742	\$ 14,039	\$ —	\$ 22,781
Tenant reimbursements	—	697	1,232	—	1,929
Independent living facilities	—	—	730	—	730
Interest and other income	—	—	261	—	261
Total revenues	—	9,439	16,262	—	25,701
Expenses:					
Depreciation and amortization	—	2,778	5,114	—	7,892
Interest expense	—	5,434	6	—	5,440
Property taxes	—	697	1,232	—	1,929
Independent living facilities	—	—	598	—	598
General and administrative	438	1,773	—	—	2,211
Total expenses	438	10,682	6,950	—	18,070
Income in Subsidiary	8,069	9,312	—	(17,381)	—
Net income	\$ 7,631	\$8,069	\$ 9,312	\$ (17,381)	\$ 7,631

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

CONDENSED CONSOLIDATING INCOME STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

(in thousands)

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Elimination	Consolidated
Revenues:					
Rental income	\$ —	\$27,517	\$ 28,333	\$ —	\$ 55,850
Tenant reimbursements	—	2,236	2,474	—	4,710
Independent living facilities	—	—	1,582	—	1,582
Interest and other income	—	—	1,295	—	1,295
Total revenues	—	29,753	33,684	—	63,437
Expenses:					
Depreciation and amortization	—	8,715	9,696	—	18,411
Interest expense	—	12,098	—	—	12,098
Loss on the extinguishment of debt	—	11,883	—	—	11,883
Property taxes	—	2,236	2,474	—	4,710
Independent living facilities	—	—	1,305	—	1,305
Impairment of real estate investment	—	—	890	—	890
General and administrative	1,277	4,028	62	—	5,367
Total expenses	1,277	38,960	14,427	—	54,664
Gain on disposition of other real estate investment	—	—	3,538	—	3,538
Income in Subsidiary	13,588	22,795	—	(36,383)	—
Net income	\$ 12,311	\$13,588	\$ 22,795	\$ (36,383)	\$ 12,311

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

CONDENSED CONSOLIDATING INCOME STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

(in thousands)

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Elimination	Consolidated
Revenues:					
Rental income	\$ —	\$ 15,639	\$ 28,039	\$ —	\$ 43,678
Tenant reimbursements	—	1,263	2,463	—	3,726
Independent living facilities	—	—	1,411	—	1,411
Interest and other income	—	—	515	—	515
Total revenues	—	16,902	32,428	—	49,330
Expenses:					
Depreciation and amortization	—	4,924	10,261	—	15,185
Interest expense	—	10,806	495	—	11,301
Loss on extinguishment of debt	—	—	326	—	326
Property taxes	—	1,263	2,463	—	3,726
Independent living facilities	—	—	1,218	—	1,218
General and administrative	871	3,504	66	—	4,441
Total expenses	871	20,497	14,829	—	36,197
Income in Subsidiary	14,004	17,599	—	(31,603)	—
Net income	\$ 13,133	\$ 14,004	\$ 17,599	\$ (31,603)	\$ 13,133

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

(in thousands)

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Elimination	Consolidated
Cash flows from operating activities:					
Net cash (used in) provided by operating activities	\$ (141)	\$ 10,517	\$ 34,525	\$ —	\$ 44,901
Cash flows from investing activities:					
Acquisitions of real estate	—	(96,641)	—	—	(96,641)
Improvements to real estate	—	(556)	(42)	—	(598)
Purchases of equipment, furniture and fixtures	—	(169)	(64)	—	(233)
Escrow deposit for acquisition of real estate	—	(4,335)	—	—	(4,335)
Sale of other real estate investment	—	—	7,500	—	7,500
Distribution from subsidiary	24,497	—	—	(24,497)	—
Intercompany financing	(169,478)	41,919	—	127,559	—
Net cash (used in) provided by investing activities	(144,981)	(59,782)	7,394	103,062	(94,307)
Cash flows from financing activities:					
Proceeds from the issuance of common stock, net	170,485	—	—	—	170,485
Proceeds from the issuance of senior unsecured notes payable	—	300,000	—	—	300,000
Borrowings under unsecured revolving credit facility	—	63,000	—	—	63,000
Payments on senior unsecured notes payable	—	(267,639)	—	—	(267,639)
Payments on unsecured revolving credit facility	—	(158,000)	—	—	(158,000)
Payments of deferred financing costs	—	(5,511)	—	—	(5,511)
Net-settle adjustment on restricted stock	(866)	—	—	—	(866)
Dividends paid on common stock	(24,497)	—	—	—	(24,497)
Distribution to Parent	—	(24,497)	—	24,497	—
Intercompany financing	—	169,478	(41,919)	(127,559)	—
Net cash provided by (used in) financing activities	145,122	76,831	(41,919)	(103,062)	76,972
Net increase in cash and cash equivalents	—	27,566	—	—	27,566
Cash and cash equivalents beginning of period	—	7,500	—	—	7,500
Cash and cash equivalents end of period	\$ —	\$ 35,066	\$ —	\$ —	\$ 35,066

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —

(Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

(in thousands)

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Elimination	Consolidated
Cash flows from operating activities:					
Net cash provided by operating activities	\$ 466	\$ 396	\$ 27,251	\$	—\$ 28,113
Cash flows from investing activities:					
Acquisitions of real estate	—	(144,149)	—	—	(144,149)
Improvements to real estate	—	(56)	(114)	—	(170)