

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

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

For the annual period ended December 31, 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: 001-36499

New Senior Investment Group Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation
or organization)

80-0912734

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

1345 Avenue of the Americas, New York, NY

(Address of principal executive offices)

10105

(Zip Code)

(212) 479-3140

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class:

Common stock, \$0.01 par value per share:
82,127,247 shares.

Name of exchange on which registered:

New York Stock Exchange ("NYSE")

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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 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

The aggregate market value of the common stock held by non-affiliates as of June 30, 2016 (computed based on the closing price on such date as reported on the NYSE) was approximately \$863 million.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Common stock, \$0.01 par value per share: 82,141,216 shares outstanding as of February 23, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 10, 11, 12, 13 and 14) will be incorporated by reference from the registrant's Definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of New Senior Investment Group Inc.’s (“New Senior,” the “Company,” “we,” “us” or “our”) investments, the stability of our earnings, and our financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “endeavor,” “seek,” “anticipate,” “estimate,” “overestimate,” “underestimate,” “believe,” “could,” “project,” “predict,” “continue” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual outcome of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- our ability to successfully operate as a standalone public company;
- our ability to comply with the terms of our financings, which depends in part on the performance of our operators;
- any increase in our borrowing costs as a result of rising interest rates or other factors;
- our ability to pay down, refinance, restructure or extend our indebtedness as it becomes due or as needed to comply with the terms of our covenants or to facilitate our ability to sell assets;
- our ability to manage our liquidity and sustain distributions to our shareholders at the current level;
- our dependence on our property managers and tenants to operate our properties successfully and in compliance with the terms of our agreements with them, applicable law and the terms of our financings;
- factors affecting the performance of our properties, such as increases in costs (including, but not limited to, the costs of labor, supplies, insurance and property taxes);
- concentration risk with respect to Holiday Retirement (“Holiday”), which, as of December 31, 2016, accounted for 72.3% of net operating income (“NOI”) from our Managed Properties segment and 78.9% of NOI from our Triple Net Lease Properties segment;
- risks associated with a change of control in the ownership or senior management of Holiday;
- our ability and the ability of our property managers and tenants to obtain and maintain adequate property, liability and other insurance from reputable, financially stable providers;
- changes of federal, state and local laws and regulations relating to employment, fraud and abuse practices, Medicaid reimbursement and licensure, etc., including those affecting the healthcare industry that affect our costs of compliance or increase the costs, or otherwise affect the operations or our property managers or tenants;
- the ability of our property managers, tenants and their respective guarantors to maintain the financial strength and liquidity necessary to satisfy their respective obligations and liabilities to us and third parties;
- the ability and willingness of our tenants to make the rent and other payments due to us under our leases, and the possibility that our tenants will seek to renegotiate the terms of such leases;
- our ability to reposition our leased properties on the same or better terms as we compete for tenants upon the expiration or earlier termination of our leases or with respect to additional properties that we may seek to lease in the future;
- the quality and size of our investment pipeline, our ability to execute investments at attractive risk-adjusted prices, our ability to finance our investments on favorable terms, and our ability to deploy investable cash in a timely manner;
- our ability to sell properties on favorable terms and to realize the anticipated benefits from any such dispositions;

- changes in economic conditions generally and the real estate, senior housing and bond markets specifically;
 - our stock price performance and any disruption or lack of access to the capital markets or other sources of financing;
 - the impact of any current or future legal proceedings and regulatory investigations and inquiries on us, FIG LLC (our “Manager”) or our operators;
 - potential conflicts of interest relating to our external management structure, the fact that Holiday is majority-owned by private equity funds managed by our Manager (or its affiliates), or other factors, and our ability to effectively manage and resolve actual, potential or perceived conflicts of interest;
 - effects of the pending merger of Fortress Investment Group LLC with affiliates of SoftBank Group Corp.;
 - our ability to maintain effective internal control over financial reporting and our reliance on our operators for timely delivery of accurate property-level financial results;
 - our ability to maintain our qualification as a Real Estate Investment Trust (“REIT”) for U.S. federal income tax purposes and the potentially onerous consequences that any failure to maintain such qualification would have on our business; and
 - our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and the fact that maintaining such exemption imposes limits on our business strategy.
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Although we believe that the expectations reflected in any forward-looking statements contained herein are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement.

Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views only as of the date of this report. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company's other public filings, which are available without charge through the Securities and Exchange Commission's ("SEC") website at <http://www.sec.gov>.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding contractual provisions are required to make the statements in this report not misleading.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
FORM 10-K

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PART I

ITEM 1. BUSINESS

COMPANY OVERVIEW

We are a publicly traded REIT with a diversified portfolio of primarily private pay senior housing properties located across the United States. We were formed as a Delaware limited liability company and wholly owned subsidiary of Drive Shack Inc., formerly Newcastle Investment Corp. (“Drive Shack”), on May 17, 2012. On November 6, 2014, we were spun off from Drive Shack with the distribution of all our outstanding shares to the holders of Drive Shack common stock. We are listed on the NYSE under the symbol “SNR” and are headquartered in New York, New York.

We have a differentiated strategy of concentrating our investment activities on acquiring private pay senior housing and continue to be one of the largest owners of senior housing properties in the United States. Our portfolio as of December 31, 2016 was comprised of 152 primarily private pay senior housing properties located across 37 states. We divide our properties into two reportable segments: (1) Managed Properties, which are operated by property managers pursuant to property management agreements and (2) Triple Net Lease Properties, which we lease to tenants through long-term triple net leases. See our consolidated financial statements and the related notes for additional information.

The majority of our portfolio is managed or leased by some of the largest and most experienced operators in the United States. Currently, our managed properties are managed by affiliates or subsidiaries of Holiday Retirement (“Holiday”), FHC Property Management LLC (together with its subsidiaries, “Blue Harbor”), Jerry Erwin Associates, Inc. (“JEA”), and Thrive Senior Living LLC (“Thrive”). Our triple net lease properties are leased to Holiday, Life Care Services (“LCS”) or Watermark Castle Investments LLC (“Watermark”). Holiday and LCS are among the top three largest senior housing operators in the United States. The assets in our portfolio are described in more detail below under “Our Portfolio.”

Our investment strategy is focused on acquiring private pay senior housing properties which we believe is unique compared to our publicly traded peers. However, our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets, and we actively explore new business opportunities and asset categories as part of our business strategy. For more information about our investment guidelines, see “Investment Guidelines” below.

Pursuant to a management agreement (the “Management Agreement”), we are externally managed and advised by FIG LLC (the “Manager”), an affiliate of Fortress Investment Group LLC (“Fortress”), which is a leading global investment management firm with approximately \$70.0 billion of assets under management as of December 31, 2016. Fortress, through the private equity funds managed by its affiliates, is a large investor in the senior housing sector. Our Manager (or its affiliates) also manages private equity funds that currently own a majority of Holiday. Blue Harbor is an affiliate of our Manager. On February 14, 2017, Fortress announced that it had entered into an Agreement and Plan of Merger (the “Merger Agreement”) with an affiliate of SoftBank Group Corp. (“SoftBank”), pursuant to which Fortress will become a wholly owned subsidiary of the SoftBank affiliate (the “Merger”). In connection with the Merger, Fortress will operate within SoftBank as an independent business headquartered in New York. Fortress’s senior investment professionals are expected to remain in place, including those individuals who perform services for us.

INVESTMENT ACTIVITY

During 2016, we sold two assisted living/memory care (“AL/MC”) properties in the Managed Properties segment for \$23.0 million and, less certain fees and other costs, total proceeds were \$22.7 million. See Note 4 to the consolidated financial statements for additional information.

Although we did not make any acquisitions during 2016, we continue to explore opportunities to invest in additional senior housing properties across the United States. While we generally target smaller, local and regional portfolios, we may invest in large portfolios that we believe offer attractive risk-adjusted returns. We may also seek to make opportunistic investments in other asset classes.

MARKET OPPORTUNITY

Opportunity to Consolidate Large and Fragmented Industry

We believe there are significant investment opportunities in the U.S. senior housing market driven by three factors: (i) growing demand from significant increases in the senior citizen population, (ii) highly fragmented ownership of senior housing properties among many smaller local (“mom and pop”) and regional owner/operators and (iii) operational improvement opportunities to increase property-level net operating income leveraging the experience and economies of scale of our Manager. We estimate the size of the senior housing industry in the United States to be approximately \$300 billion, and, according to the 2016 American Seniors Housing Association 50 Report, approximately 62% of these senior housing facilities are owned by mom and pop operators with 5 or fewer properties. Given our strong track record of external growth, we believe an opportunity exists to continue to participate in the consolidation of this fragmented industry as many of these smaller owner/operators may decide to sell their portfolios. An attractive investment opportunity exists to acquire high quality properties where operational performance can be improved by leveraging the experience of our Manager. While the acquisition environment is more competitive, we believe these properties are still too small to attract many larger REIT and other institutional investors, affording us the opportunity to acquire properties at attractive prices in a less competitive environment than larger portfolios. We expect to structure these investments as either triple net leases or managed properties by entering into a management agreement with a REIT Investment Diversification and Empowerment Act of 2007 (“RIDEA”) compliant structure allowing us to participate directly in the cash flows of the facilities.

Attractive Demand - Supply Fundamentals to Drive Organic Growth

We believe that the rapidly growing senior citizen population in the U.S. will result in a substantially increased demand for senior housing properties as the baby boomer generation ages, life expectancies lengthen and more health-related services are demanded. The U.S. Census Bureau estimates that the total number of people aged 65 and older is expected to increase from approximately 47.8 million in 2015 to 79.2 million by 2035, with the number of citizens aged 65 and older expected to grow at four times the rate of the overall population by 2035. Healthcare is the largest private-sector industry in the U.S., with healthcare expenditures in the U.S. accounting for approximately 18% of gross domestic product in 2015. According to the Center for Medicare and Medicaid Services (“CMS”), the average annual compounded growth rate for national healthcare expenditures from 2015 through 2025 is expected to be 5.6%. Additionally, senior citizens are the largest consumers of healthcare services. The target age group for our properties is Americans over 70 years old while a typical resident is 80 to 85 years of age. According to CMS, average per capita healthcare expenditures by those 65 years and older continue to be about three times more than the average spent by those 19 to 64 years old. Demand for senior housing is driven both by growth of an aging population and by an increasing array of services and support required by residents. According to the U.S. Census Bureau, the percentage of Americans between ages 75 and 79 seeking assistance with basic and instrumental activities of daily living is 15%, increasing to 30% for Americans over 80 years of age. According to the Alzheimer’s Association, over one-third of individuals over age 85 have Alzheimer’s disease. To address these resident needs, senior housing provides varying and flexible levels of services. While our target population is growing, the rate of supply growth has also increased in recent years. However, according to the National Investment Center for Seniors Housing and Care (“NIC”), senior housing occupancy is projected to be stable in 2017.

Differentiated Strategy Focused on Private Pay Senior Housing

We generally seek investments in senior housing facilities that have an emphasis on private pay sources of revenue which is considered more stable and predictable compared to government reimbursed property types and believe this strategy is more focused than many of our publicly traded peers. Private pay residents are individuals who are personally obligated to pay the costs of their housing and services without relying significantly on reimbursement payments from Medicaid or Medicare. Sources for these private payments include: (i) pensions, savings and retirement funds; (ii) proceeds from the sale of real estate and personal property; (iii) assistance from residents’ families; and (iv) private insurance. While our investments may have some level of revenues related to government reimbursements, we focus on investments with high levels of private pay revenue and, for the year ended December 31, 2016, private pay sources represented 98% of the property level revenue from the residents at our facilities. Private pay facilities are not subject to governmental rate setting and, accordingly, we believe they provide for more predictable and higher rental rates from residents than facilities primarily reliant on government-funded sources.

The senior housing industry offers a full continuum of care to seniors with product types that range from “mostly housing” (i.e., senior apartments) to “mostly healthcare” (i.e., skilled nursing, hospitals, etc.). We primarily focus on product types at the center of this continuum, namely independent living (“IL”) properties and AL/MC properties. Many of our peers have significant exposure to skilled nursing facilities and hospitals providing higher acuity levels of healthcare. Accordingly, these peers have higher levels of exposure to revenues derived from Medicaid and Medicare reimbursements. Our facilities are predominantly reliant on private pay sources of revenue and have limited risk exposure to regulatory changes in the healthcare arena. We believe that our focused portfolio of primarily IL and AL/MC properties will allow investors to participate in the positive fundamentals of the senior housing sector without similar levels of risk exposure associated with higher acuity types of healthcare real estate.

Attractive Portfolio Diversified by Product Type, Operating Model and Geography

We started building this platform in July 2012 and own 152 properties that have a gross real estate value of \$3.1 billion as of December 31, 2016. Our portfolio is diversified in terms of product type, operating model and geography. As of December 31, 2016, we have 105 IL properties, 42 AL/MC properties and five rental Continuing Care Retirement Communities (“CCRC”) properties across 37 states. Our portfolio provides an attractive mix of triple net lease and managed properties. At December 31, 2016, our triple net lease portfolio totaled 58 properties (52 IL properties, one AL/MC property and five rental CCRC properties), and our managed properties portfolio totaled 94 properties (53 IL properties and 41 AL/MC properties).

Manager Expertise Owning and Operating Senior Housing

We are externally managed and advised by an affiliate of Fortress, a large investor with over 15 years of experience in the senior housing sector. Our Manager and its affiliates have a far-reaching presence in consumer-facing industries across the United States through Fortress’s investments in healthcare, leisure, gaming, real estate and transportation companies. Private equity funds managed by an affiliate of Fortress and our Manager currently own a majority of Holiday, the largest independent living operator in the United States with over 300 properties in 43 states as of December 31, 2016, and Blue Harbor is an affiliate of our Manager. Due to this presence, we believe we are able to achieve volume discounts for services and products at many of our properties, such as insurance and food and beverage. These types of benefits often allow us to be a more competitive bidder for small- and mid-sized managed properties than other potential buyers. Furthermore, we intend to leverage our Manager’s deep experience and industry relationships to provide us with growth opportunities.

Tax Efficient REIT Status

We have elected to be treated as a REIT, and we intend to operate in conformity with the requirements for qualification and taxation as a REIT. Our REIT status provides us with certain tax advantages compared to some of our competitors. Those advantages include an ability to reduce our corporate-level income taxes by making dividend distributions to our stockholders and an ability to pass our capital gains through to our stockholders in the form of capital gains dividends. We believe our REIT status provides us with a significant advantage as compared to other companies or industry participants who do not have a similar tax efficient structure.

SENIOR HOUSING INDUSTRY

Overview

For an overview of the senior housing industry, see “Opportunity to Consolidate Large and Fragmented Industry” and “Attractive Demand - Supply Fundamentals to Drive Organic Growth.”

Government Regulations

AL/MC properties and operations are subject to extensive and complex federal, state and local healthcare laws and regulations relating to fraud and abuse practices, government reimbursement, licensure and certificate of need (“CON”) and similar laws governing the operation of healthcare properties. While the AL/MC properties within our portfolio are subject to many varying types of regulatory and licensing requirements, we expect that the healthcare industry, in general, will continue to face increased regulation, enforcement and pressure in the areas of fraud, waste and abuse, cost control, healthcare management and provision of services, among others. In fact, some states have revised and strengthened their regulation of senior housing properties and, that trend may continue. In addition, efforts by third-party payors, such as Governmental Programs (as defined below) and private insurance payor organizations (which include insurance companies, health maintenance organizations and other types of health plans/managed care organizations) to impose more stringent controls upon operators are expected to intensify and continue. Changes in applicable federal, state or local laws and regulations and new interpretations of existing laws and regulations could have a material adverse effect on our business.

As used in this section, “Governmental Program” means, individually and collectively, any federal, state or local governmental reimbursement programs administered through a governmental body, agency thereof or contractor thereof (including a Governmental Program Payor) including, without limitation, the Medicare and Medicaid programs or successor programs to any of the aforementioned programs. “Governmental Program Payor” means a private insurance payor organization which has a contract with a Governmental Program to arrange for the provision of assisted living property or skilled nursing facility (“SNF”) services to Governmental Program beneficiaries and which receives reimbursement from the Governmental Program to do so.

Our AL/MC senior housing properties are regulated by state and local laws governing licensure, provision of services, staffing requirements and other operational matters. The laws that govern our properties vary greatly from one jurisdiction to another. Owners and/or operators of certain senior housing properties, including, but not limited to, AL/MC properties, are required to be licensed or certified by the state in which they operate. In granting and renewing such licenses, the state regulatory agencies consider numerous factors relating to a property’s physical plant and operations, including, but not limited to, admission and discharge standards, staffing and training. A decision to grant or renew a license may also be affected by a property’s record with respect to licensure compliance, patient and consumer rights, medication guidelines and other regulations. Certain states require additional licensure and impose additional staffing and other operational standards in order for a property to provide higher levels of assisted living services. Senior housing properties may also be subject to state and/or local building, zoning, fire and food service laws before licensing or certification may be granted. Our properties may also be affected by changes in accreditation standards or procedures of accreditation bodies that are recognized by states or a Governmental Program in the licensure or certification process.

In the future, we may also acquire senior housing properties that include SNFs. SNFs are licensed by the state in which the facility is located, and, if an owner chooses to participate in Medicaid, Medicare or certain other Governmental Programs, the facility must also be certified to participate in such programs. In that regard, SNFs are particularly subject to myriad, comprehensive federal Medicare and Medicaid certification requirements that not only require state licensure but also separately (apart from state licensure) regulate the type and quality of the medical and/or nursing care provided, ancillary services (e.g., respiratory, occupational, physical and infusion therapies), qualifications of the administrative personnel and nursing staff, the adequacy of the physical plant and equipment, reimbursement and rate setting and other operational issues and policies.

In the future, we may also acquire certain healthcare properties (including assisted living properties in some states and SNFs in most states) that are subject to a variety of CON or similar laws. Where applicable, such laws generally require, among other requirements, as a predicate to licensure that a facility demonstrate the need for (i) constructing a new facility, (ii) adding beds or expanding an existing facility, (iii) investing in major capital equipment or adding new services, (iv) changing the ownership or control of an existing licensed facility, or (v) terminating services that have been previously approved through the CON process. These laws could affect, and even restrict, our ability to expand into new markets and to expand our properties and services in existing markets. In addition, CON laws may constrain the ability of an operator to transfer responsibility for operating a particular facility to a new operator. If we have to replace a facility operator who is excluded from participating in a federal or state healthcare program (as discussed below), our ability to replace the operator may be affected by a particular state's CON laws, regulations and applicable guidance governing changes in provider control.

Aside from CON considerations, transfers of ownership, provider control and/or operations of assisted living properties and SNFs are subject to licensure and other regulatory approvals not required for transfers of other types of commercial operations and real estate. These regulations may also constrain or even impede our ability to replace property managers or tenants of our properties, and they may also impact our acquisition or sale of senior housing properties. In addition, if any of our licensed properties operate outside of its licensed authority, doing so could subject the facility to penalties, including closure of the facility. Failure to obtain licensure or loss or suspension of licensure or certification may prevent an assisted living property or SNF from operating or result in a suspension of Governmental Program reimbursement payment until all licensure or certification issues have been resolved.

A significant portion of the revenues received by our properties are from self-pay residents. The remaining revenue source is primarily Medicaid under certain federal waiver programs. As a part of the Omnibus Budget Reconciliation Act of 1981 ("OBRA"), Congress established a waiver program enabling some states to offer Medicaid reimbursement to assisted living providers as an alternative to institutional long-term care services. The provisions of OBRA and subsequent federal enactments permit states to seek a waiver from typical Medicaid requirements to develop cost-effective alternatives to long-term care, including Medicaid payments for assisted living and, in some instances, including payment for such services through Governmental Program Payors. In 2016, approximately 2% of the revenues at our senior housing properties were from Medicaid reimbursement. There can be no guarantee that a state Medicaid program operating pursuant to a waiver will be able to maintain its waiver status, that funding levels will not decrease or that eligibility requirements will not change.

Rates paid by self-pay residents of properties within our Managed Properties segment are determined in accordance with applicable provisions of the management agreements entered into with our property managers, and are impacted by local market conditions and operating costs. Rates paid by self-pay residents of properties within our Triple Net Lease Properties segment are determined by the tenant.

The level of assisted living Medicaid reimbursement varies from state to state. Thus, the revenues generated by our assisted living properties may be adversely affected by payor mix, acuity level, changes in Medicaid eligibility and reimbursement levels. In addition, a state could lose its Medicaid waiver and no longer be permitted to utilize Medicaid dollars to reimburse for assisted living services. Such changes in revenues could in turn have a material adverse effect on our business.

Unlike assisted living operators, SNF operators typically receive most of their revenues from the Medicare and Medicaid programs, with the balance representing reimbursement payments from private insurance payor organizations (and perhaps minimal self-pay). Consequently, changes in federal or state reimbursement policies may also adversely affect our business if we acquire properties with a SNF component.

The percentage of federal Medicaid revenue support used for long-term care varies from state to state, due in part to different ratios of elderly population and eligibility requirements. Within certain federal guidelines, states have a fairly wide range of discretion to determine eligibility and to establish a reimbursement methodology for SNF Medicaid patients. Many states reimburse SNFs pursuant to fixed daily Medicaid rates which are applied prospectively based on patient acuity and the historical costs incurred in providing patient care. Reasonable costs typically include allowances for staffing, administrative and general expenses, property and equipment (e.g., real estate taxes, depreciation and fair rental).

The Medicare SNF benefit covers skilled nursing care, rehabilitation services and other goods and services, and the facility receives a pre-determined daily rate for each day of care, up to 100 days. These prospective payment system

("PPS") rates are expected to cover all operating and capital costs that efficient properties would be expected to incur in furnishing most SNF services, with certain high-cost, low-probability ancillary services paid separately.

There is a risk that some skilled nursing facilities' costs could exceed the fixed payments under the prospective payment system for skilled nursing facilities ("SNF PPS"), and there is also a risk that payments under the SNF PPS may be set below the costs to provide certain items and services, which could have a material adverse effect on an SNF. Further, SNFs are subject to periodic pre and post-payment reviews and other audits by federal and state authorities. Such a review or audit could result in recoupments, denials, or delay of payments in the future, which could have a material adverse effect on the business of a SNF.

In the ordinary course of business, our AL/MC properties have been and are subject regularly to inspections, inquiries, investigations and audits by state agencies that oversee applicable laws and regulations. State licensure laws and, where applicable, Governmental Program certification, require license renewals and compliance surveys on an annual or bi-annual basis. The failure of our AL/MC property managers to maintain or renew any required license or regulatory approval, as well as the failure of our managers to correct serious deficiencies identified in a compliance survey, could result in the suspension of operations at a property. In addition, if an AL/MC or SNF property, where applicable, is found to be out of compliance with Governmental Program conditions of participation, the property's manager may be excluded from participating in those Governmental Programs. Any such occurrence may impair the ability of a property manager to meet its obligations. If we have to replace a property manager, our ability to do so may be affected by the federal and state regulations governing such changes. This may result in payment delays, an inability to find a replacement property manager or other difficulties. Unannounced surveys or inspections of a property may occur annually or bi-annually or following a regulator's receipt of a complaint regarding the property. From time-to-time, our properties receive deficiency reports from state regulatory bodies resulting from such inspections or surveys. Most deficiencies are resolved through a plan of corrective action relating to the property's operations but, whether the deficiencies are cured or not, the applicable governmental authority typically has the authority to take further action against a licensee. Such an action could result in the imposition of fines, imposition of a provisional or conditional license, suspension or revocation of a license or Governmental Program participation, suspension or denial of admissions or imposition of other sanctions, including criminal penalties. The imposition of such sanctions may adversely affect our business.

Assisted living properties and SNFs that participate in Governmental Programs are subject to numerous federal, state and local laws, including implementing regulations and applicable governmental guidance that govern the operational, financial and other arrangements that may be entered into by healthcare properties and other providers. Certain of these laws prohibit direct or indirect payments of any kind for the purpose of inducing or encouraging the referral of patients for medical products or services reimbursable by Governmental Programs. Other laws require providers to furnish only medically necessary services and submit to the Governmental Program and Governmental Program Payors valid and accurate statements for each service, and other laws require providers to comply with a variety of safety, health and other requirements relating to the condition of the licensed property and the quality of care provided. Sanctions for violations of these laws may include, but are not limited to, criminal and/or civil penalties and fines, loss of licensure, immediate termination of government payments and exclusion from any Governmental Program participation. In certain circumstances, violation of these laws (such as those prohibiting abusive and fraudulent behavior and, in the case of Governmental Program Payors, also prohibiting insurance fraud) with respect to one property may subject other properties under common control or ownership to sanctions, including exclusion from participation in Governmental Programs. In the ordinary course of business, our properties are regularly subjected to inquiries, investigations and audits by the federal and state agencies that oversee these laws.

All healthcare providers, including, but not limited to, assisted living properties and SNFs that participate in Governmental Programs, are also subject to the Federal Anti-Kickback Statute, a criminal statute which generally prohibits persons from offering, providing, soliciting or receiving remuneration to induce either the referral of an individual or the furnishing of a good or service for which payment may be made under a federal Governmental Program. SNFs and certain other types of healthcare properties and providers are also subject to the Federal Ethics in Patient Referral Act of 1989, commonly referred to as the "Stark Law." The Stark Law generally prohibits the submission of claims to Medicare for payment if the claim results from a physician referral for certain designated services and the physician has a financial relationship with the health service provider that does not qualify under one of the exceptions for a financial relationship under the Stark Law. Many states have similar prohibitions on physician self-referrals and submission of claims which are applicable to all payor sources, including state Medicaid programs.

Further, healthcare properties and other providers, including, but not limited to, assisted living properties and SNFs, that receive Governmental Program payments, are subject to substantial financial and other (in some cases, criminal) penalties under the Civil Monetary Penalties Act, the Federal False Claims Act and, in particular, actions under the Federal False Claims Act's "whistleblower" provisions. Violations of these laws can also subject persons and entities to termination from participation in Governmental Programs or result in the imposition of substantial damages, fines or other penalties. Private enforcement of healthcare fraud has increased due in large part to amendments to the Federal False Claims Act that encourage private individuals to sue on behalf of the government. These whistleblower suits brought by private individuals, known as "qui tam actions," may be filed by almost anyone, including present and former patients, nurses and other employees. Significantly, if a claim is successfully adjudicated, the Federal False Claims Act provides for treble damages in addition to penalties up to \$11,000 per claim. Various state false claim act and anti-kickback laws may also apply to each property operator, regardless of payor source (i.e., such as a private insurance payor organization or a Governmental Program), and violations of those state laws can also result in substantial fines and/or adverse licensure actions to our material detriment.

Government investigations and enforcement actions brought against the healthcare industry have increased dramatically over the past several years and are expected to continue. Some of these enforcement actions represent novel legal theories and expansions in the application of the Federal False Claims Act. Governmental agencies, both state and federal, are also devoting increasing attention and resources to anti-fraud initiatives against healthcare properties and other providers. Legislative developments, including changes to federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), have greatly expanded the definition of healthcare fraud and related offenses and broadened its scope to include certain private insurance payor organizations in addition to Governmental Programs. Congress also has greatly increased funding for the Department of Justice, Federal Bureau of Investigation and the Office of the Inspector General of the Department of Health and Human Services ("HHS") to audit, investigate and prosecute suspected healthcare fraud. Moreover, a significant portion of the billions in healthcare fraud recoveries over the past several years has also been returned to government agencies to further fund their fraud investigation and prosecution efforts.

HIPAA regulations provide for communication of health information through standard electronic transaction formats and for the privacy and security of health information. In order to comply with the regulations, healthcare providers often must undertake significant operational and technical implementation efforts. Operators also may face significant financial exposure if they fail to maintain the privacy and security of medical records and other personal health information about individuals. The Health Information Technology for Economic and Clinical Health Act ("HITECH"), passed in February 2009, strengthened the HHS Secretary's authority to impose civil money penalties for HIPAA violations occurring after February 18, 2009. HITECH directs the HHS Secretary to provide for periodic audits to ensure that covered entities and their business associates (as that term is defined under HIPAA) comply with the applicable HITECH requirements, increasing the likelihood that a HIPAA violation will result in an enforcement action. The CMS issued an interim final rule which conformed HIPAA enforcement regulations to HITECH, increasing the maximum penalty for multiple violations of a single requirement or prohibition to \$1.5 million. Higher penalties may accrue for violations of multiple requirements or prohibitions. Additionally, on January 17, 2013, the CMS released a final rule, which expands the applicability of HIPAA and HITECH and strengthens the government's ability to enforce these laws. The final rule broadens the definition of "business associate" and provides for civil money penalty liability against covered entities and business associates for the acts of their agents regardless of whether a business associate agreement is in place. Additionally, the final rule adopts certain changes to the HIPAA enforcement regulations to incorporate the increased and tiered civil monetary penalty structure provided by HITECH, and makes business associates of covered entities directly liable under HIPAA for compliance with certain of the HIPAA privacy standards and HIPAA security standards. HIPAA violations are also potentially subject to criminal penalties.

The Patient Protection and Affordable Care Act (the "Affordable Care Act") and the HealthCare and Education Reconciliation Act of 2010, which amends the Affordable Care Act (collectively, the "Health Reform Laws"), and the June 28, 2012 United States Supreme Court ruling upholding the individual mandate of the Health Reform Laws and partially invalidating the expansion of Medicaid (further discussed below) may have a significant impact on Medicare, Medicaid and other Governmental Programs, as well as private insurance payor organizations, which in turn may impact the reimbursement amounts received by our properties which participate in Governmental Programs. In fact, the Health Reform Laws could have a substantial and material adverse effect on all parties directly or indirectly involved in the healthcare system. Together, the Health Reform Laws make the most sweeping and fundamental changes to the U.S. healthcare system undertaken since the creation of Medicare and Medicaid and contain various provisions that may directly impact our business.

These new Health Reform Laws include, without limitation, the expansion of Medicaid eligibility, requiring most individuals to have health insurance, establishing new regulations on certain private insurance payor organizations (including Governmental Program Payors), establishing health insurance exchanges and modifying certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste, including through new tools to address fraud and abuse. Because many of our properties deliver healthcare services, we will be impacted by the risks associated with the healthcare industry, including the Health Reform Laws. While the expansion of healthcare coverage may result in some additional demand for services provided by our properties, reimbursement levels may be lower than the costs required to provide such services, which could materially adversely affect our business. The Health Reform Laws also enhance certain fraud and abuse penalty provisions in the event of one or more violations of the federal healthcare regulatory laws. In addition, the Health Reform Laws have provisions that impact the health coverage that our property managers or tenants provide to their respective employees. We cannot predict whether the existing Health Reform Laws, or future healthcare reform legislation or regulatory changes, will have a material impact on our business.

Additionally, certain provisions of the Health Reform Laws are designed to increase transparency and program integrity of SNFs. Specifically, SNFs will be required to institute compliance and ethics programs. Additionally, the Health Reform Laws make it easier for consumers to file complaints against nursing homes by mandating that states establish complaint websites. The provisions calling for enhanced transparency will increase the administrative burden and costs on SNF providers.

OUR PORTFOLIO

The key characteristics of our senior housing portfolio are set forth in the tables below:

(dollars in thousands)			Real Estate Investments ^(A) as of December 31, 2016			Revenues for the Year Ended December 31, 2016		
Operating Model	Number of Communities	Number of Beds	Real Estate Investments, at Cost	Percent of Total Real Estate Investment	Real Estate Investment per Bed	Total Revenues ^(B)	Percent of Total Revenues	Number of States
Managed Properties	94	11,440	\$1,830,809	59.2 %	\$ 160	\$ 359,472	76.1 %	33
Triple Net Lease Properties	58	7,540	1,262,299	40.8 %	\$ 167	112,966	23.9 %	24
Total	152	18,980	\$3,093,108	100.0 %		\$ 472,438	100.0 %	37

(dollars in thousands)			Real Estate Investments ^(A) as of December 31, 2015			Revenues for the Year Ended December 31, 2015		
Operating Model	Number of Communities	Number of Beds	Real Estate Investments, at Cost	Percent of Total Real Estate Investment	Real Estate Investment per Bed	Total Revenues ^(B)	Percent of Total Revenues	Number of States
Managed Properties	96	11,544	\$1,841,636	59.4 %	\$ 160	\$ 277,324	71.4 %	33
Triple Net Lease Properties	58	7,538	1,258,209	40.6 %	\$ 167	111,154	28.6 %	24
Total	154	19,082	\$3,099,845	100.0 %		\$ 388,478	100.0 %	37

(A) Real estate investments, at cost represents the gross carrying value of real estate before accumulated depreciation and amortization and excludes assets held for sale.

(B) Revenues relate to the period the properties were owned by us in a calendar year and, therefore, are not indicative of full-year results for all properties.

For the years ended December 31, 2016 and 2015 the average occupancy rate of our managed portfolio was 88.0% and 86.6%, respectively, and the average occupancy rate for our triple net portfolio was 88.0% and 88.9%, respectively.

We classify our properties by asset type and operating model, as described in more detail below.

Product Type

IL Properties: IL properties are age-restricted, multifamily properties with central dining that provide residents access to meals and other services such as housekeeping, linen service, transportation and social and recreational activities. A typical resident is 80 to 85 years old and is relatively healthy. Residents are typically charged all-inclusive monthly rates.

AL/MC Properties: AL/MC properties are state-regulated rental properties that provide the same services as IL properties and additionally have staff to provide residents assistance with activities of daily living, such as management of medications, bathing, dressing, toileting, ambulating and eating. AL/MC properties may include memory care properties that specifically provide care for individuals with Alzheimer's disease and other forms of dementia or memory loss. The average age of an AL/MC resident is similar to that of an IL resident, but AL/MC residents typically have greater healthcare needs. Residents are typically charged all-inclusive monthly rates for IL services and additional "care charges" for AL/MC services, which vary depending on the types of services required. AL/MC properties are generally private pay, although many states will allow residents to cover a portion of the cost with Medicaid.

CCRC Properties: CCRCs are a particular type of retirement community that offers several levels (generally more than three) of health care at one facility or campus, often including independent living, assisted living/memory care and skilled nursing. CCRCs offer a tiered approach to the aging process, accommodating residents' changing needs as they age.

Operating Model

Managed Properties: We have entered into long-term property management agreements for our managed properties with Blue Harbor, Holiday, JEA and Thrive. Our property management agreements have initial five-year or ten-year terms, with successive, automatic one-year renewal periods. We pay property management fees of 5% to 7% of effective gross income pursuant to our property management agreements with Holiday and, in some cases, Holiday is eligible to earn an incentive fee based on operating performance. We pay property management fees of 3% to 7% of gross revenues and, for certain properties, a property management fee based on a percentage of net operating income, pursuant to our property management agreements with other managers. As the owner of the Managed Properties, we are responsible for the properties' operating costs, including repairs, maintenance, capital expenditures, utilities, taxes, insurance and the payroll expense of property-level employees. The payroll expense is structured as a reimbursement to the property manager, who is the employer of record. We have various rights as the property owner under our property management agreements, including rights to set budget guidelines and to terminate and exercise remedies under those agreements as provided therein. However, we rely on our property managers' personnel, expertise, technical accounting resources and information systems, proprietary information, good faith and judgment to manage our senior housing operations efficiently and effectively. We also rely on our property managers to otherwise operate our properties in compliance with the terms of the management agreements, although we have various rights as the property owner to terminate and exercise remedies under the management agreements.

Triple Net Lease Properties: These properties are leased to tenants pursuant to triple net leases. Our triple net lease arrangements have initial terms of approximately 15 or 17 years and include renewal options and annual rent increases ranging from 2.5% to 4.5% based on changes in the consumer price index ("CPI"). Under each triple net master lease, the respective tenant is typically responsible for (i) operating its portion of the portfolio and bearing the related costs, including repairs, maintenance, capital expenditures, utilities, taxes, insurance and the payroll expense of property-level employees, and (ii) complying with the terms of the mortgage financing documents. The obligations of the tenant under the triple net master leases for a portfolio of properties (the "Holiday Portfolios") are guaranteed to us by a subsidiary of Holiday. Both the tenant and the guarantor of the Holiday Portfolios are affiliates of Fortress. The obligations of the tenant under the triple net master leases for the LCS Portfolio, are guaranteed to us by LCS.

Our portfolio of senior housing properties is broadly diversified by geographic location throughout the United States. The following table shows the geographic location of our senior housing properties, and the percentage of total revenues by geographic location for the year ended December 31, 2016.

Location	Managed Properties			Triple Net Lease Properties			Total		
	Number of Communities	Number of Beds	% of Total Revenue	Number of Communities	Number of Beds	% of Total Revenue	Number of Communities	Number of Beds	% of Total Revenue
Arizona	1	108	0.9%	1	115	0.3%	2	223	1.2%
Arkansas	1	113	0.6%	—	—	—%	1	113	0.6%
California	9	1,049	9.1%	2	235	0.9%	11	1,284	10.0%
Colorado	1	119	0.7%	4	439	1.2%	5	558	1.9%
Connecticut	—	—	—%	2	276	1.1%	2	276	1.1%
Florida	23	3,101	18.6%	3	370	1.2%	26	3,471	19.8%
Georgia	2	194	1.3%	—	—	—%	2	194	1.3%
Hawaii	1	123	1.0%	—	—	—%	1	123	1.0%
Idaho	1	121	1.4%	—	—	—%	1	121	1.4%
Illinois	1	66	0.7%	1	111	0.3%	2	177	1.0%
Indiana	1	114	0.6%	—	—	—%	1	114	0.6%
Iowa	—	—	—%	2	215	0.5%	2	215	0.5%
Kansas	1	117	0.7%	2	238	0.7%	3	355	1.4%
Kentucky	—	—	—%	1	117	0.5%	1	117	0.5%
Louisiana	1	118	0.4%	1	103	0.1%	2	221	0.5%
Massachusetts	2	253	1.4%	—	—	—%	2	253	1.4%
Michigan	3	418	2.2%	1	121	0.3%	4	539	2.5%
Mississippi	1	67	0.5%	1	94	0.2%	2	161	0.7%
Missouri	—	—	—%	3	320	1.3%	3	320	1.3%
Montana	1	127	0.6%	1	115	0.3%	2	242	0.9%
Nebraska	1	117	0.6%	—	—	—%	1	117	0.6%
Nevada	1	174	0.9%	1	121	0.4%	2	295	1.3%
New Hampshire	4	261	2.6%	—	—	—%	4	261	2.6%
New York	1	118	0.7%	2	234	1.0%	3	352	1.7%
North Carolina	7	915	5.5%	2	240	0.9%	9	1,155	6.4%
Ohio	3	353	2.3%	—	—	—%	3	353	2.3%
Oklahoma	1	120	0.6%	—	—	—%	1	120	0.6%
Oregon	3	340	3.4%	6	601	1.9%	9	941	5.3%
Pennsylvania	3	406	3.3%	4	808	2.7%	7	1,214	6.0%
South Carolina	1	120	0.7%	—	—	—%	1	120	0.7%
South Dakota	1	114	0.6%	—	—	—%	1	114	0.6%
Tennessee	3	235	1.6%	1	109	0.2%	4	344	1.8%
Texas	5	746	5.4%	14	2,205	6.6%	19	2,951	12.0%
Utah	5	592	3.9%	1	117	0.4%	6	709	4.3%
Virginia	2	232	1.1%	1	120	0.5%	3	352	1.6%
Washington	2	272	1.5%	—	—	—%	2	272	1.5%
Wisconsin	1	117	0.7%	1	116	0.4%	2	233	1.1%
Total	94	11,440	76.1%	58	7,540	23.9%	152	18,980	100.0%

FINANCING STRATEGY

Our ability to access capital in a timely and cost effective manner is critical to the success of our business strategy because it affects our ability to make future investments. Our access to and cost of external capital are dependent on various factors, including general market conditions, interest rates, credit ratings on our securities, expectations of our potential future earnings and cash distributions and the trading price of our common stock.

We employ leverage as part of our investment strategy. We do not have a predetermined target debt to equity ratio as we believe the appropriate leverage for the particular assets we are financing depends on the credit quality of those assets. We utilize leverage for the sole purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates. We strive to maintain our financial strength and invest profitably by actively managing our leverage, optimizing our capital structure and developing our access to multiple sources of liquidity. Historically, we have relied primarily on non-recourse mortgage notes to finance a portion of our real estate investments. We intend, over time, to obtain access to additional sources of liquidity, including revolving credit agreements, bank debt, U.S. government agency financing and the unsecured public debt and equity markets. Generally, we attempt to match the long-term duration of our investments in senior housing properties with staggered maturities of long-term debt and equity. As of December 31, 2016, 40.3% of our consolidated debt was variable rate debt.

Subject to maintaining our qualification as a REIT, we may, from time to time, utilize derivative financial instruments to manage interest rate risk associated with our borrowings. These derivative instruments may include interest rate swap agreements, interest rate cap agreements, interest rate floor or collar agreements or other financial instruments that we deem appropriate.

INVESTMENT GUIDELINES

Our board of directors has adopted a broad set of investment guidelines to be used by our Manager to evaluate specific investments. Our general investment guidelines prohibit any investment that would cause us to fail to qualify as a REIT. These investment guidelines may be changed by our board of directors without the approval of our stockholders. If our board changes any of our investment guidelines, we will disclose such changes in our next required periodic report.

Management Agreement

In connection with the spin-off from Drive Shack, we entered into a Management Agreement with the Manager, an affiliate of Fortress, pursuant to which the Manager provides a management team and other professionals who are responsible for implementing our business strategy, subject to the supervision of our board of directors. Our Manager is responsible for, among other things, (i) setting investment criteria in accordance with broad investment guidelines adopted by our board of directors, (ii) sourcing, analyzing and executing acquisitions, (iii) providing financial and accounting management services and (iv) performing other duties as specified in the Management Agreement. Our Management Agreement has an initial ten-year term and will be automatically renewed for one-year terms thereafter unless terminated either by us or our Manager. Our Manager is also entitled to receive a termination fee from us under certain circumstances. See Note 11 to the consolidated financial statements for further information related to the terms of the Management Agreement.

POLICIES WITH RESPECT TO CERTAIN OTHER ACTIVITIES

Subject to the approval of our board of directors, we have the authority to offer our common stock or other equity or debt securities in exchange for property and to repurchase or otherwise reacquire our common stock or any other securities and may engage in such activities in the future.

We also may make loans to, or provide guarantees of certain obligations of, our subsidiaries.

Subject to the percentage ownership and gross income and asset tests necessary for REIT qualification, we may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities.

We may engage in the purchase and sale of investments.

Our officers and directors may change any of these policies and our investment guidelines without a vote of our stockholders.

In the event that we determine to raise additional equity capital, our board of directors has the authority, without stockholder approval (subject to certain NYSE requirements), to issue additional common stock or preferred stock in any manner and on such terms and for such consideration it deems appropriate, including in exchange for property.

Decisions regarding the form and other characteristics of the financing for our investments are made by our Manager, subject to the general investment guidelines adopted by our board of directors.

CONFLICTS OF INTEREST

Although we have established certain policies and procedures designed to mitigate conflicts of interest, there can be no assurance that these policies and procedures will be effective in doing so. Actual, potential or perceived conflicts of interest have given, and in the future could give, rise to investor dissatisfaction, settlements with stockholders, litigation or regulatory inquiries or enforcement actions. Below is a summary of certain factors that could result in conflicts of interest.

One or more of our officers and directors have responsibilities and commitments to entities other than us, including, but not limited to, Drive Shack and Fortress. In addition, we do not have a policy that expressly prohibits our directors, officers, security holders or affiliates from engaging for their own account in business activities of the types conducted by us. Moreover, our certificate of incorporation provides that if any of the officers, directors or employees of Drive Shack or Fortress acquire knowledge of a potential transaction that could be a corporate opportunity for us, they have no duty, to the fullest extent permitted by law, to offer such corporate opportunity to us. In the event that any of our directors and officers who is also a director, officer or employee of Drive Shack or Fortress acquires knowledge of a corporate opportunity or is offered a corporate opportunity, provided that this knowledge was not acquired solely in such person's capacity as a director or officer of us and such person acts in good faith, then such person is deemed to have fully satisfied such person's fiduciary duties owed to us and is not liable to us, to the fullest extent permitted by law, if Drive Shack or Fortress or their affiliates, pursues or acquires the corporate opportunity or if such person does not present the corporate opportunity to us. See "Risk Factors-Risks Related to Our Manager-There are conflicts of interest in our relationship with our Manager."

Our key agreements, including the Management Agreement, were negotiated among related parties, and their respective terms, including fees and other amounts payable, may not be as favorable to us as terms negotiated on an arm's-length basis with unaffiliated parties. Our independent directors may not vigorously enforce the provisions of our Management Agreement against our Manager. For example, our independent directors may refrain from terminating our Manager because doing so could result in the loss of key personnel.

The structure of the Manager's compensation arrangement may have unintended consequences for us. We have agreed to pay our Manager a management fee that is not tied to our performance and incentive compensation that is based entirely on our performance. The management fee may not sufficiently incentivize our Manager to generate attractive risk-adjusted returns for us, while the performance-based incentive compensation component may cause our Manager to place undue emphasis on the maximization of earnings, including through the use of leverage, at the expense of other objectives, such as preservation of capital, to achieve higher incentive distributions. Since investments with higher yield potential are generally riskier or more speculative than investments with lower yield potential, this could result in increased risk to the value of our portfolio of assets and your investment in us.

We may compete with entities affiliated with our Manager or Fortress for certain assets that we may seek to acquire. From time to time, affiliates of Fortress may focus on investments in assets with a similar profile as our target assets. These affiliates may have meaningful purchasing capacity, which may change over time depending upon a variety of factors, including, but not limited to, available equity capital and debt financing, market conditions and cash on hand. Fortress manages two private equity funds that were primarily focused on investing in senior housing properties with approximately \$1.6 billion in capital commitments in aggregate, as well as other funds with significant investments in senior housing. All of these private equity funds are outside their respective investment periods (including one that is in liquidation), although one of these funds has approximately \$120 million in unfunded commitments that may be drawn for follow-on investments. Fortress private equity funds generally have a fee structure similar to the structure of the fees in our Management Agreement, but the fees actually paid will vary depending on the size, terms and performance of each fund. Consistent with well-established standard practice in the alternative asset management industry, the Chairman of our Board of Directors, Wesley Edens, has made meaningful personal investments in each of the private equity funds that Fortress manages, including the funds that own a majority of Holiday.

Our Manager may determine, in its discretion, to make a particular investment through an investment vehicle other than us. Investment allocation decisions will reflect a variety of factors, such as a particular vehicle's availability of capital (including financing), investment objectives and concentration limits, legal, regulatory, tax and other similar considerations, the source of the investment opportunity and other factors that the Manager, in its discretion, deems appropriate. Our Manager does not have an obligation to offer us the opportunity to participate in any particular investment, even if it meets our investment objectives.

OPERATIONAL AND REGULATORY STRUCTURE

REIT Qualification

We are organized and conduct our operations to qualify as a REIT for U.S. federal income tax purposes for the taxable year ending December 31, 2016. Our qualification as a REIT depends upon our ability to meet, on a continuing basis, various complex requirements under the Internal Revenue Code ("Code"), relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels to our stockholders and the concentration of ownership of our capital stock. Commencing with our initial taxable year ending December 31, 2014, we have been organized in conformity with the requirements for qualification and taxation as a REIT under the Code and we believe that our intended manner of operation will continue to enable us to meet the requirements for qualification and taxation as a REIT.

COMPETITION

We generally compete for investments in senior housing with other market participants, such as other REITs, real estate partnerships, private equity and hedge fund investors, banks, insurance companies, finance and investment companies, government-sponsored agencies, healthcare operators, developers and other investors. Many of our anticipated competitors are significantly larger than we are, have access to greater capital and other resources and may have other advantages over us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could lead them to offer higher prices for assets that we might be interested in acquiring and cause us to lose bids for those assets. In addition, other potential purchasers of senior housing properties may be more attractive to sellers of senior housing properties if the sellers believe that these potential purchasers could obtain any necessary third party approvals and consents more easily than us.

Our property managers and tenants compete on a local and regional basis with operators of properties that provide comparable services. Operators compete for residents based on a number of factors including quality of care, reputation, physical appearance of properties, location, services offered, family preferences, staff and price. We also face competition from other healthcare facilities for residents, such as physicians and other healthcare providers that provide comparable properties and services, as well as home care options, including technology-enabled home health care options.

In the face of this competition, we expect to take advantage of the experience of members of our management team and their industry expertise, which may provide us with a competitive advantage and help us assess potential risks and determine appropriate pricing for certain potential acquisitions of senior housing properties. In addition, we expect that these relationships will enable us to compete more effectively for attractive acquisition opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face, or other factors.

EMPLOYEES

Pursuant to the Management Agreement, all of our officers are employees of our Manager or an affiliate of our Manager. We do not have any employees.

As the owner of managed properties, we are responsible for the payroll expense of property-level employees (as well as the properties' other operating costs). The payroll expense is structured as a reimbursement to the property manager, who is the employer of record.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks and other information in this Form 10-K in evaluating us and our common stock. Any of the following risks, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations or financial condition. The risk factors generally have been separated into the following groups: risks related to our business, risks related to our Manager, risks related to our taxation as a REIT and risks related to our common stock. However, these categories do overlap and should not be considered exclusive.

RISKS RELATED TO OUR BUSINESS

We have limited operating history as a standalone public company and may not be able to successfully operate our business, execute our investment strategy or generate sufficient revenue to make or sustain distributions to our stockholders.

We completed our first investment in senior housing properties in July 2012 and became a standalone public company in November 2014. We have limited experience operating as a standalone public company and cannot assure you that we will be able to successfully operate our business, execute our investment strategy or generate sufficient revenue to make or sustain distributions to our stockholders at current levels. Our board of directors is reviewing our dividend policy and has not established a minimum distribution payment level. Our cash flows from operating activities, less capital expenditures and principal payments on our debt (which are scheduled to increase meaningfully in May 2017), have been, and continue to be, less than the amount of distributions to our shareholders. We have funded the shortfall using cash on hand and, our board of directors may determine that it is not prudent to continue to do so. Any such decision would result in a reduction to our current distribution payment level. See “-We have not established a minimum distribution payment level, and we cannot assure you of our ability to maintain our current distribution payment level or to pay any distributions in the future.”

Our results of operations and our ability to make or sustain distributions to our stockholders depend on various factors, including, without limitation, our cash flow from operations (which depends on the performance of our existing portfolio of managed assets and continued compliance by our counterparties with the terms of our triple net leases, among other factors) and other items that impact our liquidity (such as capital expenditures and principal payments). Each of these factors is subject to numerous risks, as described herein.

This report contains financial information for periods prior to the completion of our spin-off from Drive Shack. Such financial information may not be indicative of the results we would have achieved as a separate standalone company and are not a reliable indicator of our future performance or results.

We did not operate as a separate, standalone company for the entirety of the historical periods presented in this report. The financial information for such periods was derived from Drive Shack’s historical financial statements. Therefore, it does not necessarily reflect what our financial condition, results of operations or cash flows would have been had we been a separate, stand-alone public company prior to our spin-off from Drive Shack. This is primarily a result of the following factors:

- such financial information does not reflect all of the expenses we incur as a public company;
- the working capital requirements and capital for general corporate purposes for our assets were satisfied prior to the spin-off as part of Drive Shack’s corporate-wide cash management policies, and Drive Shack does not provide us with funds to finance our working capital or other cash requirements, so we may need to obtain additional financing from banks, through public offerings or private placements of debt or equity securities, strategic relationships or other arrangements; and
- our cost structure, management, financing and business operations are significantly different as a result of operating as an independent public company, and these changes result in increased costs, including, but not limited to, fees paid to our Manager, legal, accounting, compliance and other costs associated with being a public company with equity securities traded on the NYSE.

Our investments are concentrated in senior housing real estate, and in certain geographic areas.

We invest primarily in senior housing properties. Any factors that affect real estate and the senior housing industry will have a more pronounced effect on our portfolio relative to a portfolio of more diversified investments. In addition, the geographic concentration of our assets in certain states may result in losses due to our significant exposure to the effects of economic and real estate conditions in those markets. The geographic location of our properties and the percentage of total revenues by geographic location are set forth under Item 1. Business-Our Portfolio. As a result of this concentration, a material portion of our portfolios are significantly exposed to the effects of economic and real estate conditions in those particular markets, such as the supply of competing properties, home prices, income levels, the financial condition of our tenants, and general levels of employment and economic activity, which has been, and may continue to be, adversely affected by the recent decline in oil prices. To the extent that weak economic or real estate conditions affect markets in which we have a significant presence more severely than other areas of the country, our financial performance could be negatively impacted. Some or all of these properties could be affected if these regions experience severe weather or natural disasters; delays in obtaining regulatory approvals; delays or decreases in the availability of personnel or services; and/or changes in the regulatory, political or fiscal environment.

Real estate investments are relatively illiquid.

Real estate investments are relatively illiquid, and our ability to quickly sell or exchange our properties in response to changes in economic or other conditions is limited. In the event we desire or need to sell any of our properties, the value of those properties and our ability to sell at a price or on terms acceptable to us could be adversely affected by a downturn in the real estate industry or any weakness in the senior housing industry. We cannot assure you that we will recognize the full value of any property that we sell for liquidity or other reasons, and the inability to respond quickly to changes in the performance of our investments could adversely affect our business, results of operations and financial condition.

We are dependent on our operators for the performance of our managed assets, and, as a REIT, we are not able to operate our AL/MC properties.

During the year ended December 31, 2016, 50.8% of our net operating income was attributable to our managed portfolio. We have engaged third parties to operate all of our managed assets on our behalf. The income generated by our managed properties depends on the ability of our property managers to successfully manage these properties, which is a complex task. Although we have various rights pursuant to our property management agreements, we rely upon our property managers' personnel, expertise, technical resources and information systems, compliance procedures and programs, proprietary information, good faith and judgment to manage our senior housing operations efficiently and effectively. We also rely on our property managers to provide accurate property-level financial results for our properties in a timely manner and to otherwise operate our properties in compliance with the terms of our property management agreements and all applicable laws and regulations. We rely on our property managers to attract and retain skilled management personnel and property level personnel who are responsible for the day-to-day operations of our properties. A failure to effectively manage property operating expense, including, without limitation, labor costs and resident referral fees, or significant changes in our property managers' ability to manage our properties efficiently and effectively, could adversely affect the income we receive from our properties and have a material adverse effect on us. Any adverse developments in our property managers' business and affairs or financial condition could impair such property manager's ability to manage our properties efficiently and effectively and in compliance with applicable laws, which could have a material adverse effect on our business, results of operations or financial condition.

While we monitor our property managers' performance, we have limited recourse under our property management agreements to address poor performance. In some cases, poor performance may give rise to a termination right, but termination may be an unattractive remedy since we may not be able to identify a suitable alternative operator and transitioning management is subject to risks.

U.S. federal income tax laws generally restrict REITs and their subsidiaries from operating healthcare properties. Accordingly, as a REIT, we are not able to manage our AL/MC senior housing properties. Our AL/MC investments are structured to be compliant with the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA"), which permits a REIT to lease properties to a taxable REIT subsidiary ("TRS") if the TRS hires an "eligible independent contractor" ("EIK") to manage the property. Under this structure, the REIT (i.e., a subsidiary of New Senior) is the property owner, and it leases the property to the TRS (another subsidiary of New Senior). The REIT

receives rent from the TRS, and the TRS is entitled to the income from the properties, less the rent paid to the REIT and a management fee paid to the EIK. In addition, the TRS pays tax on its taxable income.

Various factors can result in our managed properties performing poorly, such as weak occupancy or increased expenses.

A failure by our operators to grow or maintain occupancy could adversely affect the net operating income generated by our managed properties. Occupancy levels at our properties may not increase, or may decline, due to a variety of factors, including, without limitation, falling home prices, declining incomes, stagnant home sales, competition from other senior housing developments, reputational issues faced by our operators, a regulatory ban on admissions or forced closure. In addition, the senior housing sector may experience a decline in occupancy due to the state of the national, regional or local economies and the associated decision of certain residents to elect home care options instead of senior housing. Occupancy levels may also decline due to seasonal contagious illnesses such as influenza. Unlike a typical apartment leasing arrangements that involve lease agreements with terms of up to a year or longer, resident agreements at our senior housing properties generally allow residents to terminate their agreements with 30 days' notice.

Alternatively, in an effort to increase occupancy or avoid a decline in occupancy, our property managers may offer incentives or discounts, which could also have a material adverse effect on our results of operations.

In terms of expenses, wages and employee benefits represent a significant part of the expense structure at our properties. Our AL/MC properties are particularly labor intensive. We rely on our property managers to attract and retain skilled management personnel and property level personnel who are responsible for the day-to-day operations of our properties, but, as the owner, we are responsible for the payroll expense of property-level employees (as well as the properties' other operating costs).

Our property managers may be required to pay increased compensation or offer other incentives to retain key personnel and other employees. The market for qualified nurses and healthcare professionals is highly competitive. Periodic and geographic area shortages of nurses or other trained personnel may require our property managers to increase the wages and benefits offered to their employees in order to attract and retain these personnel or to hire temporary personnel, which are generally more expensive than regular employees. Employee benefits costs, including employee health insurance and workers' compensation insurance costs, have materially increased in recent years. Increasing employee health and workers' compensation insurance costs may materially and negatively affect the net operating income of our properties.

With respect to lesser skilled workers, our property managers may have to compete with numerous other employers, which could also place upward pressure on wages and increase turnover. In addition, certain states have recently increased or proposed to increase the minimum wage, which could increase our property operating expenses and adversely affect our results of operations. Changes in minimum wage laws can have an impact beyond the expense of minimum wage workers, because an increase in the minimum wage can result in an increase in wages for workers who are relatively close to the minimum wage.

We cannot assure you that labor costs at our properties will not increase or that any increase will be matched by corresponding increases in rates charged to residents. Any significant failure by our property managers to control labor costs or to pass on any such increased labor costs to residents through rate increases could have a material adverse effect on our business, financial condition and results of operations. In addition, if our tenants fail to attract and retain qualified personnel, their ability to satisfy their obligations to us could be impaired.

Our tenants may be unable or unwilling to satisfy their lease obligations to us, and there can be no assurance that the applicable guarantor of our leases will be able to cover any shortfall.

Certain of our properties are leased on a triple net basis to three operators, including Holiday, which is an affiliate of our Manager. Rental income from our triple net leases represented 49.2% of our net operating income during the year ended December 31, 2016, and Holiday accounted for 78.9% of that amount.

Our triple net leases subject us to credit risk from our tenants. Our tenants may not have sufficient assets, income and access to financing to enable them to make rental payments to us or to otherwise satisfy their respective obligations under our leases, and any inability or unwillingness by them to do so could have a material adverse effect on us. Any failure by a tenant to effectively conduct its operations or to maintain and improve our properties could adversely affect its business reputation and its ability to attract and retain residents in our properties, which could impair such tenant's ability to generate sufficient income to satisfy its obligations to us. Our tenants have also agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their

respective businesses, and we cannot assure you that they will have sufficient assets, income, access to financing and insurance coverage to enable them to satisfy their respective indemnification obligations.

If any of our tenants are not able to satisfy their obligations to us, we would be entitled, among other remedies, to use any funds of such tenants then held by us and to seek recourse against the guarantor under its guaranty of the applicable lease. There can be no assurance that a guarantor will have the resources necessary to satisfy its obligations to us under its guaranty of the applicable lease in the event that a tenant fails to satisfy its lease obligations to us in full, which could have a material adverse effect on us.

We monitor credit risk in a variety of ways, including by monitoring our tenants' compliance with the financial covenants in our leases, including the ratio of the earnings generated by the leased property to the rent required to be paid under the lease. We have observed a declining lease coverage ratio in recent quarters. As of December 31, 2016, our triple net lease portfolio had an EBITDARM coverage ratio of 1.19x, which represents a decline from 1.28x as of December 31, 2015. (This calculation differs from the calculations required by the terms of our leases.)

Under certain leases, our tenants are permitted to post and have posted "shortfall deposits" or similar obligations to cure a failure to satisfy the applicable lease coverage ratio. In addition, we have and, from time to time, may waive compliance with a lease coverage ratio or the requirement to post "shortfall deposits" or similar obligations. However, our ability to do so is limited by the terms of our financings, which require us to enforce the tenant's obligations in a commercially reasonable manner.

We cannot assure you that our tenants will remain in compliance with any applicable financial covenants or that they will have the ability or desire to use such cure provisions in the future if needed. Our tenants may seek to renegotiate the terms of a lease to avoid the requirement to fund shortfall deposits or similar obligations, or to avoid an event of default. Our ability to change the terms of a lease is subject to the consent of our lender for the applicable financing. A failure to comply with or cure a financial covenant would generally give rise to an event of a default under a lease, and such event of default could result in an event of default under our financing for the applicable property.

We are subject to concentration risk in that Holiday accounts for a significant portion of the NOI from our Triple Net Lease segment and serves as the manager of properties representing a significant portion of the NOI from our Managed Properties segment.

For the years ended December 31, 2016 and 2015, Holiday accounted for 78.9% and 80.5%, respectively, of the NOI from our Triple Net Lease segment and served as the manager of properties representing 72.3% and 62.2%, respectively, of the NOI from our Managed Properties segment. As of December 31, 2016, Holiday leased 51 of the 58 properties in our Triple Net Lease segment, and managed 67 of the 94 properties in our Managed Properties segment.

As of December 31, 2016, all of our managed properties were subject to management agreements with Holiday, Blue Harbor, JEA or Thrive. We rely on our property managers' personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our senior housing operations efficiently and effectively. We also rely on our property managers to set appropriate resident fees and to otherwise operate our senior housing communities in compliance with the terms of our property management agreements and all applicable laws and regulations. Although we have various rights as the property owner under our property management agreements, including various rights to set budget guidelines and to terminate and exercise remedies under those agreements as provided therein, any failure, inability or unwillingness on the part of our property managers to satisfy their respective obligations under those agreements, to efficiently and effectively manage our properties or to provide timely and accurate accounting information with respect thereto, could have a material adverse effect on us. In addition, Holiday is in the process of changing its operating model as a result of a change in labor laws, which could adversely affect the performance of our Holiday-managed properties. Under the previous operating model, Holiday staffed many of our facilities with live-in resident managers and, in certain cases, paid us rent for those occupied units. The change in the operating model will eliminate live-in staffing and could therefore result in decreased revenue from certain Holiday-managed properties as well as increased expenses.

Our leased properties currently account for a significant portion of our total revenues and net operating income, and because our leases are triple net leases, we depend on our tenants to pay all property-related expenses, including maintenance, utilities, taxes, insurance, repairs, capital improvements and the payroll expense of property-level employees in connection with the leased properties. We cannot assure you that our tenants will have sufficient assets, income and access to financing to enable them to satisfy their obligations to us, and any failure, inability or unwillingness to do so could have a material adverse effect on us. In addition, although affiliates of our tenants have provided a lease guaranty in connection with their respective leases, the guarantees may not be sufficient to satisfy the tenant's obligations to us, and our tenants may not have sufficient assets, income and access to financing to enable

them to satisfy their obligations to us. Our reliance on a small number of tenants for a significant portion of our total revenues and net operating income from our senior housing investments creates credit risk. If any of our tenants becomes unable or unwilling to satisfy their obligations to us, our financial condition and results of operations could be weakened.

In the event of the expiration or earlier termination of our existing leases, we may not be able to enter into new leases with terms as favorable as the terms of our existing leases.

We cannot predict whether our tenants will satisfy their obligations to us or renew their leases at the end of their lease terms, which expire at various times. If there is a default under one or more of our leases or these leases are not renewed, we would be required to find other tenants to occupy those properties or to sell them. There can be no assurance that we would be able to identify suitable replacement tenants or enter into leases with new tenants on terms as favorable to us as the current leases or that we would be able to lease those properties at all.

Our tenants may become subject to bankruptcy or insolvency proceedings.

Our tenants may not be able to meet the rent or other payments due to us, which may result in a tenant bankruptcy or insolvency, or a tenant might become subject to bankruptcy or insolvency proceedings for other reasons. Although our lease agreements provide us with the right to evict tenants, demand immediate payment of rent and exercise other remedies, the bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization. A tenant in bankruptcy or subject to insolvency proceedings may be able to limit or delay our ability to collect unpaid rent and to exercise other rights and remedies.

We may be required to fund certain expenses (e.g., real estate taxes and maintenance) to preserve the value of an investment property, avoid the imposition of liens on a property and/or transition a property to a new tenant. If we cannot transition a leased property to a new tenant, we may take possession of that property, which may expose us to certain successor liabilities. Should such events occur, our revenue and operating cash flow may be adversely affected.

Covenants in our debt instruments limit our operational flexibility (including our ability to sell assets), and breaches of these covenants could materially adversely affect our business, results of operations and financial condition.

The terms of our financings require us to comply with a number of customary financial and other covenants, such as maintaining leverage ratios, minimum tangible net worth requirements, REIT status and certain levels of debt service coverage. Our continued ability to conduct business in general is subject to compliance with these financial and other covenants, which limit our operational flexibility. For example, mortgages on our properties contain customary covenants such as those that limit or restrict our ability, without the consent of the lender, to further encumber or sell the applicable properties, or to replace the applicable tenant or operator. Breaches of certain covenants may result in defaults under the mortgages on our properties and cross-defaults under certain of our other indebtedness, even if we satisfy our payment obligations to the respective obligee. Covenants that limit our operational flexibility as well as defaults resulting from the breach of any of these covenants could materially adversely affect our business, results of operations and financial condition. In addition, our ability to comply with certain terms of our financings depends on the financial performance of our leased assets, which is outside of our control, and a failure to comply with such terms could result in the acceleration of the requirement to repay all or a portion of the outstanding indebtedness.

We may not be able to complete accretive acquisitions, and the acquisitions we do complete may not be successful.

We intend to acquire additional senior housing properties (market conditions permitting). However, we may not be able to consummate attractive acquisition opportunities because of market conditions, liquidity constraints, regulatory reasons or other factors, and those that we do consummate may not be successful. The current low interest rate environment may drive upward sales prices or lead to overbuilding. We might encounter unanticipated difficulties and expenditures relating to any acquired properties. Newly acquired properties might require significant management attention. We might never realize the anticipated benefits of our acquisitions. Notwithstanding pre-acquisition due diligence, we do not believe that it is possible to fully understand a property before it is operated for an extended period of time. For example, we could acquire a property that contains undisclosed defects in design or construction. In addition, after our acquisition of a property, the market in which the acquired property is located may experience unexpected changes that adversely affect the property's value. The occupancy of properties that we acquire may decline during our ownership, and rents or returns that are in effect or expected at the time a property is acquired may decline thereafter. Also, our property operating costs for acquisitions may be higher than we anticipate and acquisitions of properties may not yield the returns we expect and, if financed using debt or new equity issuances, may result in stockholder dilution. For these reasons, among others, any acquisitions of additional properties may not succeed or may cause us to experience losses.

Our determination of how much leverage to apply to our investments may adversely affect our return on our investments and may reduce cash available for distribution.

We have leveraged our assets through a variety of borrowings. Our investment guidelines do not limit the amount of leverage we may incur. The return we are able to earn on our investments and cash available for distribution to our stockholders may be significantly reduced due to changes in market conditions, which may cause the cost of our financing to increase relative to the income that can be derived from our assets. See “-We have not established a minimum distribution payment level, and we cannot assure you of our ability to maintain our current distribution payment level or to pay any distributions in the future.”

Our inability to obtain financing (including through refinancing existing debt) on favorable terms, if at all, may impede our ability to grow or to make distributions to our shareholders.

We may not be able to fund all future capital needs from cash retained from operations. If we are unable to generate enough cash flow, we may need to rely on external sources of capital (including debt and equity financing) to fulfill our capital requirements. If we cannot access these external sources of capital, we may not be able to make the investments needed to grow our business or to sustain distributions to shareholders at current levels. Our ability to obtain financing or refinance existing debt depends upon a number of factors, some of which we have little or no control over, including but not limited to:

- general availability of credit and market conditions, including rising interest rates and increasing borrowing costs;
- the market price of the shares of our equity securities;
- the market’s perception of our growth potential, compliance with applicable laws and our current and potential future earnings and cash distributions;
- our degree of financial leverage and operational flexibility;
- the financing integrity of our lenders, which might impair their ability to meet their commitments to us or their willingness to make additional loans to us, and our inability to replace the financing commitment of any such lender on favorable terms, or at all;
- the stability in the market value of our properties;
- the financial performance and general market perception of our property managers and tenants;
- changes in the credit ratings on United States government debt securities or default or delay in payment by the United States of its obligations; and
- issues facing the healthcare industry, including, but not limited to, healthcare reform and changes in government reimbursement policies.

Any limitation on our access to financing as a result of these or other factors could impede our ability to grow and have a material adverse impact on our ability to fund operations, refinance our debt obligations, fund distributions to our shareholders, acquire properties and undertake development activities. See “-We have not established a minimum distribution payment level, and we cannot assure you of our ability to maintain our current distribution payment level or to pay any distributions in the future.”

Competition may affect our operators’ ability to meet their obligations to us or make it difficult for us to identify and purchase, or develop, suitable senior housing properties to grow our investment portfolio.

Our property managers compete with other companies on a number of different levels, including: the quality of care provided, reputation, the physical appearance of a property, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in surrounding areas and the financial condition of tenants and managers. A property manager's inability to successfully compete with other companies on one or more of the foregoing levels could adversely affect the senior housing property and materially reduce our property-level net operating income.

We face significant competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our business goals and could improve the bargaining power of property owners seeking to sell, thereby impeding our investment, acquisition and development activities. If we cannot identify and purchase a sufficient quantity of senior housing properties at favorable prices or if we are unable to finance acquisitions on commercially favorable terms, it could have a material adverse effect on our business, financial condition and results of operations.

The healthcare industry is also highly competitive, and our operators may encounter increased competition for residents and patients, including with respect to the scope and quality of care and services provided, reputation and financial condition, physical appearance of the properties, price and location. The operations of our RIDEA AL/MC properties and our IL properties depend on the competitiveness and financial viability of the properties. If our managers are unable to successfully compete with other operators and managers by maintaining profitable occupancy and rate levels, their ability to generate income for us may be materially adversely affected. The operations of our triple net lease tenants also depend upon their ability to successfully compete with other operators. If our tenants are unable to successfully compete, their ability to fulfill their obligations to us, including the ability to make rent payments to us, may be materially adversely affected. Future changes in government regulation may adversely affect the healthcare industry, including our senior housing properties and healthcare operations, property managers and tenants, and our property managers and tenants may not achieve and maintain occupancy and rate levels that will enable them to satisfy their obligations to us. Any adverse changes in the regulation of the healthcare industry or the competitiveness of our property managers and tenants could have a more pronounced effect on us than if we had investments outside the senior housing and healthcare industries.

Overbuilding in markets in which our senior housing properties are located could adversely affect our future occupancy rates, operating margins and profitability.

The senior housing industry generally has limited barriers to entry, and, as a consequence, the development of new senior housing properties could outpace demand. If development outpaces demand for those asset types in the markets in which our properties are located, those markets may become saturated, and we could experience decreased occupancy, reduced operating margins and lower profitability.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and stock price.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. In addition, as a result of any new investment in senior housing properties, we may be required to consolidate additional entities, and, therefore, to document and test effective internal controls over the financial reporting of these entities in accordance with Section 404, which we may not be able to do. Even if we are able to do so, there could be significant costs and delays, particularly if these entities were not subject to Section 404 prior to being acquired by us. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we had previously believed that internal controls were effective. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm will not be able to certify as to the effectiveness of our internal control over financial reporting. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in our share price and impairing our ability to raise capital.

Changes in accounting rules could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

As has been widely publicized, the SEC, the Financial Accounting Standards Board (“FASB”) and other regulatory bodies that establish the accounting rules applicable to us have recently proposed or enacted a wide array of changes to accounting rules. Moreover, in the future these regulators may propose additional changes that we do not currently anticipate. Changes to accounting rules that apply to us could significantly impact our business or our reported financial performance in negative ways that we cannot predict or protect against. We cannot predict whether any changes to current accounting rules will occur or what impact any codified changes will have on our business, results of operations, liquidity or financial condition.

We and our operators rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We and our operators rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and maintenance of records, which may include personal identifying information of the residents at our properties. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing this confidential information, such as individually identifiable information relating to financial accounts. Although we and our operators have taken steps to protect the security of the data maintained in our information systems, it is possible that such security measures will not be able to prevent the systems’ improper functioning, or the improper disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect our business, financial condition and results of operations.

Our operators may be faced with significant potential litigation and rising insurance costs that not only affect their ability to obtain and maintain adequate liability and other insurance, but also may affect, in the case of our triple net lease properties, their ability to pay their lease payments and generally to fulfill their insurance and indemnification obligations to us.

In some states, advocacy groups monitor the quality of care at assisted and independent living communities, and these groups have brought litigation against operators. Also, in several instances, private litigation by assisted and independent living community residents or their families have succeeded in winning very large damage awards for alleged neglect and we cannot assure you that we will not be subject to these types of claims. The effect of this litigation and potential litigation has been to, amongst other matters, materially increase the costs of monitoring and reporting quality of care compliance. The cost of liability and medical malpractice insurance has increased and may continue to increase so long as the present litigation environment in many parts of the United States continues. This may affect the ability of some of our property managers and tenants to obtain and maintain adequate liability and other insurance and manage their related risk exposures. In addition to causing some of our property managers and tenants to be unable to fulfill their insurance, indemnification and other obligations to us under their property management agreements or leases and thereby potentially exposing us to those risks, these litigation risks and costs could cause some of our tenants to become unable to pay rents due to us. Such nonpayment could potentially affect our ability to meet future monetary obligations under our financing arrangements.

The failure of our operators to comply with laws relating to the operation of our properties may have a material adverse effect on the ability of our tenants to provide its services, pay us rent, the profitability of our managed properties and the values of our properties.

We and our operators are subject to or impacted by extensive, frequently changing federal, state and local laws and regulations. Some of these laws and regulations include: state and local licensure laws; state laws related to patient abuse and neglect; laws protecting consumers against deceptive practices; laws relating to the operation of our properties and how our property managers and tenants conduct their operations, such as fire, health and safety laws and privacy laws; federal and state laws affecting communities that participate in Medicare and Medicaid; the Americans with Disabilities Act and similar state and local laws; and safety and health standards set by the Occupational Safety and Health Administration. We and our operators expend significant resources to maintain compliance with these laws and regulations, and responding to any allegations of noncompliance also results in the expenditure of significant resources. If we or our operators fail to comply with any applicable legal requirements, or are unable to cure deficiencies, certain sanctions may be imposed and, if imposed, may materially and adversely affect our tenants' ability to pay their rent, the profitability of our managed properties, the values of our properties, our ability to complete additional acquisitions in the state in which the violation occurred, and our reputation. Further, changes in the regulatory framework could have a material adverse effect on the ability of our tenants to pay us rent (and any such nonpayment could potentially affect our ability to meet future monetary obligations under our financing arrangements), the profitability of and the values of our properties.

We and our operators are required to comply with federal and state laws governing the privacy, security, use and disclosure of individually identifiable information, including financial information and protected health information. Under HIPAA, we and our operators are required to comply with the HIPAA privacy rule, security standards and standards for electronic healthcare transactions. State laws also govern the privacy of individual health information, and these laws are, in some jurisdictions, more stringent than HIPAA. Other federal and state laws govern the privacy of individually identifiable information. If we or our operators fail to comply with applicable federal or state standards, we or they could be subject to civil sanctions and criminal penalties, which could materially and adversely affect our business, financial condition and results of operations.

Some of our properties and their operations are subject to extensive regulations. Failure to comply, or allegations of failing to comply, could have a material adverse effect on us.

Various governmental authorities mandate certain physical characteristics of senior housing properties. Changes in laws and regulations relating to these matters may require significant expenditures. Our property management agreements and triple net leases generally require our operators to maintain our properties in compliance with applicable laws and regulations, and we expend resources to monitor their compliance. However, our monitoring efforts may fail to detect weaknesses in our operators' performance on the clinical and other aspects of their duties, which could expose us to the risk of penalties, license suspension or revocation, criminal sanctions and civil litigation. Any such actions, even if ultimately dismissed or decided in our favor, could have a material adverse effect on our reputation and results of operations. In addition, our operators may neglect maintenance of our properties if they suffer financial distress. In the case of our triple net lease properties, we may agree to fund capital expenditures in return for rent increases or other concessions. Our available financial resources or those of our tenants may be insufficient to fund the expenditures required to operate our properties in accordance with applicable laws and regulations. If we fund these expenditures, our tenants' financial resources may be insufficient to satisfy their increased rental payments to us or other incremental obligations. Failure to obtain a license or registration, or loss of a required license or registration, would prevent a property from operating in the manner intended by the property managers or tenants, which could have a material adverse effect on our property managers' ability to generate income for us or our tenants' ability to make rent payments to us. Any compliance issues could also make it more difficult to obtain or maintain required licenses and registrations.

Licensing, Medicare and Medicaid and other laws may also require some or all of our operators to comply with extensive standards governing their operations and such operations are subject to routine inspections. In addition, certain laws prohibit fraud by senior housing operators and other healthcare communities, including civil and criminal laws that prohibit false claims in Medicare, Medicaid and other programs that regulate patient referrals. In recent years, the federal and state governments have devoted increasing resources to monitoring the quality of care at senior housing communities and to anti-fraud investigations in healthcare operations generally. When violations of applicable laws are identified, federal or state authorities may impose civil monetary damages, treble damages, repayment requirements and criminal sanctions. In addition to these penalties, violation of any of these laws may subject our operators to exclusion from participation in any federal or state healthcare program. For example, if an operator is subject to a criminal conviction relating to the delivery of goods or services under the Medicare or Medicaid programs, the operator would be excluded from participation in those programs for five years. These fraud and abuse laws and regulations are complex, and we and our operators do not always have the benefit of significant regulatory or judicial interpretation of these laws and regulations. While we do not believe our operators are in violation of these prohibitions, we cannot assure you that governmental officials charged with the responsibility of enforcing the provisions of these prohibitions will not assert that an operator is in violation of such laws and regulations. Violations of law often result in significant media attention. Healthcare communities may also be subject to license revocation or conditional licensure and exclusion from or conditional Medicare or Medicaid participation. When quality of care deficiencies or improper billing are alleged or identified, various laws, including laws prohibiting patient abuse and neglect, may authorize civil money penalties or fines; the suspension, modification or revocation of a license (which could result in the suspension of operations) or Medicare or Medicaid participation; the suspension or denial of admissions of residents; the removal of residents from properties; the denial of payments in full or in part; the implementation of state oversight, temporary management or receivership; and the imposition of criminal penalties. We, our property managers and our tenants have received inquiries and requests from various government agencies and we have in the past and may in the future receive notices of potential sanctions, and governmental authorities may impose such sanctions from time to time on our properties based on allegations of violations or alleged or actual failures to cure identified deficiencies. If imposed, such sanctions may adversely affect the profitability of managed properties, the ability to maintain managed properties (including properties unrelated to the property in question) in a given state, our ability to continue to engage certain managers and our tenants' ability to pay rents to us (and any such nonpayment could potentially affect our ability to meet future monetary obligations or could trigger an event of default under our financing arrangements). Any such claims could also result in material civil litigation. Federal and state requirements for change in control of healthcare communities, including, as applicable, approvals of the proposed operator for licensure, certificate of need ("CON"), Medicare and Medicaid participation, and the terms of our debt may also limit or delay our ability to find substitute tenants or property managers. If any of our property managers or tenants becomes unable to operate our properties, or if any of our tenants becomes unable to pay its rent because they have violated government regulations or payment laws, we may experience difficulty in finding a substitute tenant or property manager or selling the affected property for a fair and commercially reasonable price, and the value of an affected property may decline materially.

The impact of the comprehensive healthcare regulation enacted in 2010 on us and our operators cannot accurately be predicted.

The Health Reform Laws, provide states with an increased federal medical assistance percentage under certain conditions. On June 28, 2012, The United States Supreme Court upheld the individual mandate of the Health Reform Laws but partially invalidated the expansion of Medicaid. The ruling on Medicaid expansion allows states not to participate in the expansion-and to forgo funding for the Medicaid expansion-without losing their existing Medicaid funding. Thus far, approximately one-half of the states are fully participating. Given that the federal government substantially funds the Medicaid expansion, it is unclear whether any state will pursue this option, although at least some appear to be considering this option at this time. The participation by states in the Medicaid expansion could have the dual effect of increasing our property managers' and tenants revenues, through new patients, but further straining state budgets. While the federal government will pay for approximately 100% of those additional costs until 2016, states will be expected to begin paying for part of those additional costs in 2017. With increasingly strained budgets, it is unclear how states will pay their share of these additional Medicaid costs and what other healthcare expenditures could be reduced as a result. A significant reduction in other healthcare related spending by states to pay for increased Medicaid costs could affect our property managers' and tenants' revenue streams, which could materially and adversely affect our business, financial condition and results of operations.

Changes in reimbursement rates, payment rates or methods of payment from government and other third-party payors, including Medicaid and Medicare, could have a material adverse effect on us and our operators.

Certain of our operators rely on reimbursement from third-party payors, including the Medicare and Medicaid programs. Medicare and Medicaid programs, as well as numerous private insurance and managed care plans, generally require participating providers to accept government-determined reimbursement levels as payment in full for services rendered, without regard to the facility's charges. Changes in the reimbursement rate or methods of payment from third-party payors, including Medicare and Medicaid, or the implementation of other measures to reduce reimbursements for services provided by our property managers or our tenants, could result in a substantial reduction in our and our tenant's revenues. In addition, the implementation of the Resource Utilization Group, Version Four, or "RUG-IV," which revises the payment classification system for skilled nursing facilities, may impact our tenants by revising the classifications of certain patients.

Additionally, revenue under third-party payor agreements can change after examination and retroactive adjustment by payors during the claims settlement processes or as a result of post-payment audits. Payors may disallow requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable or because additional documentation is necessary or because certain services were not covered or were not medically necessary. We cannot assure you that our operators who currently depend on governmental or private payor reimbursement will be adequately reimbursed for the services they provide. Significant limits by governmental and private third-party payors on the scope of services reimbursed or on reimbursement rates and fees, whether from legislation, administrative actions or private payor efforts, could have a material adverse effect on liquidity, financial condition and results of operations, which could affect adversely their ability to comply with the terms of our leases and have a material adverse effect on us.

If any of our properties are found to be contaminated, or if we become involved in any environmental disputes, we could incur substantial liabilities and costs.

Under federal and state environmental laws and regulations, a current or former owner of real property may be liable for costs related to the investigation, removal and remediation of hazardous or toxic substances or petroleum that are released from or are present at or under, or that are disposed of in connection with such property. Owners of real property may also face other environmental liabilities, including government fines and penalties imposed by regulatory authorities and damages for injuries to persons, property or natural resources. Environmental laws and regulations often impose liability without regard to whether the owner was aware of, or was responsible for, the presence, release or disposal of hazardous or toxic substances or petroleum. In certain circumstances, environmental liability may result from the activities of a current or former operator of the property. Although we are generally indemnified by our property managers and tenants of our properties for contamination caused by them, these indemnities may not adequately cover all environmental costs.

Some of our senior housing properties generate infectious medical waste due to the illness or physical condition of the residents.

The management of infectious medical waste, including handling, storage, transportation, treatment and disposal, is subject to regulation under various laws, including federal and state environmental laws. These environmental laws set forth the management requirements, as well as permit, record-keeping, notice, and reporting obligations. Each of our senior housing properties has an agreement with a waste management company for the proper disposal of all infectious medical waste. The use of such waste management companies does not immunize us from alleged violations of such medical waste laws for operations for which we are responsible even if carried out by such waste management companies, nor does it immunize us from third-party claims for the cost to clean up disposal sites at which such wastes have been disposed. Any finding that we are not in compliance with these environmental laws could adversely affect our business, financial condition and results of operations. While we are not aware of non-compliance with environmental laws related to infectious medical waste at our senior housing properties, these environmental laws are amended from time to time and we cannot predict when and to what extent liability may arise. In addition, because these environmental laws vary from state to state, expansion of our operations to states where we do not currently operate may subject us to additional restrictions on the manner in which we operate our senior housing properties.

Transfers of healthcare properties may require regulatory approvals, and these properties may not have efficient alternative uses.

Transfers of healthcare properties to successor operators frequently are subject to regulatory approvals or notifications, including, but not limited to, change of ownership approvals under a CON or determination of need laws, state licensure laws, Medicare and Medicaid provider arrangements that are not required for transfers of other types of real estate. The replacement of a healthcare property operator could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator licensed to manage the property, whether as a result of regulatory issues identified elsewhere in this report or otherwise. Alternatively, given the specialized nature of our properties, we may be required to spend substantial time and funds to adapt these properties to other uses. If we are unable to timely transfer properties to successor operators or find efficient alternative uses, our revenue and operations may be adversely affected.

There are risks related to new properties under construction or development.

In the future, we might construct one or more new properties. Any failure by us or our property managers to obtain the required license, certification, compliance programs, contracts, governmental permits and authorizations, or to obtain financing on favorable terms, may impede our ability to earn revenues on the relevant properties. Additionally, we may have to wait years for significant cash returns on newly developed properties. Furthermore, if our financial projections with respect to a new property are inaccurate due to increases in capital costs or other factors, the property may fail to perform as we expected in analyzing our investment. State and local laws also may regulate the expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction or renovation of healthcare properties, by requiring a CON or other similar approval from a state agency. Any compliance issues could also make it more difficult to obtain or maintain required licenses and registrations.

RISKS RELATED TO OUR MANAGER

We are dependent on our Manager and may not find a suitable replacement if our Manager terminates the Management Agreement, and the inability of our Manager to retain or obtain key personnel could delay or hinder implementation of our investment strategies, which could impair our ability to make distributions and could reduce the value of your investment.

None of our officers or other individuals who perform services for us is an employee of New Senior. Instead, these individuals are employees of our Manager, or our operators. We are completely reliant on our Manager, which has significant discretion as to the implementation of our operating policies and strategies, and our operators to conduct our business. We are subject to the risk that our Manager will terminate the Management Agreement and that we will not be able to find a suitable replacement for our Manager in a timely manner, at a reasonable cost or at all.

We believe that our future success depends, in large part, upon our Manager's ability to hire and retain highly skilled personnel. Competition for highly skilled personnel is intense, and our Manager may be unsuccessful in attracting and retaining such skilled personnel. If we lose or are unable to obtain the services of highly skilled personnel, our ability to implement our investment strategies could be delayed or hindered and this could materially adversely affect our business, results of operations, financial condition and ability to make distributions to our stockholders. See "-We have not established a minimum distribution payment level, and we cannot assure you of our ability to maintain our current distribution payment level or to pay any distributions in the future." Furthermore, we are dependent on the services of certain key employees of our Manager whose compensation may be partially or entirely dependent upon the amount of incentive or management compensation earned by our Manager and whose continued service is not guaranteed, and the loss of such services could adversely affect our operations.

On February 14, 2017, Fortress announced that it had entered into the Merger Agreement with SB Foundation Holdings LP, a Cayman Islands exempted limited partnership ("Parent") and an affiliate of SoftBank, and Foundation Acquisition LLC, a Delaware limited liability company and wholly owned subsidiary of Parent ("Merger Sub"), pursuant to which Merger Sub will merge with and into Fortress, with Fortress surviving as a wholly owned subsidiary of Parent. While Fortress's senior investment professionals are expected to remain in place, including those individuals who perform services for us, there can be no assurance that the Merger will not have an impact on us or our relationship with the Manager.

There are conflicts of interest in our relationship with our Manager.

Our Management Agreement with our Manager was not negotiated between unaffiliated parties, and its terms, including fees payable, although approved by the independent directors of Drive Shack as fair, may not be as favorable to us as if they had been negotiated with an unaffiliated third party.

There are conflicts of interest inherent in our relationship with our Manager insofar as our Manager and its affiliates—including investment funds, private investment funds, or businesses managed by our Manager—invest in senior housing properties and whose investment objectives overlap with our investment objectives. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles. Certain members of our board of directors and employees of our Manager who are our officers also serve as officers and/or directors of Fortress and these other entities. Although we have the same Manager, we may compete with entities affiliated with our Manager or Fortress for certain target assets. Fortress has raised two funds primarily focused on investing in senior housing properties. The first, raised in 2006 with \$650 million in commitments at closing had its final liquidation in December 2014. The second, also raised in 2006, had \$1.6 billion in capital commitments as of December 31, 2016 and is in the process of selling its investments, including its investments in Holiday. Certain of Fortress's other funds also hold significant investments in senior housing. All of these funds are outside their respective investment periods, although one of these funds has approximately \$120 million in unfunded commitments, which may be drawn for follow-on investments. Fortress funds generally have a fee structure similar to ours, but the fees actually paid will vary depending on the size, terms and performance of each fund. From time to time, affiliates of Fortress focus on investments in assets with a similar profile as our target assets that we may seek to acquire. These affiliates may have meaningful purchasing capacity, which may change over time depending upon a variety of factors, including, but not limited to, available equity capital and debt financing, market conditions and cash on hand. Fortress had approximately \$70.0 billion of assets under management as of December 31, 2016. In addition, with respect to funds in the process of selling investments, our Manager may be incentivized to regard the sale of such assets to New Senior positively, particularly if a sale to an unrelated third party would result in a loss of fees to our Manager.

Our Management Agreement with our Manager generally does not limit or restrict our Manager or its affiliates from engaging in any business or managing other pooled investment vehicles that invest in investments that meet our investment objectives. Our Manager may engage in additional investment opportunities related to senior housing in the future, which may cause our Manager to compete with us for investments or result in a change in our current investment strategy. In addition, our certificate of incorporation provides that if Fortress or an affiliate or any of their officers, directors or employees acquire knowledge of a potential transaction that could be a corporate opportunity, they have no duty, to the fullest extent permitted by law, to offer such corporate opportunity to us, our stockholders or our affiliates. In the event that any of our directors and officers who is also a director, officer or employee of Fortress or its affiliates acquires knowledge of a corporate opportunity or is offered a corporate opportunity, provided that this knowledge was not acquired solely in such person's capacity as a director or officer of ours and such person acts in good faith, then to the fullest extent permitted by law such person is deemed to have fully satisfied such person's fiduciary duties owed to us and is not liable to us if Fortress or its affiliates pursues or acquires the corporate opportunity or if such person did not present the corporate opportunity to us.

The ability of our Manager and its officers and employees to engage in other business activities, subject to the terms of our Management Agreement with our Manager, may reduce the amount of time our Manager, its officers or other employees spend managing us. In addition, we may engage (subject to our investment guidelines) in material transactions with our Manager or another entity managed by our Manager or one of its affiliates, such as our acquisitions of sizeable portfolios of assets from Holiday, which may present an actual, potential or perceived conflict of interest. Actual, potential or perceived conflicts have given, and in the future could give, rise to investor dissatisfaction, settlements with stockholders, litigation or regulatory inquiries or enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential, actual or perceived conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation, which could materially adversely affect our business in a number of ways, including causing an inability to raise additional funds, a reluctance of counterparties to do business with us, a decrease in the prices of our equity securities and a resulting increased risk of litigation and regulatory enforcement actions.

The management compensation structure that we have agreed to with our Manager, as well as compensation arrangements that we may enter into with our Manager in the future (in connection with new lines of business or other activities), may incentivize our Manager to invest in high risk investments. In addition to its management fee, our Manager is currently entitled to receive incentive compensation. In evaluating investments and other management strategies, the opportunity to earn incentive compensation may lead our Manager to place undue emphasis on the maximization of such measures at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative than lower-yielding investments. Moreover, because our Manager receives compensation in the form of options in connection with the completion of our equity offerings, our Manager may be incentivized to cause us to issue additional stock, which could be dilutive to existing stockholders.

It would be difficult and costly to terminate our Management Agreement with our Manager.

It would be difficult and costly for us to terminate our Management Agreement with our Manager. After its initial ten-year term, the Management Agreement will be automatically renewed for one-year terms unless terminated (i) by a majority vote of at least two-thirds of our independent directors, or by a vote of the holders of a simple majority of the outstanding shares of our common stock, that there has been unsatisfactory performance by our Manager that is materially detrimental to us or (ii) a determination by a simple majority of our independent directors that the management fee payable to our Manager is not fair, subject to our Manager's right to prevent such a termination by continuing to provide the services under the Management Agreement at a fee that a simple majority of our independent directors have reasonably determined to be fair. Our Manager will be provided 60 days' prior notice of any termination and will be paid a termination fee equal to the amount of the management fee earned by the Manager during the 12-month period preceding such termination. In addition, following any termination of the Management Agreement, our Manager may require us to purchase its right to receive incentive compensation at a price determined as if our assets were sold for their then current fair market value or otherwise we may continue to pay the incentive compensation to our Manager. These provisions may increase the effective cost to us of terminating the Management Agreement, thereby adversely affecting our ability to terminate our Manager without cause.

Our board of directors has approved broad investment guidelines for our Manager and do not approve each investment decision made by our Manager. In addition, we may change our investment strategy without a stockholder vote, which may result in our making investments that are different, riskier or less profitable than our current investments.

Our Manager is authorized to follow broad investment guidelines. Consequently, our Manager has great latitude in determining the types and categories of assets it may decide are proper investments for us, including the latitude to invest in types and categories of assets that may differ from those in which we currently invest. Our board of directors will periodically review our investment guidelines and our investment portfolio. However, our board of directors does not review or pre-approve each proposed investment or our related financing arrangements. In addition, in conducting periodic reviews, our board of directors relies primarily on information provided to them by our Manager. Furthermore, transactions entered into by our Manager may be difficult or impossible to unwind by the time they are reviewed by our board of directors even if the transactions contravene the terms of the Management Agreement. In addition, we may change our investment strategy, including our target asset classes, without a stockholder vote.

Our investment strategy may evolve in light of existing market conditions and investment opportunities, and this evolution may involve additional risks depending upon the nature of the assets in which we invest and our ability to finance such assets on a short- or long-term basis. Investment opportunities that present unattractive risk-return profiles relative to other available investment opportunities under particular market conditions may become relatively attractive under changed market conditions, and changes in market conditions may therefore result in changes in the investments we target. Decisions to make investments in new asset categories present risks that may be difficult for us to adequately assess and could therefore impair our ability to make distributions to our shareholders or have adverse effects on our liquidity or financial condition. See “-We have not established a minimum distribution payment level, and we cannot assure you of our ability to maintain our current distribution payment level or to pay any distributions in the future.” A change in our investment strategy may also increase our exposure to interest rate, real estate market or credit market fluctuations. In addition, a change in our investment strategy may increase the guarantee obligations we agree to incur or increase the number of transactions we enter into with affiliates. Our failure to accurately assess the risks inherent in new asset categories or the financing risks associated with such assets could adversely affect our results of operations and our financial condition.

Our Manager will not be liable to us for any acts or omissions performed in accordance with the Management Agreement, including with respect to the performance of our investments.

Pursuant to our Management Agreement, our Manager will not assume any responsibility other than to render the services called for thereunder in good faith and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager, its members, managers, officers and employees will not be liable to us or any of our subsidiaries, to our board of directors, or our or any subsidiary's stockholders or partners for any acts or omissions by our Manager, its members, managers, sub-advisers, officers or employees, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement. We shall, to the full extent lawful, reimburse, indemnify and hold our Manager, its members, managers, officers and employees, sub-advisers and each other person, if any, controlling our Manager, harmless of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including attorneys' fees) in respect of or arising from any acts or omissions of an indemnified party made in good faith in the performance of our Manager's duties under our Management Agreement and not constituting such indemnified party's bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement.

Our Manager's due diligence of investment opportunities or other transactions may not identify all pertinent risks, which could materially affect our business, financial condition, liquidity and results of operations.

Any purchase price we agree to pay to acquire a senior living facility or other investment will be based on projections of the asset's future financial performance, and actual results may differ materially from our projections. Our Manager intends to conduct due diligence with respect to each investment opportunity it pursues on our behalf. It is possible that our Manager's due diligence processes will not uncover all relevant facts, particularly with respect to any assets we acquire from third parties. In these cases, our Manager may be given limited access to information about the investment and will rely on information provided by the target of the investment. In addition, if investment opportunities are scarce, the process for selecting bidders is competitive, or the timeframe in which we are required to complete diligence is short, our ability to conduct a due diligence investigation may be limited, and we would be required to make investment decisions based upon a less thorough diligence process than would otherwise be the case. Accordingly, investments and other transactions that initially appear to be viable may prove not to be over time, due to the limitations of the due diligence process or other factors.

Because we are dependent upon our Manager and its affiliates to conduct our operations, any adverse changes in the financial health of our Manager or its affiliates or our relationship with them could hinder our Manager's ability to successfully manage our operations.

We are dependent on our Manager and its affiliates to manage our operations and acquire and manage our investments. Under the direction of our board of directors, and subject to our investment guidelines, our Manager makes all decisions with respect to the management of our company. To conduct its operations, our Manager depends upon the fees and other compensation that it receives from us in connection with managing our company and from other entities and investors with respect to investment management services it provides. Any adverse changes in the financial condition of our Manager or its affiliates, or our relationship with our Manager, could hinder our Manager's ability to successfully manage our operations, which would materially adversely affect our business, results of operations, financial condition and ability to make distributions to our stockholders. See “-We have not established a minimum distribution payment level, and we cannot assure you of our ability to maintain our current distribution payment level or to pay any distributions in the future.” For example, adverse changes in the financial condition of our Manager could limit its ability to attract key personnel.

RISKS RELATED TO OUR TAXATION AS A REIT

Our failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to our stockholders. Drive Shack's failure to qualify as a REIT could cause us to lose our REIT status.

We are organized and conduct our operations to qualify as a REIT for U.S. federal income tax purposes. Our ability to satisfy the REIT asset tests depends upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we do not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of one or more of our investments may be uncertain in some circumstances, which could affect the application of the REIT qualification

requirements. Accordingly, there can be no assurance that the Internal Revenue Service (“IRS”) will not contend that our investments violate the REIT requirements.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates and distributions to stockholders would not be deductible by us in computing our taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of, and trading prices for, our stock. Unless entitled to relief under certain provisions of the Code, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we initially ceased to qualify as a REIT.

If Drive Shack failed to qualify as a REIT for a taxable year ending on or before December 31, 2015, the rule against re-electing REIT status following a loss of such status would also apply to us if we were treated as a successor to Drive Shack for U.S. federal income tax purposes. Although Drive Shack has provided (i) a representation in the Separation and Distribution Agreement that it had no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT and (ii) a covenant in the Separation and Distribution Agreement to use its reasonable best efforts to maintain its REIT status for each of Drive Shack's taxable years ending on or before 2015 (unless Drive Shack obtains an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS to the effect that Drive Shack's failure to maintain its REIT status will not cause us to fail to qualify as a REIT under the successor REIT rule referred to above), no assurance can be given that such representation and covenant would prevent us from failing to qualify as a REIT. Although, in the event of a breach, we may be able to seek damages from Drive Shack, there can be no assurance that such damages, if any, would appropriately compensate us. In addition, if Drive Shack were to fail to qualify as a REIT despite its reasonable best efforts, we would have no claim against Drive Shack.

Our failure to qualify as a REIT would cause our stock to be delisted from the NYSE.

The NYSE requires, as a condition to the listing of our shares, that we maintain our REIT status. Consequently, if we fail to maintain our REIT status, our shares would promptly be delisted from the NYSE, which would decrease the trading activity of such shares. This could make it difficult to sell shares and would likely cause the market volume of the shares trading to decline.

If we were delisted as a result of losing our REIT status and desired to relist our shares on the NYSE, we would have to reapply to the NYSE to be listed as a domestic corporation. As the NYSE's listing standards for REITs are less onerous than its standards for domestic corporations, it would be more difficult for us to become a listed company under these heightened standards. We might not be able to satisfy the NYSE's listing standards for a domestic corporation. As a result, if we were delisted from the NYSE, we might not be able to relist as a domestic corporation, in which case our shares could not trade on the NYSE.

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

Dividends payable to domestic stockholders that are individuals, trusts and estates are generally taxed at reduced tax rates. Dividends payable by REITs, however, generally are not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock. In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to non-REIT corporate dividends, which could affect the value of our real estate assets negatively.

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

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Compliance with these requirements must be carefully monitored on a continuing basis, and there can be no assurance that our Manager's personnel responsible for doing so will be able to successfully monitor our compliance.

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

We generally must distribute annually at least 90% of our REIT taxable income, excluding any net capital gain, in order for corporate income tax not to apply to earnings that we distribute. We intend to make distributions to our stockholders to comply with the REIT requirements of the Code. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the 90% distribution requirement of the Code. Certain of our assets may generate substantial mismatches between taxable income and available cash. As a result, the requirement to distribute a substantial portion of our REIT taxable income could cause us to: (i) sell assets in adverse market conditions; (ii) borrow on unfavorable terms; (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt; or (iv) make taxable distributions of our capital stock or debt securities in order to comply with REIT requirements. Further, amounts distributed will not be available to fund investment activities. If we fail to obtain debt or equity capital in the future, it could limit our ability to satisfy our liquidity needs, which could adversely affect the value of our common stock.

We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay distributions to our stockholders.

As a REIT, we are generally required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and not including net capital gain) each year to our stockholders. To qualify for the tax benefits accorded to REITs, we intend to make distributions to our stockholders in amounts such that we distribute an amount at least equal to all or substantially all of our REIT taxable income each year, subject to certain adjustments. However, our ability to make distributions may be adversely affected by the risk factors described herein.

The stock ownership limit imposed by the Code for REITs and our certificate of incorporation may inhibit market activity in our stock and restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year after our first taxable year. Our certificate of incorporation, with certain exceptions, authorizes our board of directors to take the actions that are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 9.8% of the aggregate value of our outstanding capital stock, treating classes and series of our stock in the aggregate. Our board of directors may grant an exemption in its sole discretion, subject to such conditions, representations and undertakings as it may determine in its sole discretion. These ownership limits could delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

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

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Moreover, if a REIT distributes less than 85% of its ordinary income, 95% of its capital gain net income plus any undistributed shortfall from prior year ("Required Distribution") to its stockholders during any calendar year (including any distributions declared by the last day of the calendar year but paid in the subsequent year), then it is required to pay an excise tax on 4% of any shortfall between the Required Distribution and the amount that was actually distributed. Any of these taxes would decrease cash available for distribution to our stockholders. In addition, our TRS will be subject to corporate level income tax at regular rates.

Complying with the REIT requirements may negatively impact our investment returns or cause us to forego otherwise attractive opportunities, liquidate assets or contribute assets to the TRS.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. As a result of these tests, we may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, forego otherwise attractive investment opportunities, liquidate assets in adverse market conditions or contribute assets to a

TRS that is subject to regular corporate federal income tax. Our ability to acquire investments will be subject to the applicable REIT qualification tests, and we may have to hold these interests through our TRS, which would negatively impact our returns from these assets. In general, compliance with the REIT requirements may hinder our ability to make and retain certain attractive investments.

Complying with the REIT requirements may limit our ability to hedge effectively.

The existing REIT provisions of the Code may substantially limit our ability to hedge our operations because a significant amount of the income from those hedging transactions is likely to be treated as non-qualifying income for purposes of both REIT gross income tests. In addition, we must limit our aggregate income from non-qualified hedging transactions, from our provision of services and from other non-qualifying sources, to less than 5% of our annual gross income (determined without regard to gross income from qualified hedging transactions). As a result, we may have to limit our use of certain hedging techniques or implement those hedges through total return swaps. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur or could increase the cost of our hedging activities. If we fail to comply with these limitations, we could lose our REIT qualification for U.S. federal income tax purposes, unless our failure was due to reasonable cause, and not due to willful neglect, and we meet certain other technical requirements. Even if our failure were due to reasonable cause, we might incur a penalty tax.

Distributions to tax-exempt investors may be classified as unrelated business taxable income.

Neither ordinary nor capital gain distributions with respect to our stock nor gain from the sale of stock should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

- part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as unrelated business taxable income if shares of our stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income; and
- part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the stock.

The tax on prohibited transactions will limit our ability to engage in certain transactions which would be treated as prohibited transactions for U.S. federal income tax purposes.

Net income that we derive from a prohibited transaction is subject to a 100% tax. The term “prohibited transaction” generally includes a sale or other disposition of property that is held primarily for sale to customers in the ordinary course of our trade or business. We might be subject to this tax if we were to dispose of our property in a manner that was treated as a prohibited transaction for U.S. federal income tax purposes.

We generally intend to conduct our operations so that no significant asset that we own (or are treated as owning) will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. As a result, we may choose not to engage in certain sales at the REIT level, even though the sales might otherwise be beneficial to us. In addition, whether property is held “primarily for sale to customers in the ordinary course of a trade or business” depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% prohibited transaction tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to prevent prohibited transaction characterization.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT.

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in us. The U.S. federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in U.S. federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

Liquidation of assets may jeopardize our REIT qualification or create additional tax liability for us.

To qualify as a REIT, we must comply with requirements regarding the composition of our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

The lease of our properties to a TRS is subject to special requirements.

Under the provisions of RIDEA, we currently lease certain “qualified healthcare properties” (which generally include assisted living properties but not independent living properties) to our TRS (or a limited liability company of which the TRS is a member). The TRS, in turn, contracts with a third party operator to manage the healthcare operations at these properties. The rents paid by the TRS in this structure will be treated as qualifying rents from real property for purposes of the REIT requirements only if (i) they are paid pursuant to an arm’s-length lease of a qualified healthcare property and (ii) the operator qualifies as an “eligible independent contractor” with respect to the property. An operator will qualify as an eligible independent contractor if it meets certain ownership tests with respect to us, and if, at the time the operator enters into the property management agreement, the operator is actively engaged in the trade or business of operating qualified healthcare properties for any person who is not a related person to us or the TRS. If any of the above conditions were not satisfied, then the rents would not be considered income from a qualifying source for purposes of the REIT rules, which could cause us to incur penalty taxes or to fail to qualify as a REIT.

RISKS RELATED TO OUR COMMON STOCK

There can be no assurance that the market for our stock will provide you with adequate liquidity, which may make it difficult for you to sell the common stock when you want or at prices you find attractive.

The market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control. These factors include, without limitation:

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

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

Your percentage ownership in our Company may be diluted in the future.

Your percentage ownership in our Company may be diluted in the future because of equity awards that we expect will be granted to our Manager, to the directors, officers and employees of our Manager who perform services for us, and to our directors, officers and employees, as well as other equity instruments such as debt and equity financing. Our board of directors has approved a Nonqualified Stock Option and Incentive Award Plan (the “Plan”) providing for the grant of equity-based awards, including restricted stock, stock options, stock appreciation rights, performance awards, tandem awards and other equity-based and non-equity based awards, in each case to our Manager, to the directors, officers, employees, service providers, consultants and advisors of our Manager who perform services for us, and to our directors, officers, employees, service providers, consultants and advisors. We have reserved shares of our common stock for issuance under the Plan. On the first day of each fiscal year beginning during the ten-year term of the Plan and beginning with calendar year 2015, that number will be increased by a number of shares of our common stock equal to 10% of the number of shares of our common stock newly issued by us during the immediately preceding fiscal year. Upon the successful completion of an offering of our common stock by us, we will issue to our Manager options (including cash-settled options) equal to 10% of the number of shares sold in the offering. Our board of directors may also determine to issue options to the Manager that are not subject to the Plan, provided that the number of shares underlying any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to NYSE rules.

We may incur or issue debt or issue equity, which may negatively affect the market price of our common stock.

We may in the future incur or issue debt or issue equity or equity-related securities. Upon our liquidation, lenders and holders of our debt and holders of our preferred stock (if any) would receive a distribution of our available assets before common stockholders. Any future incurrence or issuance of debt would increase our interest cost and could adversely affect our results of operations and cash flows. We are not required to offer any additional equity securities to existing common stockholders on a preemptive basis. Therefore, additional issuances of common stock, directly or through convertible or exchangeable securities (including limited partnership interests in our operating partnership), warrants or options, will dilute the holdings of our existing common stockholders and such issuances, or the perception of such issuances, may reduce the market price of our common stock. Any preferred stock issued by us would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common stockholders. Because our decision to incur or issue debt or issue equity or equity-related securities in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, nature or success of our future capital raising efforts. Thus, common stockholders bear the risk that our future incurrence or issuance of debt or issuance of equity or equity-related securities will adversely affect the market price of our common stock.

We have not established a minimum distribution payment level, and we cannot assure you of our ability to maintain our current distribution payment level or to pay any distributions in the future.

Our board of directors is reviewing our dividend policy and has not established a minimum distribution payment level. Our cash flows from operating activities, less capital expenditures and principal payments on our debt (which are scheduled to increase meaningfully in May 2017), have been, and continue to be, less than the amount of distributions to our shareholders. We have funded the shortfall using cash on hand, and our board of directors may determine that it is not prudent to continue to do so. Any such decision would result in a reduction to our current distribution payment level.

Any decision by our board of directors to declare a distribution is based upon a number of factors, including our results of operations, financial condition and liquidity projections, restrictions under Delaware law or any applicable debt covenants, our taxable income, the annual distribution requirements under the REIT provisions of the Code, and other factors our board of directors deems relevant. Cash available for distributions could be affected negatively if we sell assets that generate cash flow and do not concurrently reinvest in assets with at least the same cash yield, as well as other factors described under Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources” and Item 7A., “Quantitative and Qualitative Disclosures About Market Risk.” Our board of directors takes these and other factors into account as part of any decision to pay a dividend, and the timing and amount of any future dividend is subject to change at the discretion of our board of directors.

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

We may in the future choose to pay dividends in our own stock, in which case you could be required to pay income taxes in excess of the cash dividends you receive.

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

It is unclear whether and to what extent we will be able to pay taxable dividends in cash and stock in later years. Moreover, various aspects of such a taxable cash/stock dividend are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/stock dividends have not been met.

An increase in market interest rates may have an adverse effect on the market price of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell shares of our common stock is our distribution rate as a percentage of our share price relative to market interest rates. If the market price of our common stock is based primarily on the earnings and return that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions will likely affect the market price of our common stock. For instance, if market interest rates rise without an increase in our distribution rate, the market price of our common stock could decrease as potential investors may require a higher distribution yield on our common stock or seek other securities paying higher distributions or interest. In addition, rising interest rates would result in increased interest expense on our floating rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay distributions.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the trading price of our common stock.

Our certificate of incorporation, bylaws and Delaware law contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the raider and to encourage prospective acquirers to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include, among others:

- a classified board of directors with staggered three-year terms;
- amendment of provisions in our certificate of incorporation and bylaws regarding the election of directors, classes of directors, the term of office of directors, the filling of director vacancies and the resignation and removal of directors only upon the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote thereon;
- amendment of provisions in our certificate of incorporation regarding corporate opportunity only upon the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote thereon;
- removal of directors only for cause and only with the affirmative vote of at least 80% of the then issued and outstanding shares of our capital stock entitled to vote in the election of directors;
- our board of directors to determine the powers, preferences and rights of our preferred stock and to issue such preferred stock without stockholder approval;
- advance notice requirements applicable to stockholders for director nominations and actions to be taken at annual meetings; and
- a prohibition, in our certificate of incorporation, stating that no holder of shares of our common stock will have cumulative voting rights in the election of directors, which means that the holders of a majority of the issued and outstanding shares of common stock can elect all the directors standing for election.

Public stockholders who might desire to participate in these types of transactions may not have an opportunity to do so, even if the transaction is considered favorable to stockholders. These anti-takeover provisions could substantially impede the ability of public stockholders to benefit from a change in control or a change in our management and board of directors and, as a result, may adversely affect the market price of our common stock and stockholders' ability to realize any potential change of control premium.

ERISA may restrict investments by plans in our common stock.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our direct investments in senior housing are described under “Business - Our Portfolio.”

Our Manager leases principal executive and administrative offices located at 1345 Avenue of the Americas, New York, New York 10105.

We maintain our properties in good condition and believe that our current facilities are adequate to meet the present needs of our business. We do not believe any individual property is material to our financial condition or results of operations.

ITEM 3. LEGAL PROCEEDINGS

We are and may become involved in legal proceedings, including regulatory investigations and inquiries, in the ordinary course of our business. Although we are unable to predict with certainty the eventual outcome of any litigation, regulatory investigation or inquiry, in the opinion of management, we do not expect our current and any threatened legal proceedings to have a material adverse effect on our financial position or results of operations. Given the inherent unpredictability of these types of proceedings, however, it is possible that future adverse outcomes could have a material adverse effect on our financial results.

On December 30, 2016, John Cumming, a purported stockholder of the Company, filed a purported derivative complaint in the Delaware Court of Chancery against Wesley R. Edens, Susan Givens, Virgis W. Colbert, Michael D. Malone, Stuart A. McFarland, Cassia van der Hoof Holstein, FIG LLC (“FIG”), Fortress Operating Entity I LP (“FOE I”), FIG Corporation (“FIG Corp.”), Holiday Acquisition Holdings LLC (“Holiday”), Fortress Investment Group LLC (“Fortress”), and nominal defendant New Senior Investment Group, Inc. (the “Complaint”). The action is captioned Cumming v. Edens, et al, C.A. No. 13007-VCS. The Complaint alleges that the defendants caused the Company to acquire a portfolio of senior-living properties from Holiday Retirement in violation of their fiduciary duties. Specifically, the Complaint alleges that the Company's board of directors and Fortress breached their fiduciary duties of care and loyalty; that defendant Susan Givens breached her fiduciary duties of care and loyalty in her capacity as an officer of the Company; and that defendants Fortress, Holiday, FIG, FOE I, and FIG Corp. aided and abetted these breaches. The lawsuit seeks declaratory relief, equitable relief and damages. The defendants intend to move to dismiss the Complaint.

ITEM 4. MINE SAFETY DISCLOSURES

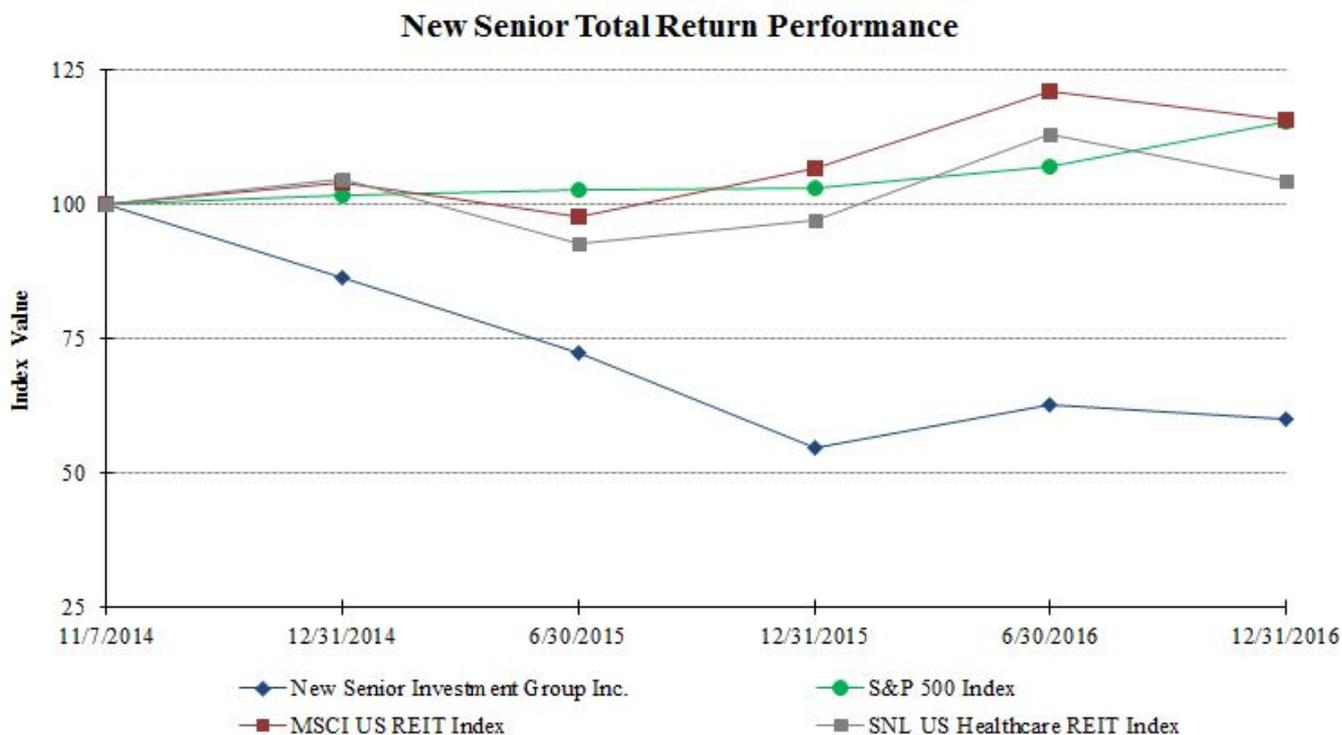
None.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PERFORMANCE GRAPH

The following graph compares the cumulative total return for our shares (stock price change plus reinvested dividends) with the comparable return of three indices: S&P 500 Index, MSCI US REIT Index and SNL US REIT Healthcare Index. The graph assumes an investment of \$100 in the Company's shares and in each of the indices on November 7, 2014, and that all dividends were reinvested. The past performance of our shares is not an indication of future performance.



Index	Period Ending					
	11/07/14	12/31/14	06/30/15	12/31/15	06/30/16	12/31/16
New Senior Investment Group Inc.	100.00	86.42	72.44	54.93	62.65	60.17
S&P 500 Index	100.00	101.64	102.90	103.05	107.00	115.38
MSCI US REIT Index	100.00	104.12	97.67	106.74	121.21	115.92
SNL US REIT Healthcare Index	100.00	104.84	92.69	97.21	113.13	104.43

We have one class of common stock which trades on the NYSE under the trading symbol “SNR.” A “when-issued” trading market for our common stock on the NYSE began on October 27, 2014 and “regular-way” trading of our common stock began on November 7, 2014. Prior to October 27, 2014, there was no public market for our common stock. The following table sets forth, for the periods indicated, the high, low and last sale prices on the NYSE for our common stock and the distributions we declared with respect to the periods indicated.

2016	High	Low	Last Sale	Distributions Declared
First Quarter	\$ 10.51	\$ 8.27	\$ 10.30	\$ 0.26
Second Quarter	11.55	9.85	10.68	0.26
Third Quarter	12.52	10.90	11.54	0.26
Fourth Quarter	11.31	9.06	9.79	0.26
2015				
First Quarter	\$ 17.65	\$ 16.25	\$ 16.63	\$ —
Second Quarter	16.72	13.24	13.37	0.49
Third Quarter	13.75	9.95	10.46	—
Fourth Quarter	11.53	8.68	9.86	0.26

We have not established a minimum distribution payment level, and we cannot assure you of our ability to pay distributions in the future. Our board of directors is reviewing our dividend policy and has not established a minimum distribution payment level. Our cash flows from operating activities, less capital expenditures and principal payments (which are scheduled to increase meaningfully in May 2017), have been, and continue to be, less than the amount of distributions to our shareholders. We have funded the shortfall using cash on hand and, our board of directors may determine that it is not prudent to continue to do so. Any such decision would result in a reduction to our current distribution payment level. See Part I, Item IA. “Risk Factors-We have not established a minimum distribution payment level, and we cannot assure you of our ability to maintain our current distribution payment level or to pay any distributions in the future.”

On December 31, 2016, the closing sale price for our common stock, as reported on the NYSE, was \$9.79. As of December 31, 2016, there were approximately 35 record holders of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

Share Repurchases

On December 17, 2015, our board of directors authorized us to commence a modified “Dutch auction” self-tender offer (“Tender Offer”) to repurchase up to \$30.0 million in cash of shares of our common stock. On January 19, 2016, the Tender Offer expired, and we subsequently incurred approximately \$30.9 million, including transaction costs, to repurchase 3.3 million shares of our common stock. See Note 13 to the consolidated financial statements for further information related to the Tender Offer.

Set forth below is information regarding our stock repurchases during the year ended December 31, 2016:

Period	Total Number of Shares (or Units) Purchased (#)	Average Price Paid per Share (or Unit) (\$)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (#)	Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (\$)
First Quarter	3,333,333	\$ 9.00	3,333,333	\$ —
Second Quarter	—	—	—	—
Third Quarter	—	—	—	—
Fourth Quarter	—	—	—	—
Total stock repurchases	3,333,333	\$ 9.00	3,333,333	\$ —

Nonqualified Stock Option and Incentive Award Plan

The Plan provides for the grant of equity-based awards including restricted stock, stock options, stock appreciation rights, performance awards, tandem awards and other equity-based and non-equity based awards, in each case to the Manager, and to the directors, officers, employees, service providers, consultants and advisors of the Manager who perform services for New Senior and to New Senior's directors, officers, service providers, consultants and advisors. See Note 13 to the consolidated financial statements for information related to our Nonqualified Stock Option and Incentive Award Plan.

The following table summarizes the total number of outstanding securities in the Plan and the number of securities remaining for future issuance, as well as the weighted average strike price of all outstanding securities as of December 31, 2016.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (A)	Weighted Average Strike Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under the Plan (B)
Equity compensation plans approved by security holders:			
Nonqualified stock option and incentive award plan	2,036,409	\$ 12.80	27,949,192
Total approved	2,036,409	\$ 12.80	27,949,192

(A) The number of securities to be issued upon exercise of outstanding options does not include 5,241,945 options (net of expired and exercised options) that were converted into New Senior options at the spin-off. The options in the table include 5,000 options granted to a non-employee director in 2016, 2,011,409 options granted to the Manager in connection with the public equity offering in June 2015 and 20,000 options granted to non-employee directors in 2014. See Note 13 to the consolidated financial statements for additional information.

(B) No awards shall be granted on or after November 6, 2024 (but awards granted may be exercised beyond this date). The number of securities remaining available for future issuance is net of an aggregate of 14,399 shares of our common stock issued to directors as compensation.

Equity Compensation Plans Not Approved by Security Holders

None.

ITEM 6. SELECTED FINANCIAL DATA

Our initial acquisition of senior care facilities on July 18, 2012 was accounted for as a business combination which gave rise to a new basis of accounting. Activities prior to and including July 17, 2012 are referred to as the “Predecessor” period and are prepared on a combined basis. Activities on and after July 18, 2012 are referred to as the “Successor” period and are prepared on a consolidated basis. The financial data as of and for the years ended December 31, 2016, 2015 and 2014 has been derived from our audited financial statements for those dates included elsewhere in this Form 10-K. The financial data for the year ended December 31, 2013, the period from July 18, 2012 to December 31, 2012 and the period from January 1, 2012 to July 17, 2012 has been derived from our audited financial statements that are not included in this Form 10-K. The financial data as of December 31, 2012 has been derived from our historical consolidated and combined financial statements that are not included in this Form 10-K. The selected financial data provided below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our historical consolidated and combined financial statements and related notes.

We applied acquisition accounting as of July 18, 2012 in connection with the acquisition of the initial portfolio of senior housing properties by Drive Shack. As a result, the financial data for the Successor periods is not comparable to that of our Predecessor.

Operating results for the periods presented are not necessarily indicative of the results that may be expected for any future period. The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

Operating Data

(dollars in thousands, except share data)	Successor				Period from July 18, 2012 to December 31, 2012	Predecessor Period from January 1, 2012 to July 17, 2012
	Year Ended December 31,					
	2016	2015	2014	2013		
Revenues						
Resident fees and services	\$ 359,472	\$ 277,324	\$ 156,993	\$ 83,218	\$ 18,000	\$ 19,680
Rental revenue	112,966	111,154	97,992	1,918	—	—
Total revenues	472,438	388,478	254,985	85,136	18,000	19,680
Expenses						
Property operating expense	243,027	189,543	112,242	59,726	13,011	13,778
Depreciation and amortization	184,546	160,318	103,279	26,933	5,784	1,203
Interest expense	91,780	75,021	57,026	10,589	1,767	2,534
Acquisition, transaction, and integration expense	3,942	13,444	14,295	13,294	6,037	—
Management fees and incentive compensation to affiliate	18,143	14,279	8,470	1,796	464	—
General and administrative expense	15,194	15,233	7,416	2,188	274	20
Loss on extinguishment of debt	245	5,091	—	—	—	—
Other expense (income)	727	1,629	(1,500)	—	—	—
Total expenses	557,604	474,558	301,228	114,526	27,337	17,535
Gain on sale of real estate	13,356	—	—	—	—	—
(Loss) Income Before Income Taxes	(71,810)	(86,080)	(46,243)	(29,390)	(9,337)	2,145
Income tax expense (benefit)	439	(3,655)	160	656	150	—
Net (Loss) Income	\$ (72,249)	\$ (82,425)	\$ (46,403)	\$ (30,046)	\$ (9,487)	\$ 2,145
(Loss) income per share of common stock, basis and diluted	\$ (0.88)	\$ (1.08)	\$ (0.70)	\$ (0.45)	\$ (0.14)	\$ 0.03
Weighted average number of shares of common stock outstanding, basic and diluted	82,357,349	76,601,161	66,400,914	66,399,857	66,399,857	66,399,857

Dividends declared per share of
common stock

\$	1.04	\$	0.75	\$	0.23	\$	—	\$	—	\$	—
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Cash Flow Data

(dollars in thousands)	Successor				Predecessor	
	Year Ended December 31,					Period from
	2016	2015	2014	2013	July 18, 2012 to December 31, 2012	Period from January 1, 2012 to July 17, 2012
Net cash provided by (used in):						
Operating activities	\$ 99,299	\$ 69,502	\$ 46,611	\$ 42,532	\$ (1,486)	\$ 3,076
Investing activities	(279)	(1,277,278)	(331,858)	(1,253,174)	(44,411)	(251)
Financing activities	(157,853)	1,098,280	481,231	1,231,315	55,617	(2,955)

Balance Sheet Data

(dollars in thousands)	December 31,				
	2016	2015	2014	2013	2012
Total assets	\$ 2,821,728	\$ 3,017,459	\$ 1,966,159	\$ 1,507,616	\$ 194,080
Total mortgage notes payable, net	2,130,387	2,151,317	1,223,224	1,035,193	118,275
Total liabilities	2,242,833	2,250,134	1,317,623	1,099,781	124,376
Total equity	578,895	767,325	648,536	407,835	69,704

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations is intended to help the reader understand the results of operations and financial condition of New Senior. The following should be read in conjunction with the unaudited consolidated financial statements and notes thereto included within this Annual Report on Form 10-K. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those included in Part I, Item 1A "Risk Factors."

OVERVIEW

Our Business

We are a REIT primarily focused on investing in private pay senior housing properties. As of December 31, 2016, we owned a diversified portfolio of 152 primarily private pay senior housing properties located across 37 states. We are listed on the NYSE under the symbol "SNR" and are headquartered in New York, New York.

We conduct our business through two reportable segments: Managed Properties and Triple Net Lease Properties. See our consolidated financial statements and the related notes included in Part II, Item 8.

We are externally managed and advised by an affiliate of Fortress (the "Manager") on various aspects of our business and our operations, subject to the supervision of our board of directors. For its services, the Manager is entitled to an annual management fee and is eligible for incentive compensation upon the satisfaction of certain performance thresholds, both as defined in, and in accordance with the terms of, the Management Agreement.

Acquisitions

For a discussion of acquisitions, see Part I, Item 1 - "Business—Acquired Properties."

MARKET CONSIDERATIONS

Senior housing is a \$300 billion market, and ownership of senior housing assets is highly fragmented. Given these industry fundamentals and compelling demographics that are expected to drive increased demand for senior housing, we believe the senior housing industry presents attractive investment opportunities.

However, increased competition from other buyers of senior housing assets, as well as liquidity constraints and other factors, could impair our ability to source attractive investment opportunities. New construction, as well as increased availability and popularity of home health care or other alternatives to senior housing, could impair the value of our existing portfolio by hampering occupancy and rate growth, along with increasing operating expenses. However, NIC is projecting senior housing occupancy to be stable in 2017.

As a public company, our access to debt and equity capital depends, in part, on the trading price of our common stock, which, in turn, depends upon market conditions that change from time to time, such as the market's perception of our financial condition, our growth potential and our historical and future earnings and cash distributions.

Our senior housing acquisitions completed to date have been financed with a combination of fixed and floating rate debt and cash on hand.

An increase in interest rates would increase the cost of our floating rate financings.

RESULTS OF OPERATIONS

Comparability of Information

Prior to November 7, 2014 we did not operate as a separate, standalone entity, and our results of operations were prepared on a spin-off basis from the consolidated financial statements and accounting records of Drive Shack and reflected Drive Shack's basis in the acquired properties. Management believes that the assumptions and methods of allocation used in our results of operations are reasonable.

Segment Overview

We evaluate our business operations and allocate resources based on two segments: (i) Managed Properties and (ii) Triple Net Lease Properties. Under our Managed Properties segment, we own 94 properties under property management agreements with the Property Managers. Under our Triple Net Lease Properties segment, we lease 58 of our properties under four triple net master leases.

We evaluate performance of these reportable business segments based on segment net operating income ("NOI"). We consider NOI as an important supplemental measure used to evaluate the operating performance of our segments because it allows investors, analysts and our management to assess our unleveraged property-level operating results and to compare our operating results between periods and to the operating results of other real estate companies on a consistent basis. We define NOI as total revenue less property operating expense.

Our Managed Properties segment is comprised of primarily independent living and assisted living senior housing properties that are operated by property managers to whom we pay a management fee. Our Triple Net Lease Properties segment comprises senior housing properties leased on a long-term basis, and our tenants are typically responsible for bearing property-related expenses including maintenance, utilities, taxes, insurance, repairs, capital improvements and the payroll expense of property-level employees. Interest expense, depreciation and amortization, general and administrative expense, acquisition, transaction and integration expense, management fees and incentive compensation to affiliate, income tax expense (benefit), gain on sale of real estate and other expense (income) are not allocated to individual segments for purposes of assessing segment performance. Because of such differences in our exposure to property operating results, each segment requires a different type of management focus. As such, these segments are managed separately. In deciding how to allocate resources and assess performance, our chief operating decision maker regularly evaluates the performance of our reportable segments on the basis of NOI.

Year ended December 31, 2016 compared to the year ended December 31, 2015

The following table sets forth our historical results of operations derived from our audited consolidated financial statements included in Part II, Item 8.

(dollars in thousands)	Year Ended December 31,		Increase (Decrease)	
	2016	2015	Amount	Percentage
Revenues				
Resident fees and services	\$ 359,472	\$ 277,324	\$ 82,148	29.6 %
Rental revenue	112,966	111,154	1,812	1.6 %
Total revenues	472,438	388,478	83,960	21.6 %
Expenses				
Property operating expense	243,027	189,543	53,484	28.2 %
Depreciation and amortization	184,546	160,318	24,228	15.1 %
Interest expense	91,780	75,021	16,759	22.3 %
Acquisition, transaction and integration expense	3,942	13,444	(9,502)	(70.7 %)
Management fees and incentive compensation to affiliate	18,143	14,279	3,864	27.1 %
General and administrative expense	15,194	15,233	(39)	(0.3 %)
Loss on extinguishment of debt	245	5,091	(4,846)	(95.2 %)
Other expense	727	1,629	(902)	(55.4 %)
Total expenses	557,604	474,558	83,046	17.5 %
Gain on sale of real estate	13,356	—	13,356	NM
Loss before income taxes	(71,810)	(86,080)	14,270	16.6 %
Income tax expense (benefit)	439	(3,655)	4,094	NM
Net loss	\$ (72,249)	\$ (82,425)	\$ 10,176	12.3 %

NM – Not meaningful

The following table provides a comparison of the results of operations of our segments:

(dollars in thousands)	Year Ended December 31,		Increase (Decrease)	
	2016	2015	Amount	Percentage
Managed Properties				
Resident fees and services	\$ 359,472	\$ 277,324	\$ 82,148	29.6 %
Property operating expense	243,027	189,543	53,484	28.2 %
Segment NOI for Managed Properties	116,445	87,781	28,664	32.7 %
Triple Net Lease Properties				
Rental revenue	112,966	111,154	1,812	1.6 %
Segment NOI for Triple Net Lease Properties	\$ 112,966	\$ 111,154	\$ 1,812	1.6 %

The following table provides a reconciliation of our segment NOI to net loss, and compares the results of operations for the respective periods:

(dollars in thousands)	Year Ended December 31,		Increase (Decrease)	
	2016	2015	Amount	Percentage
Total revenue	\$ 472,438	\$ 388,478	\$ 83,960	21.6 %
Segment NOI for Managed Properties	116,445	87,781	28,664	32.7 %
Segment NOI for Triple Net Lease Properties	112,966	111,154	1,812	1.6 %
Total Segment NOI	229,411	198,935	30,476	15.3 %
Expenses				
Depreciation and amortization	184,546	160,318	24,228	15.1 %
Interest expense	91,780	75,021	16,759	22.3 %
Acquisition, transaction and integration expense	3,942	13,444	(9,502)	(70.7 %)
Management fees and incentive compensation to affiliate	18,143	14,279	3,864	27.1 %
General and administrative expense	15,194	15,233	(39)	(0.3 %)
Loss on extinguishment of debt	245	5,091	(4,846)	(95.2 %)
Other expense	727	1,629	(902)	(55.4 %)
Total expenses	314,577	285,015	29,562	10.4 %
Gain on sale of real estate	13,356	—	13,356	NM
Loss before income taxes	(71,810)	(86,080)	14,270	16.6 %
Income tax expense (benefit)	439	(3,655)	4,094	NM
Net loss	\$ (72,249)	\$ (82,425)	\$ 10,176	12.3 %

NM – Not meaningful

Managed Properties

We had 94 properties under the Managed Properties segment as of December 31, 2016. We accounted for each acquisition under the acquisition method, whereby all assets acquired and liabilities assumed are recognized at their acquisition-date fair value with acquisition-related costs being expensed as incurred. The results of operations from the acquisitions are reflected in our consolidated financial statements from the date of the respective acquisition.

	As of and for the year ended December 31,	
	2016	2015
Total properties	94	96
Total beds	11,440	11,544
Average occupancy rate	88.0 %	86.6 %

Same store information, as used herein, is defined as information for 39 properties owned for the entirety of the comparable periods, which excludes properties classified as held for sale as of December 31, 2016. The following table presents same store segment NOI, segment NOI for non-same store properties and total segment NOI:

(dollars in thousands)	Year Ended December 31,		Increase (Decrease)	
	2016	2015	Amount	Percentage
Resident fees and services	\$ 170,668	\$ 169,393	\$ 1,275	0.8 %
Property operating expense	126,656	122,698	3,958	3.2 %
Same Store Segment NOI	44,012	46,695	(2,683)	(5.7 %)
Segment NOI for non-same store properties	72,433	41,086	31,347	76.3 %
Total Segment NOI	\$ 116,445	\$ 87,781	\$ 28,664	32.7 %

Resident fees and services

Resident fees and services primarily represent residents' monthly rental and care fees. Revenue from resident fees and services increased by \$82.1 million to \$359.5 million for the year ended 2016 from \$277.3 million for the year ended 2015. For the year ended 2016, resident fees and services include revenues derived from 53 properties that were acquired during 2015. The total bed count was 11,440 as of December 31, 2016. Average occupancy rates increased to 88.0% from 86.6% for the years ended 2016 and 2015, respectively.

Same store resident fees and services increased by \$1.3 million to \$170.7 million for the year ended 2016 from \$169.4 million for the year ended 2015. This increase was primarily driven by an increase in average occupancy rates on a same store basis to 85.0% from 84.1% for the years ended 2016 and 2015, respectively. The increase was partially offset by higher incentives.

Property operating expense

Property operating expense increased by \$53.5 million to \$243.0 million for the year ended 2016 from \$189.5 million for the year ended 2015. The increase was primarily due to higher labor, utilities, food, property tax (collectively an increase of approximately \$40.0 million) and other costs as a result of the additional properties that were acquired during 2015.

Property operating expense includes property management fees and travel reimbursements paid to Property Managers of \$20.8 million and \$17.0 million for the years ended 2016 and 2015, respectively.

Same store property operating expense increased by \$4.0 million to \$126.7 million for the year ended 2016 from \$122.7 million for the year ended 2015, primarily due to higher labor costs.

Segment NOI

Segment NOI increased by \$28.7 million to \$116.4 million for the year ended 2016 from \$87.8 million for the year ended 2015, or as a percent of resident fees and services, was 32.4% and 31.7%, respectively. The increase in segment NOI primarily reflects the impact of the properties that were acquired during 2015.

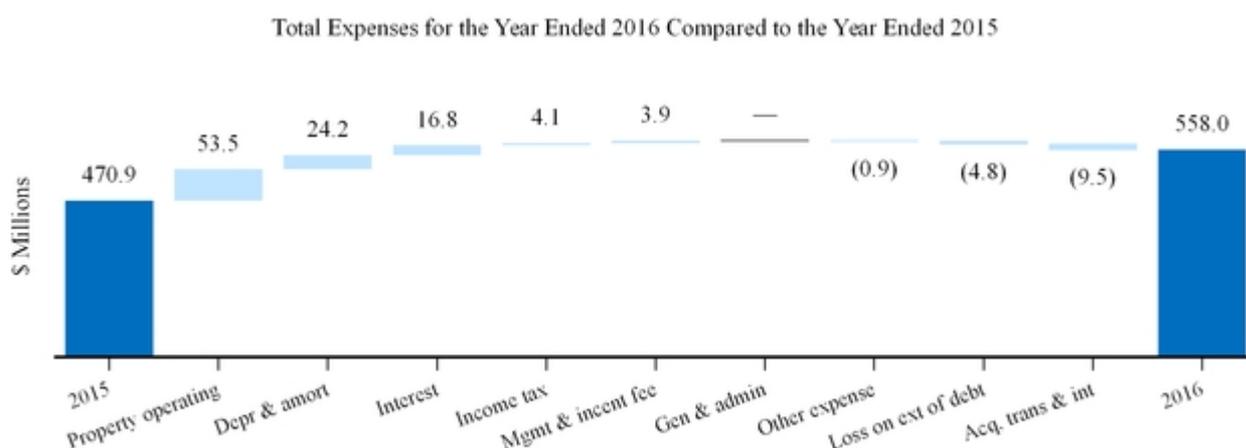
Same store segment NOI decreased by \$2.7 million to \$44.0 million for the year ended 2016 from \$46.7 million for the year ended 2015, primarily due to higher labor costs.

Triple Net Lease Properties

Rental revenue and segment NOI

Segment NOI was \$113.0 million and \$111.2 million for the years ended 2016 and 2015, respectively. The increase was due to the acquisition of a rental CCRC in the second quarter of 2015. As a percentage of rental revenue, segment NOI was 100% of revenue for each fiscal year as the lessee operates the property and bears the property-related expenses, including maintenance, utilities, taxes, insurance, repairs, capital improvements and the payroll expense of property-level employees.

Expenses



Depreciation and amortization

Depreciation and amortization expense increased by \$24.2 million to \$184.5 million for the year ended 2016 from \$160.3 million for the year ended 2015. The increase primarily represents approximately \$43.3 million related to properties that were acquired during 2015 and \$4.7 million related to measurement period adjustments (as defined in Note 3 to the consolidated financial statements) that were made based on the final valuation of net assets acquired. These increases were offset by a decrease of \$26.5 million which primarily relates to certain intangible assets becoming fully amortized.

Interest expense

Interest expense increased by \$16.8 million to \$91.8 million for the year ended 2016 from \$75.0 million for the year ended 2015. The net increase in mortgage notes payable, related to the properties that were acquired during 2015, resulted in an increase in interest expense of approximately \$17.6 million.

The weighted average effective interest rate for the years ended 2016 and 2015 was 4.15% and 4.20%, respectively.

Acquisition, transaction and integration expense

Acquisition, transaction and integration expense decreased by \$9.5 million to \$3.9 million for the year ended 2016 from \$13.4 million for the year ended 2015. The decrease primarily reflects a decrease in acquisition-related costs of approximately \$11.6 million due to no acquisitions being made during 2016, partially offset by an early termination fee of \$1.8 million paid to Blue Harbor, pursuant to the Property Management Agreement, in connection with the sale of two properties in 2016.

Management fees and incentive compensation to affiliate

Management fees and incentive compensation to affiliate expense increased by \$3.9 million to \$18.1 million for the year ended 2016 from \$14.3 million for the year ended 2015. The increase is primarily attributable to incentive compensation of approximately \$2.7 million earned by the Manager during 2016 and the equity offering in June 2015, partially offset by our repurchase of 4.4 million shares of common stock in December 2015 and January 2016.

Pursuant to the management agreement with our Manager, we pay a base management fee equal to 1.5% per annum of our gross equity, which is generally the equity invested by Drive Shack as of the completion of the spin-off from Drive Shack, plus the aggregate offering price from stock offerings, less capital distributions (calculated without regard to depreciation and amortization) and repurchases of common stock. The Manager is also eligible to receive, on a quarterly basis, incentive compensation, to the extent that the performance threshold specified in the management agreement is satisfied.

General and administrative expense

General and administrative expense was \$15.2 million for both the years ended 2016 and 2015, and primarily consists of the reimbursement to the Manager for costs incurred for tasks and other services performed by the Manager under the Management Agreement and other professional fees.

Loss on extinguishment of debt

In October 2016, we repaid \$13.7 million of floating rate debt associated with our sale of two properties and recognized a loss on extinguishment of debt of \$0.2 million.

Other expense

Other expense decreased by \$0.9 million to \$0.7 million for the year ended 2016 from \$1.6 million for the year ended 2015. The decrease primarily reflects a higher fair value loss of approximately \$0.8 million on our interest rate caps in 2015.

Income tax expense (benefit)

We are organized and conduct our operations to qualify as a REIT under the requirements of the Code. However, certain of our activities are conducted through our TRS and therefore are subject to federal and state income taxes. During the years ended 2016 and 2015, our TRS recorded approximately \$0.4 million and \$3.7 million in income tax expense and income tax benefit, respectively. Results of operations for 2015 include \$2.2 million in out of period adjustments which primarily relate to a \$2.2 million tax benefit recognized in the fourth quarter for deferred tax assets originating in our TRS which should have been recognized in prior years. We do not believe these out of period adjustments are material to our financial position or results of operations for any prior periods, nor to the year ended 2015.

Other

Gain on sale of real estate

In October 2016, the Company sold two AL/MC properties and recognized a gain on sale of \$13.4 million.

Year ended December 31, 2015 compared to the year ended December 31, 2014

The following table sets forth our historical results of operations derived from our audited consolidated financial statements included in Part II, Item 8.

(dollars in thousands)	Year Ended December 31,		Increase (Decrease)	
	2015	2014	Amount	Percentage
Revenues				
Resident fees and services	\$ 277,324	\$ 156,993	\$ 120,331	76.6 %
Rental revenue	111,154	97,992	13,162	13.4 %
Total revenues	388,478	254,985	133,493	52.4 %
Expenses				
Property operating expense	189,543	112,242	77,301	68.9 %
Depreciation and amortization	160,318	103,279	57,039	55.2 %
Interest expense	75,021	57,026	17,995	31.6 %
Acquisition, transaction and integration expense	13,444	14,295	(851)	(6.0 %)
Management fees and incentive compensation to affiliate	14,279	8,470	5,809	68.6 %
General and administrative expense	15,233	7,416	7,817	105.4 %
Loss on extinguishment of debt	5,091	—	5,091	NM
Other expense (income)	1,629	(1,500)	3,129	NM
Total expenses	474,558	301,228	173,330	57.5 %
Loss before income taxes	(86,080)	(46,243)	(39,837)	(86.1 %)
Income tax (benefit) expense	(3,655)	160	(3,815)	NM
Net loss	\$ (82,425)	\$ (46,403)	\$ (36,022)	(77.6 %)

NM – Not meaningful

The following table provides a comparison of the results of operations of our segments:

(dollars in thousands)	Year Ended December 31,		Increase (Decrease)	
	2015	2014	Amount	Percentage
Managed Properties				
Resident fees and services	\$ 277,324	\$ 156,993	\$ 120,331	76.6 %
Property operating expense	189,543	112,242	77,301	68.9 %
Segment NOI for Managed Properties	87,781	44,751	43,030	96.2 %
Triple Net Lease Properties				
Rental revenue	111,154	97,992	13,162	13.4 %
Segment NOI for Triple Net Lease Properties	\$ 111,154	\$ 97,992	\$ 13,162	13.4 %

The following table provides a reconciliation of our segment NOI to net loss, and compares the results of operations for the respective periods:

(dollars in thousands)	Year Ended December 31,		Increase (Decrease)	
	2015	2014	Amount	Percentage
Total revenue	\$ 388,478	\$ 254,985	\$ 133,493	52.4 %
Segment NOI for Managed Properties	87,781	44,751	43,030	96.2 %
Segment NOI for Triple Net Lease Properties	111,154	97,992	13,162	13.4 %
Total Segment NOI	198,935	142,743	56,192	39.4 %
Expenses				
Depreciation and amortization	160,318	103,279	57,039	55.2 %
Interest expense	75,021	57,026	17,995	31.6 %
Acquisition, transaction and integration expense	13,444	14,295	(851)	(6.0 %)
Management fees and incentive compensation to affiliate	14,279	8,470	5,809	68.6 %
General and administrative expense	15,233	7,416	7,817	105.4 %
Loss on extinguishment of debt	5,091	—	5,091	NM
Other expense (income)	1,629	(1,500)	3,129	NM
Total expenses	285,015	188,986	96,029	50.8 %
Loss before income taxes	(86,080)	(46,243)	(39,837)	(86.1 %)
Income tax expense	(3,655)	160	(3,815)	NM
Net loss	\$ (82,425)	\$ (46,403)	\$ (36,022)	(77.6 %)

NM – Not meaningful

Managed Properties

We had 96 properties under the Managed Properties segment as of December 31, 2015. We accounted for each acquisition under the acquisition method, whereby all assets acquired and liabilities assumed are recognized at their acquisition-date fair value with acquisition-related costs being expensed as incurred. The results of operations from the acquisitions are reflected in our consolidated financial statements from the date of the respective acquisition.

	As of and for the year ended December 31,	
	2015	2014
Total properties	96	43
Total beds	11,544	5,362
Average occupancy rate	86.6 %	83.5 %

Resident fees and services

Resident fees and services primarily represent residents' monthly rental and care fees. Revenue from resident fees and services increased by \$120.3 million to \$277.3 million for the year ended 2015 from \$157.0 million for the year ended 2014. For the year ended 2015, resident fees and services include revenues derived from 53 properties that were acquired during 2015. The total bed count was 11,544 as of December 31, 2015. Average occupancy rates for the years ended 2015 and 2014 were 86.6% and 83.5%, respectively.

Property operating expense

Property operating expense increased by \$77.3 million to \$189.5 million for the year ended 2015 from \$112.2 million for the year ended 2014. The increase was primarily due to increases in labor, property management fees, utilities, food and property taxes as a result of the properties that were acquired during 2015.

Property operating expense includes property management fees and travel reimbursements paid to Property Managers of \$17.0 million and \$9.7 million for the years ended 2015 and 2014, respectively.

Segment NOI

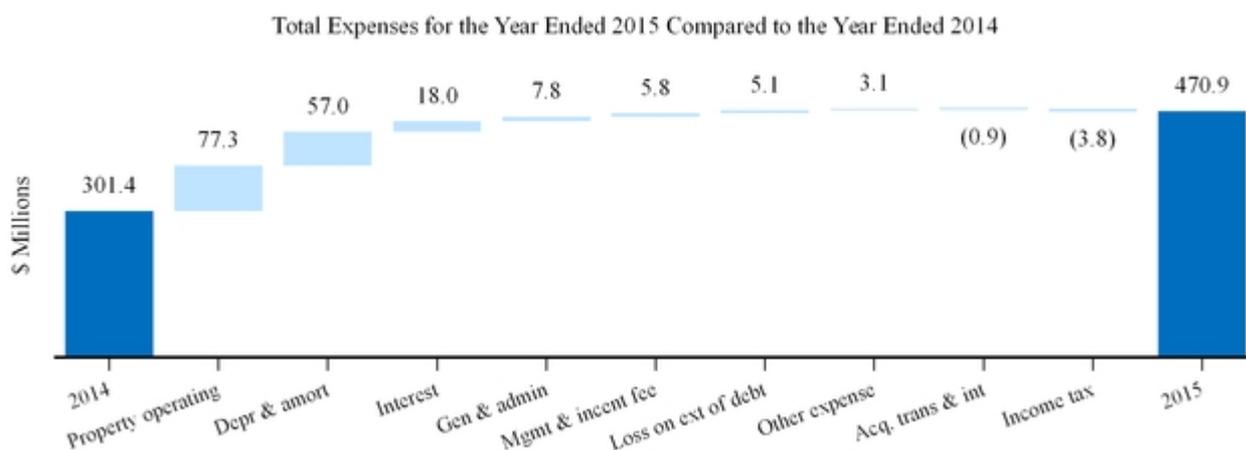
Segment NOI increased by \$43.0 million to \$87.8 million for the year ended 2015 from \$44.8 million for the year ended 2014, or as a percent of resident fees and services, was 31.7% and 28.5%, respectively. The increase in segment NOI primarily reflects the impact of the properties that were acquired during 2015.

Triple Net Lease Properties

Rental revenue and segment NOI

Segment NOI was \$111.2 million and \$98.0 million for the years ended 2015 and 2014, respectively. The increase was due to the acquisitions of the LCS portfolio in the second quarter of 2014 and a rental CCRC in the second quarter of 2015. As a percentage of rental revenue, segment NOI was 100% of revenue for each fiscal year as the lessee operates the property and bears the property-related expenses, including maintenance, utilities, taxes, insurance, repairs, capital improvements and the payroll expense of property-level employees.

Expenses



Depreciation and amortization

Depreciation and amortization expense increased by \$57.0 million to \$160.3 million for the year ended 2015 from \$103.3 million for the year ended 2014. The increase primarily reflects the impact of the properties that were acquired during 2015.

Interest expense

Interest expense increased by \$18.0 million to \$75.0 million for the year ended 2015 from \$57.0 million for the year ended 2014. We incurred \$1.2 billion in debt and repaid \$320.1 million of mortgage notes payable during 2015. The net increase in mortgage notes payable, related to the properties that were acquired during 2015, resulted in increased interest expense.

The weighted average effective interest rate for the years ended 2015 and 2014 was 4.20% and 5.00%, respectively. The period-over-period decrease primarily relates to the refinancing of \$297.0 million of mortgage loans at a lower interest rate in March 2015.

Acquisition, transaction and integration expense

Acquisition, transaction and integration expense decreased by \$0.9 million to \$13.4 million for the year ended 2015 from \$14.3 million for the year ended 2014. The decrease primarily reflects a decrease in spin-off related costs, partially offset by an increase in acquisition-related costs. Acquisition, transaction and interest expense includes \$9.3 million of spin-off related costs for the year ended 2014.

Management fees and incentive compensation to affiliate

Management fees and incentive compensation to affiliate expense increased by \$5.8 million to \$14.3 million for the year ended 2015 from \$8.5 million for the year ended 2014. The increase is primarily attributable to the equity offering in June 2015.

Pursuant to the management agreement with our Manager, we pay a base management fee equal to 1.5% per annum of our gross equity, which is generally the equity invested by Drive Shack as of the completion of the spin-off from Drive Shack, plus the aggregate offering price from stock offerings, less capital distributions (calculated without regard to depreciation and amortization) and repurchases of common stock. The Manager is also eligible to receive, on a quarterly basis, incentive compensation, to the extent that the performance threshold specified in the management agreement is satisfied.

General and administrative expense

General and administrative expense increased by \$7.8 million to \$15.2 million for the year ended 2015 from \$7.4 million for the year ended 2014. The increase was primarily driven by the reimbursement to the Manager for costs incurred for tasks and other services performed by the Manager under the Management Agreement, an increase in costs associated with becoming a standalone public company and an increase in franchise taxes due the the properties acquired during 2015.

Loss on extinguishment of debt

In March 2015, we refinanced mortgage loans of \$297.0 million at a lower interest rate and recognized a loss on extinguishment of debt of \$5.1 million.

Other expense (income)

Other expense was \$1.6 million for the year ended 2015, which primarily reflects a fair value loss on our interest rate caps and restructuring costs related to the relocation of the Plano, Texas office. Other income was \$1.5 million for the year ended 2014 which reflects a fair value adjustment to the contingent consideration attributable to a portfolio of senior housing facilities acquired in 2013.

Income tax (benefit) expense

We are organized and conduct our operations to qualify as a REIT under the requirements of the Code. However, certain of our activities are conducted through our TRS and therefore are subject to federal and state income taxes. During the years ended 2015 and 2014, our TRS recorded approximately \$3.7 million and \$0.2 million in income tax benefit and income tax expense, respectively. Results of operations for 2015 include \$2.2 million in out of period adjustments which primarily relate to a \$2.2 million tax benefit recognized in the fourth quarter for deferred tax assets originating in our TRS which should have been recognized in prior years. We do not believe these out of period adjustments are material to our financial position or results of operations for any prior periods, nor to the year ended 2015.

OUR PORTFOLIO

See Item 1, "Business - Our Portfolio" for a description of our senior housing portfolio.

TRANSACTIONS WITH AFFILIATES

Management Agreements

See Item 1, “Business - Management Agreements” and Note 11 to the consolidated financial statements for more information on the Management Agreement.

Property Management Agreements

We enter into long-term property management agreements for our managed properties. See Note 1 and Note 11 to the consolidated financial statements for information related to our property management agreements.

LIQUIDITY AND CAPITAL RESOURCES

Our principal liquidity needs are to (i) fund operating expenses, (ii) meet debt service requirements, (iii) fund recurring capital expenditures and investment activities, if applicable, and (iv) make distributions to stockholders. As of December 31, 2016, we had approximately \$58.0 million in liquidity, consisting of unrestricted cash and cash equivalents. A significant portion of this amount is held in operating accounts used to fund expenses at our managed properties.

Our principal sources of liquidity are (i) cash flows from operating activities, (ii) proceeds from acquisition financing in the form of mortgage debt, and, from time to time, (iii) proceeds from the issuance of equity securities and (iv) proceeds from dispositions of assets. Our cash flows from operating activities are primarily driven by (i) rental revenues and fees received from residents of our managed properties, and (ii) rental revenues from the tenants of our triple net lease properties, less (iii) operating expenses (primarily management fees and reimbursements to our Manager, property operating expense of our managed properties, professional fees, insurance and taxes) and (iv) interest payments on the mortgage notes payable. Our principal uses of liquidity are the expenses included in cash flows from operating activities, plus capital expenditures and principal payments on debt.

We anticipate that our cash on hand combined with our cash flows provided by operating activities will be sufficient to fund our business operations, recurring capital expenditures, principal payments, and the distributions we are required to make to comply with REIT requirements over the next twelve months. Our actual distributions to stockholders have historically been higher than the REIT distribution requirement.

Our cash flows from operating activities, less capital expenditures and principal payments (which are scheduled to increase meaningfully in May 2017), have been, and continue to be, less than the amount of distributions to our shareholders. We have funded the shortfall using cash on hand, and our board of directors may determine that it is not prudent to continue to do so. Any such decision would result in a reduction to our current distribution payment level. See Part I, Item IA. "Risk Factors-We have not established a minimum distribution payment level, and we cannot assure you of our ability to maintain our current distribution payment level or to pay any distributions in the future."

The expectations set forth above are forward-looking and subject to a number of uncertainties and assumptions, which are described below under "Factors That Could Impact Our Liquidity, Capital Resources and Capital Obligations" as well as "Risk Factors." If our expectations about our liquidity prove to be incorrect, we could be subject to a shortfall in liquidity in the future, and this shortfall may occur rapidly and with little or no notice, which would limit our ability to address the shortfall on a timely basis.

Factors That Could Impact Our Liquidity, Capital Resources and Capital Obligations

The following factors could impact our liquidity, capital resources and capital obligations:

- *Access to Financing:* Decisions by investors, counterparties and lenders to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial performance, compliance with covenant terms, industry and market trends, the availability of capital and our investors', counterparties' and lenders' policies and rates applicable thereto and the relative attractiveness of alternative investment or lending opportunities.
- *Impact of Expected Additional Borrowings or Sales of Assets on Cash Flows:* The availability and timing of and proceeds from additional borrowings may be different than expected or may not occur as expected. The timing of any sale of assets, and the proceeds from any such sales, are unpredictable and may vary materially from an asset's estimated fair value and carrying value.

- *Compliance with Debt Obligations:* Our financings subject us and our operators to a number of obligations, and a failure to satisfy certain obligations could give rise to a requirement to prepay outstanding debt or result in an event of default and the acceleration of the maturity date for repayment. We may also seek amendments to these debt covenants, and there can be no assurance that we will be able to obtain any such amendment on commercially reasonable terms, if at all.

Debt Obligations

Our mortgage notes payable contain various customary financial and other covenants, and in certain cases include a Debt Service Coverage Ratio, Project Yield or Minimum Net Worth and Liquid Assets provision, as defined in the agreements. As of December 31, 2016, we were in compliance with all of such covenants.

During 2016, we finalized an amendment to the Project Yield covenant in one financing secured by a leased portfolio. The amendment reduced the Project Yield threshold for the remaining term of the loan. In connection with this amendment, we escrowed \$11.4 million with the lender.

As noted above, our principal payments are scheduled to increase meaningfully in May 2017. For the year ended December 31, 2016, principal payments were \$16.2 million versus scheduled principal payments in 2017 of \$28.0 million. See Note 8 to the consolidated financial statements for further information related to our mortgage notes as of December 31, 2016.

Capital Expenditures

For our Managed Properties segment, we anticipate that capital expenditures will be funded through operating cash flows from the Managed Properties. During the year ended December 31, 2016, we funded \$17.2 million of capital expenditures.

With respect to our Triple Net Lease Properties segment, the terms of these arrangements typically require the tenants to fund all necessary capital expenditures in order to maintain and improve the applicable senior housing properties. To the extent that our tenants are unwilling or unable to fund these capital expenditure obligations under the existing lease arrangements, we may fund capital expenditures with additional borrowings or cash flow from the operations of these senior housing properties. We may also provide corresponding loans or advances to tenants which would increase the rent payable to us. For further information regarding capital expenditures related to our triple net lease properties, see "Contractual Obligations" below and Note 16 to the consolidated financial statements.

Cash Flows

The following table provides a summary of our cash flows:

(dollars in thousands)	Year Ended December 31,		
	2016	2015	2014
Net cash provided by (used in)			
Operating activities	\$ 99,299	\$ 69,502	\$ 46,611
Investing activities	(279)	(1,277,278)	(331,858)
Financing activities	(157,853)	1,098,280	481,231
Net (Decrease) Increase in Cash and Cash Equivalents	(58,833)	(109,496)	195,984
Cash and Cash Equivalents, Beginning of Period	116,881	226,377	30,393
Cash and Cash Equivalents, End of Period	\$ 58,048	\$ 116,881	\$ 226,377

Operating activities

Net cash provided by operating activities was \$99.3 million, \$69.5 million and \$46.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The increase of \$29.8 million from 2015 to 2016 was primarily driven by a net increase in operating cash flows generated by the properties that were acquired during 2015.

The increase of \$22.9 million from 2014 to 2015 was primarily driven by a net increase in operating cash flows generated by the properties that were acquired after December 31, 2014.

Investing activities

Net cash used in investing activities was \$0.3 million, \$1.3 billion and \$331.9 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The decrease of \$1.3 billion from 2015 to 2016 was primarily due to no acquisitions closing in 2016, whereas during 2015, we acquired 54 properties for \$1.3 billion.

The increase of \$945.4 million from 2014 to 2015 was primarily driven by relatively larger acquisitions in 2015 compared to 2014. During 2015, we acquired 54 properties for \$1.3 billion, whereas during 2014, we acquired 16 properties for \$314.9 million.

Financing activities

Net cash used in financing activities was \$157.9 million for the year ended December 31, 2016 and net cash provided by financing activities was \$1.1 billion and \$481.2 million for the years ended December 31, 2015 and 2014, respectively.

The decrease of \$1.3 billion from 2015 to 2016 was primarily due to no acquisitions closing in 2016. During 2015, we financed the acquisition of 54 properties and refinanced debt with net proceeds of approximately \$943.8 million from the issuance of mortgage debt and with net proceeds of approximately \$266.5 million from the issuance of common stock. Additionally, during 2016, we repurchased 3.3 million shares of our common stock for approximately \$30.9 million.

The increase of \$617.0 million from 2014 to 2015 was primarily driven by relatively larger acquisitions in 2015 compared to 2014. The acquisitions were financed primarily by an increase in net proceeds of \$1.1 billion from the issuance of mortgage debt and net proceeds of \$266.5 million from the issuance of common stock. These increases were partially offset by repayments and principal payments of mortgage debt of \$320.1 million, a decrease in net capital contributions of \$302.2 million from Drive Shack prior to the spin-off and dividend payments of \$70.3 million.

REIT Compliance Requirements

We are organized and conduct our operations to qualify as a REIT for U.S. federal income tax purposes. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, excluding net capital gains. We intend to pay dividends greater than all of our REIT taxable income to holders of our common stock in 2017, if, and to the extent, authorized by our board of directors. We note that a portion of this requirement may be able to be met in future years with stock dividends, rather than cash distributions, subject to limitations. We expect that our operating cash flows will exceed REIT taxable income due to depreciation and other non-cash deductions in computing REIT taxable income. However, before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our obligations. If we do not have sufficient liquid assets to enable us to satisfy the 90% distribution requirement, or if we decide to retain cash, we may sell assets, issue additional equity securities or borrow funds to make cash distributions, or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

The dividends paid to common stockholders in 2016 are considered return of capital and long-term capital gain for tax purposes.

Income Tax

We are organized and conduct our operations to qualify as a REIT under the requirements of the Code. Currently, certain of our activities are conducted through our TRS and therefore are subject to federal and state income taxes at regular corporate tax rates.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2016, we do not have any off-balance sheet arrangements. We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, special purpose or variable interest entities established to facilitate off-balance sheet arrangements. Further, we have

not guaranteed any obligations of unconsolidated entities or entered into any commitment or intend to provide additional funding to any such entities.

CONTRACTUAL OBLIGATIONS

As of December 31, 2016, we had the following material contractual obligations (dollars in thousands):

	2017 (A)	2018	2019	2020	2021	Thereafter	Total
Principal payments	\$ 28,044	\$ 32,075	\$ 31,984	\$ 33,228	\$ 32,025	\$ 52,453	\$ 209,809
Balloon payments	98,327	81,435	95,345	31,636	311,518	1,328,704	1,946,965
Total obligations (B)	<u>\$ 126,371</u>	<u>\$ 113,510</u>	<u>\$ 127,329</u>	<u>\$ 64,864</u>	<u>\$ 343,543</u>	<u>\$ 1,381,157</u>	<u>\$ 2,156,774</u>

(A) The debt agreement for the balloon payment includes an option for us to extend the payment to 2019.

(B) These amounts include only scheduled principal repayments. See Note 8 to the consolidated financial statements for further information about interest rates.

In addition to mortgage notes payable, we are a party to the Management Agreement with the Manager and property management agreements with Property Managers. See Note 16 to the consolidated financial statements for information related to our capital improvement, repair and lease commitments.

INFLATION

Our triple net leases provide for either fixed increases in base rents and/or indexed escalators, based on the CPI. In our Managed Properties segment, resident agreements are generally month to month agreements affording us the opportunity to increase prices subject to market and other conditions.

NON-GAAP FINANCIAL MEASURES

A non-GAAP financial measure is a measure of historical or future financial performance, financial position or cash flows that excludes or includes amounts that are not excluded from or included in the most comparable GAAP measure. We consider certain non-GAAP financial measures to be useful supplemental measures of our operating performance. GAAP accounting for real estate assets assumes that the value of real estate assets diminishes predictably over time, even though real estate values historically have risen or fallen with market conditions. As a result, many industry investors look to non-GAAP financial measures for supplemental information about real estate companies.

You should not consider non-GAAP measures as alternatives to GAAP net income, which is an indicator of our financial performance, or as alternatives to GAAP cash flow from operating activities, which is a liquidity measure. Additionally, non-GAAP measures are not intended to be a measure of our ability to satisfy our debt and other cash requirements. In order to facilitate a clear understanding of our consolidated historical operating results, you should examine our non-GAAP measures in conjunction with GAAP net income, cash flow from operating activities, investing activities and financing activities, as presented in our consolidated financial statements, and other financial data included elsewhere in this report. Moreover, the comparability of non-GAAP financial measures across companies may be limited as a result of differences in the manner in which real estate companies calculate such measures.

Below is a description of the non-GAAP financial measures used by our management and reconciliations of these measures to the most directly comparable GAAP measures.

Funds From Operations and Normalized Funds From Operations

We use Funds From Operations (“FFO”) and Normalized FFO as supplemental measures of our operating performance. We use the National Association of Real Estate Investment Trusts (“NAREIT”) definition of FFO. NAREIT defines FFO as GAAP net income excluding gains (losses) from sales of depreciable real estate assets and impairment charges of depreciable real estate, plus real estate depreciation and amortization, and after adjustments for unconsolidated entities and joint ventures to reflect FFO on the same basis.

Normalized FFO, as defined below, measures the financial performance of our portfolio of assets excluding items that, although incidental to, are not reflective of the day-to-day operating performance of our portfolio of assets. We believe that Normalized FFO is useful because it facilitates the evaluation of our portfolio’s operating performance (i)

between periods on a consistent basis and (ii) to the operating performance of other real estate companies. However, comparability may be limited because our calculation of NFFO may differ significantly from that of other companies.

We define Normalized FFO as FFO excluding the following income and expense items, as applicable: (a) acquisition, transaction and integration related costs and expenses; (b) the write off of unamortized discounts, premiums, deferred financing costs, or additional costs, make whole payments and penalties or premiums incurred as the result of early repayment of debt (collectively “Gain (Loss) on extinguishment of debt”); (c) incentive compensation recognized as a result of sales of property and (d) other items that we believe are not indicative of operating performance, generally reported as “Other expense (income)” in the Consolidated Statements of Operations.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”) facilitates an assessment of the operating performance of our existing portfolio of assets on an unleveraged basis by eliminating the impact of our capital structure and tax position. We define Adjusted EBITDA as Normalized FFO excluding interest and taxes.

The following table sets forth a reconciliation of net loss to FFO, Normalized FFO and Adjusted EBITDA:

(dollars in thousands)	Year Ended December 31,		
	2016	2015	2014
Net loss	\$ (72,249)	\$ (82,425)	\$ (46,403)
Gain on sale of real estate	(13,356)	—	—
Depreciation and amortization	184,546	160,318	103,279
FFO	98,941	77,893	56,876
Acquisition, transaction and integration expense	3,942	13,444	14,295
Loss on extinguishment of debt	245	5,091	—
Incentive compensation on sale of real estate (A)	2,044	—	—
Other expense (income) (B)	727	1,629	(1,500)
Normalized FFO	105,899	98,057	69,671
Interest expense	91,780	75,021	57,026
Income tax expense (benefit)	439	(3,655)	160
Adjusted EBITDA	\$ 198,118	\$ 169,423	\$ 126,857

(A) Represents incentive compensation directly related to the sale of real estate and reflects the portion of the gain on sale calculated in accordance with the Management Agreement, which differs significantly from the gain on sale as calculated under GAAP, and is included in “Management fees and incentive compensation to affiliate” in the Consolidated Statements of Operations.

(B) Primarily includes changes in the fair value of financial instruments and contingent consideration, casualty related charges and restructuring expenses.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Management’s discussion and analysis of financial condition and results of operations is based upon our historical financial statements, which have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Our estimates are based on information available to management at the time of preparation of the financial statements, including the result of historical analysis, our understanding and experience of our operations, our knowledge of the industry and market-participant data available to us.

Actual results have historically been in line with management’s estimates and judgments used in applying each of the accounting policies described below, and management periodically re-evaluates accounting estimates and assumptions. Actual results could differ from these estimates and materially impact our consolidated financial statements. However, we do not expect our assessments and assumptions below to materially change in the future.

A summary of our significant accounting policies is presented in Note 2 to our consolidated financial statements. The following is a summary of our accounting policies that are most effected by judgments, estimates and assumptions.

Revenue Recognition

Resident Fees and Services - Resident fees and services include monthly rental revenue, care income and ancillary income recognized from the Managed Properties segment. Resident fees and services are recognized monthly as services are provided. Most lease agreements with residents are cancelable by the resident with 30 days' notice. Ancillary income primarily relates to non-refundable community fees. Non-refundable community fees are recognized on a straight-line basis over the average length of stay of residents, which we estimate to be approximately 24 months for AL/MC properties and approximately 33 months for IL properties.

Acquisition Accounting

We have determined that all of our acquisitions should be accounted for under the acquisition method. The accounting for acquisitions requires the identification and measurement of all acquired tangible and intangible assets and assumed liabilities at their respective fair values, as of the respective transaction dates. The determination of the fair value of net assets acquired involves significant judgment and estimates, such as estimated future cash flow projections, appropriate discount and capitalization rates and other estimates based on available market information. Estimates of future cash flows are based on a number of factors including property operating results, known and anticipated trends, as well as market and economic conditions.

In measuring the fair value of tangible and identified intangible assets acquired and liabilities assumed, management uses information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals. In the case of real property, the fair value of the tangible assets acquired is determined by valuing the property as if it were vacant. Significant estimates impacting the measurement at fair value of our real estate property include expected future rental rates and occupancy, construction cost data and qualitative selection of comparable market transactions as well as the assessment of the relative quality and condition of our acquired properties.

Recognized intangible assets primarily include the fair value of in-place resident leases. We estimate the fair value of in-place leases as (i) the present value of the estimated rental revenue that would have been forgone, offset by variable costs that would have otherwise been incurred during a reasonable lease-up period, as if the acquired units were vacant and (ii) the estimated absorption costs, such as additional marketing costs that would have been incurred during the lease-up period. The acquisition fair value of the in-place lease intangibles is amortized over the average length of stay of the residents at the senior housing properties on a straight-line basis, which is estimated to be 24 months for AL/MC and CCRC properties and 33 months for IL properties.

Contingent consideration, if any, is measured at fair value on the date of acquisition. In subsequent reporting periods, the fair value of the contingent consideration is remeasured at each reporting date, with any change recorded in other income and expense in the Consolidated Statements of Operations.

Provision for Uncollectible Receivables

We assess the collectability of our rent receivables, including that of our straight-line rent receivable, on an ongoing basis. We base our assessment on several qualitative and quantitative factors, including and as appropriate, resident and triple net lease tenant payment history, the financial strength of the resident or tenant and of guarantors, the value of the underlying collateral or deposit, if any, and current economic conditions. If our evaluation of these factors indicates it is probable that we will not be able to recover the full value of the receivable, we provide for a specific reserve against the portion of the receivable that we estimate may not be recoverable. Any unrecovered amount adversely impacts our cash flows, liquidity and results of operations on a dollar-for-dollar basis.

Impairment of Long Lived Assets

We periodically evaluate long-lived assets, including definite lived intangible assets, primarily consisting of our real estate investments, for impairment indicators. If indicators of impairment are present, we evaluate the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying operations. In performing this evaluation, market conditions and our current intentions with respect to holding or disposing of the asset are considered. If the sum of the expected future undiscounted cash flows is less than book value, we recognize an impairment loss equal to the amount by which the asset's carrying value exceeds its fair value. An impairment loss is recognized at the time any such determination is made. No impairment loss has been recognized by us since inception.

Income Taxes

As a REIT, we are generally not subject to federal income tax on income that we distribute as dividends to our stockholders. Our determination that we qualify as a REIT is based on interpretation of tax laws and our conclusion has an impact on the measurement and recognition of income tax expense. If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates and distributions to stockholders would not be deductible by us in computing our taxable income. Failing to qualify as a REIT could materially and adversely affect our financial position, performance and liquidity.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the consolidated financial statements for information about recent accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads, foreign currency exchange rates, commodity prices and equity prices. The primary market risks that we are exposed to are interest rate risk and credit risk. These risks are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. All of our market risk sensitive assets and liabilities are for non-trading purposes only. In addition, we are exposed to liquidity risk.

Interest Rate Risk

We are exposed to market risk related to changes in interest rates on borrowings under our mortgage loans that are floating rate obligations. These market risks result primarily from changes in LIBOR or prime rates. We continuously monitor our level of floating rate debt with respect to total debt and other factors, including our assessment of current and future economic conditions.

For fixed rate debt, interest rate fluctuations generally affect the fair value, but do not impact our earnings or cash flows. Therefore, interest rate risk does not have a significant impact on our fixed rate debt obligations until such obligations mature or until we elect to prepay and refinance such obligations. If interest rates have risen at the time our fixed rate debt matures or is refinanced, our future earnings and cash flows could be adversely affected by additional borrowing costs. Conversely, lower interest rates at the time of maturity or refinancing may lower our overall borrowing costs.

For floating rate debt, interest rate fluctuations can affect the fair value, as well as earnings and cash flows. If market interest rates rise, our earnings and cash flows could be adversely affected by an increase in interest expense. In contrast, lower interest rates may reduce our borrowing costs and improve our operational results. We continuously monitor our interest rate exposure and may elect to use derivative instruments to manage interest rate risk associated with floating rate debt.

As of December 31, 2016, we had \$868.9 million of floating rate debt, representing 40.3% of our total indebtedness, with a weighted average rate of 3.16%. A 100 basis point change in interest rates would change our annual interest expense by \$8.7 million on an annualized basis.

Credit Risk

We derive a portion of our revenue from long-term triple net leases in which the minimum rental payments are fixed with scheduled periodic increases.

The properties we lease to Holiday account for a significant portion of our total revenues and net operating income, and such concentration creates credit risk. Rental revenue attributable to our triple net leases with Holiday accounted for 18.9%, 23.0% and 35.0% of our total revenues for the years ended December 31, 2016, 2015 and 2014, respectively.

We could be adversely affected if Holiday becomes unable or unwilling to satisfy its obligations to us. There is no assurance that Holiday, or our other tenants, will have sufficient assets, income and access to financing to enable it to satisfy its obligations to us.

Furthermore, the bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization that may render certain of the remedies we may have against our counterparties unenforceable, or delay our ability to pursue such remedies.

Liquidity Risk

As described further in Part I, Item IA. "Risk Factors," the following factors could affect our liquidity, access to capital resources and our capital obligations.

- Our stock price performance could impair our ability to access the capital markets, and any disruption to the capital markets or other sources of financing generally could also negatively affect our liquidity.
- Our failure to comply with the terms of our financings could result in the acceleration of the requirement to repay our indebtedness or require us to seek amendments to such agreements, which we may not be able to obtain on commercially reasonable terms, if at all.
- Real estate investments are relatively illiquid, and our ability to quickly sell or exchange our properties in response to changes in economic or other conditions is limited. In the event we desire or need to sell any of our properties, the value of those properties and our ability to sell at a price or on terms acceptable to us could be adversely affected by a downturn in the real estate industry generally, weakness in the senior housing and healthcare industries or other factors.
- Because we derive substantially all of our revenues from the operators of our triple net lease and managed properties, any inability or unwillingness by these operators to satisfy their respective obligations to us or to renew their leases with us upon expiration of the terms thereof could have a material adverse effect on our liquidity, financial condition, our ability to service our indebtedness and to make distributions to our stockholders.
- To comply with the 90% distribution requirement applicable to REITs and to avoid income and excise taxes, we must make distributions to our stockholders. Our actual distributions to stockholders have historically been higher than the REIT distribution requirement. Distributions will limit our ability to finance investments and may limit our ability to engage in transactions that are otherwise in the best interests of our stockholders. Although we do not anticipate any inability to satisfy the REIT distribution requirement, from time to time, we may not have sufficient cash or other liquid assets to do so. For example, timing differences between the actual receipt of income and actual payment of deductible expenses, on the one hand, and the inclusion of that income and deduction of those expenses in arriving at our taxable income, on the other hand, or non-deductible expenses such as principal amortization or repayments or capital expenditures in excess of non-cash deductions may cause us to fail to have sufficient cash or liquid assets to enable us to satisfy the 90% distribution requirement. In the event that timing differences occur or we decide to retain cash or to distribute such greater amount as may be necessary to avoid income and excise taxation, we may seek to borrow funds, issue additional equity securities, pay taxable stock dividends, distribute other property or securities or engage in a transaction intended to enable us to meet the REIT distribution requirements. Any of these actions may require us to raise additional capital to meet our obligations; however, limitations on our ability to access capital, as described above, could have an adverse effect on our ability to make required payments on our debt obligations, make distributions to our stockholders or make future investments necessary to implement our business strategy. The terms of the instruments governing our existing indebtedness restrict our ability to engage in certain types of these transactions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
New Senior Investment Group Inc.

We have audited the accompanying consolidated balance sheets of New Senior Investment Group Inc. and Subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of New Senior Investment Group Inc. and Subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), New Senior Investment Group Inc.’s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 28, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
New Senior Investment Group Inc.

We have audited New Senior Investment Group Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). New Senior Investment Group Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, New Senior Investment Group Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of New Senior Investment Group Inc. and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2016 of New Senior Investment Group Inc. and Subsidiaries and our report dated February 28, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 28, 2017

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	December 31,	
	2016	2015
Assets		
Real estate investments:		
Land	\$ 220,317	\$ 222,795
Buildings, improvements and other	2,552,862	2,568,133
Accumulated depreciation	(218,968)	(129,788)
Net real estate property	2,554,211	2,661,140
Acquired lease and other intangible assets	319,929	308,917
Accumulated amortization	(255,452)	(166,714)
Net real estate intangibles	64,477	142,203
Net real estate investments	2,618,688	2,803,343
Cash and cash equivalents	58,048	116,881
Straight-line rent receivables	73,758	51,916
Receivables and other assets, net	71,234	45,319
Total Assets	\$ 2,821,728	\$ 3,017,459
Liabilities and Equity		
Liabilities		
Mortgage notes payable, net	\$ 2,130,387	\$ 2,151,317
Due to affiliates	11,623	9,644
Accrued expenses and other liabilities	100,823	89,173
Total Liabilities	\$ 2,242,833	\$ 2,250,134
Commitments and contingencies		
Equity		
Preferred Stock \$0.01 par value, 100,000,000 shares authorized and none issued or outstanding as of both December 31, 2016 and 2015	\$ —	\$ —
Common stock \$0.01 par value, 2,000,000,000 shares authorized, 82,127,247 and 85,447,551 shares issued and outstanding as of December 31, 2016 and 2015, respectively	821	854
Additional paid-in capital	897,918	928,654
Accumulated deficit	(319,844)	(162,183)
Total Equity	\$ 578,895	\$ 767,325
Total Liabilities and Equity	\$ 2,821,728	\$ 3,017,459

See notes to consolidated financial statements.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share data)

	Year Ended December 31,		
	2016	2015	2014
Revenues			
Resident fees and services	\$ 359,472	\$ 277,324	\$ 156,993
Rental revenue	112,966	111,154	97,992
Total revenues	<u>472,438</u>	<u>388,478</u>	<u>254,985</u>
Expenses			
Property operating expense	243,027	189,543	112,242
Depreciation and amortization	184,546	160,318	103,279
Interest expense	91,780	75,021	57,026
Acquisition, transaction, and integration expense	3,942	13,444	14,295
Management fees and incentive compensation to affiliate	18,143	14,279	8,470
General and administrative expense	15,194	15,233	7,416
Loss on extinguishment of debt	245	5,091	—
Other expense (income)	727	1,629	(1,500)
Total expenses	<u>557,604</u>	<u>474,558</u>	<u>301,228</u>
Gain on sale of real estate	13,356	—	—
Loss Before Income Taxes	<u>(71,810)</u>	<u>(86,080)</u>	<u>(46,243)</u>
Income tax expense (benefit)	439	(3,655)	160
Net Loss	<u>\$ (72,249)</u>	<u>\$ (82,425)</u>	<u>\$ (46,403)</u>
Loss Per Share of Common Stock			
Basic and diluted	<u>\$ (0.88)</u>	<u>\$ (1.08)</u>	<u>\$ (0.70)</u>
Weighted Average Number of Shares of Common Stock Outstanding			
Basic and diluted	<u>82,357,349</u>	<u>76,601,161</u>	<u>66,400,914</u>
Dividends Declared Per Share of Common Stock	<u>\$ 1.04</u>	<u>\$ 0.75</u>	<u>\$ 0.23</u>

See notes to consolidated financial statements.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(dollars in thousands, except share data)

	Common Stock		Accumulated Deficit	Additional Paid-in Capital	Total Equity
	Shares	Amount			
Equity at December 31, 2013	—	\$ —	\$ —	\$ 407,835	\$ 407,835
Capital contributions	—	—	—	461,218	461,218
Capital distributions	—	—	—	(158,980)	(158,980)
Net loss	—	—	—	(36,964)	(36,964)
Effect of New Senior spin-off	66,399,857	664	—	(664)	—
Equity at November 7, 2014	66,399,857	\$ 664	\$ —	\$ 672,445	\$ 673,109
Exercise of stock options	14,188	—	—	119	119
Director's shares issued	1,370	—	—	23	23
Dividends declared	—	—	(15,276)	—	(15,276)
Net loss	—	—	(9,439)	—	(9,439)
Equity at December 31, 2014	66,415,415	\$ 664	\$ (24,715)	\$ 672,587	\$ 648,536
Issuance of common stock, net	20,114,090	201	—	266,312	266,513
Repurchase of common stock	(1,112,000)	(11)	—	(10,262)	(10,273)
Exercise of stock options	30,046	—	—	—	—
Fair value of stock options issued	—	—	—	17	17
Dividends declared	—	—	(55,043)	—	(55,043)
Net loss	—	—	(82,425)	—	(82,425)
Equity at December 31, 2015	85,447,551	\$ 854	\$ (162,183)	\$ 928,654	\$ 767,325
Repurchase of common stock	(3,333,333)	(33)	—	(30,880)	(30,913)
Fair value of stock options issued	—	—	—	5	5
Director's shares issued	13,029	—	—	139	139
Dividends declared	—	—	(85,412)	—	(85,412)
Net loss	—	—	(72,249)	—	(72,249)
Equity at December 31, 2016	82,127,247	\$ 821	\$ (319,844)	\$ 897,918	\$ 578,895

See notes to consolidated financial statements.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash Flows From Operating Activities			
Net loss	\$ (72,249)	\$ (82,425)	\$ (46,403)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation of tangible assets and amortization of intangible assets	184,689	160,460	103,398
Amortization of deferred financing costs	9,582	9,320	8,331
Amortization of deferred community fees	(1,646)	(1,141)	(1,420)
Amortization of (premium) discount on mortgage notes payable	(603)	77	850
Non-cash straight-line rent	(21,842)	(25,462)	(25,932)
Gain on sale of real estate	(13,356)	—	—
Change in fair value of contingent consideration	—	—	(1,500)
Loss on extinguishment of debt	245	5,091	—
Equity-based compensation	144	17	—
Provision for bad debt	2,150	2,105	922
Other non-cash expense	702	964	—
Changes in:			
Receivables and other assets, net	(3,069)	(14,868)	(6,053)
Due to affiliates	1,979	2,762	989
Accrued expenses and other liabilities	12,573	12,602	13,429
Net cash provided by operating activities	<u>\$ 99,299</u>	<u>\$ 69,502</u>	<u>\$ 46,611</u>
Cash Flows From Investing Activities			
Proceeds from the sale of real estate	\$ 22,711	\$ —	\$ —
Cash paid for acquisitions, net of deposits	—	(1,251,343)	(314,935)
Capital expenditures	(21,151)	(11,411)	(8,538)
Funds reserved for future capital expenditures	(2,423)	(3,169)	(3,530)
Deposits refunded (paid) for real estate investments	584	(11,355)	(4,855)
Net cash used in investing activities	<u>\$ (279)</u>	<u>\$ (1,277,278)</u>	<u>\$ (331,858)</u>
Cash Flows From Financing Activities			
Proceeds from mortgage notes payable	\$ —	\$ 1,248,252	\$ 195,144
Principal payments of mortgage notes payable	(16,240)	(15,599)	(13,736)
Repayments of mortgage notes payable	(13,725)	(304,484)	—
Payment of exit fee on extinguishment of debt	(189)	(1,499)	—
Payment of deferred financing costs	—	(13,065)	(2,557)
Payment of common stock dividend	(85,412)	(70,318)	—
Purchase of interest rate caps	—	(1,247)	—
Proceeds from issuance of common stock and exercise of options	—	276,569	142
Costs related to issuance of common stock	—	(10,056)	—
Repurchase of common stock	(30,913)	(10,273)	—
Cash escrowed with lender	(11,374)	—	—
Contributions from Drive Shack	—	—	461,218
Distributions to Drive Shack	—	—	(158,980)
Net cash (used in) provided by financing activities	<u>\$ (157,853)</u>	<u>\$ 1,098,280</u>	<u>\$ 481,231</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(58,833)	(109,496)	195,984
Cash and Cash Equivalents, Beginning of Year	116,881	226,377	30,393
Cash and Cash Equivalents, End of Year	<u>\$ 58,048</u>	<u>\$ 116,881</u>	<u>\$ 226,377</u>

Continued on next page

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2016	2015	2014
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for interest expense	\$ 82,557	\$ 62,870	\$ 45,026
Cash paid during the year for income taxes	266	190	1,357
Supplemental Schedule of Non-Cash Investing and Financing Activities			
Issuance of common stock and exercise of options	139	316	23
Common stock dividend declared but not paid	—	—	15,276
Recognized contingent consideration at fair value	—	—	50
Other liabilities assumed with acquisitions	—	651	—

See notes to consolidated financial statements.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016, 2015 and 2014
(dollars in thousands, except share data)

1. ORGANIZATION

New Senior Investment Group Inc. (“New Senior” or the “Company”) is a Real Estate Investment Trust (“REIT”) primarily focused on investing in private pay senior housing properties. The Company was formed as a Delaware limited liability company in 2012 and converted to a Delaware corporation on May 30, 2014 and changed its name to New Senior Investment Group Inc. on June 16, 2014.

On November 6, 2014, the spin-off of New Senior was completed with the distribution of all of the outstanding shares of New Senior to the holders of common stock of Drive Shack Inc., formerly known as Newcastle Investment Corp. (“Drive Shack”). As of December 31, 2016, the Company owned a diversified portfolio of 152 primarily private pay senior housing properties located across 37 states. The Company is listed on the New York Stock Exchange (“NYSE”) under the symbol “SNR” and is headquartered in New York, New York.

The Company operates in two reportable segments: (1) Managed Properties and (2) Triple Net Lease Properties.

Managed Properties – The Company has engaged property managers to manage 94 of its properties on a day-to-day basis under the Managed Properties segment. These properties consist of 53 dedicated independent living (“IL”) facilities and 41 properties with a combination of assisted living/memory care (“AL/MC”) facilities. The Company’s Managed Properties are managed by Holiday Retirement (“Holiday”), a portfolio company that is majority owned by private equity funds managed by an affiliate of FIG LLC (the “Manager”), a subsidiary of Fortress Investment Group LLC (“Fortress”), FHC Property Management LLC (together with its subsidiaries, “Blue Harbor”), an affiliate of the Manager, Jerry Erwin Associates, Inc. (“JEA”) and Thrive Senior Living LLC (“Thrive”), collectively, the “Property Managers,” under property management agreements (the “Property Management Agreements”). Under the Property Management Agreements, the Property Managers are responsible for the day-to-day operations of the Company’s senior housing properties and are entitled to a management fee in accordance with the terms of the Property Management Agreements.

The Company’s property management agreements have initial five-year or ten-year terms, with successive, automatic one-year renewal periods. The Company pays property management fees of 5% to 7% of effective gross income pursuant to its property management agreements with Holiday and, in some cases, Holiday is eligible to earn an incentive fee based on operating performance. The Company pays property management fees of 3% to 7% of gross revenues and, for certain properties, a property management fee based on a percentage of net operating income, pursuant to its property management agreements with other managers.

Triple Net Lease Properties – The Company owns 58 properties subject to triple net lease arrangements (substantially all of which are leased to Holiday). These properties consist of 52 IL properties, 5 rental Continuing Care Retirement Communities (“CCRC”) properties and 1 AL/MC property. In a triple net lease arrangement, the lessee agrees to operate and maintain the property at its own expense, including maintenance, utilities, taxes, insurance, repairs, capital improvements and the payroll expense of property-level employees. The Company’s triple net lease agreements have initial terms of approximately 15 or 17 years and include renewal options and annual rent increases ranging from 2.5% to 4.5%.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) with the instructions to Form 10-K and Article 10 of Regulation S-X. The consolidated financial statements include the accounts of New Senior and its consolidated subsidiaries. All significant intercompany transactions and balances have been eliminated. New Senior consolidates those entities in which it has control over significant operating, financial and investing decisions of the entity. As of December 31, 2016 and 2015, the Company did not have any investments in Variable Interest Entities (“VIEs”). VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity

at risk for the entity to finance its activities without additional subordinated financial support from other parties. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
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Prior to November 7, 2014, the Company was not operated as a stand-alone business from Drive Shack. Information in the consolidated financial statements for periods prior to November 7, 2014 has been prepared on a stand-alone basis from the consolidated financial statements and accounting records of Drive Shack and does not necessarily reflect what New Senior's consolidated results of operations, financial position and cash flows would have been had New Senior operated as an independent company prior to the spin-off. Management believes the assumptions and methods of allocation used in the accompanying consolidated financial statements are reasonable.

The consolidated financial statements reflect all revenues, expenses and cash flows directly attributable to the Company. Certain expenses of Drive Shack, comprised primarily of a portion of its management fee, acquisition and transaction costs and general and administrative costs, have been allocated to New Senior to the extent they were directly associated with the Company for periods prior to the spin-off. The portion of the management fee allocated to New Senior prior to the spin-off represents the product of the management fee rate payable by Drive Shack of 1.5% and New Senior's gross equity, which management believes is a reasonable method for allocating the cost of the services provided by the employees of the Manager to the Company. New Senior and Drive Shack have not shared any costs subsequent to the spin-off. See Note 11 for details related to management agreement terms.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

Use of Estimates

Management is required to make estimates and assumptions when preparing financial statements in conformity with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the accompanying consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from management's estimates.

Revenue Recognition

Resident Fees and Services - Resident fees and services include monthly rental revenue, care income and ancillary income recognized from the Managed Properties segment. Resident fees and services are recognized monthly as services are provided. Most lease agreements with residents are cancelable by the resident with 30 days' notice. Ancillary income primarily relates to non-refundable community fees. Non-refundable community fees are recognized on a straight-line basis over the average length of stay of residents, which management estimates to be approximately 24 months for AL/MC properties and approximately 33 months for IL properties.

Rental Revenue - Rental revenue from the Triple Net Lease Properties segment is recognized on a straight-line basis over the applicable term of the lease when collectability is reasonably assured. Recognizing rental revenue on a straight-line basis typically results in recognizing revenue in excess of cash amounts contractually due from the Company's tenants during the first half of the lease term, creating a straight-line rent receivable.

Acquisition Accounting

The Company has determined that all of its acquisitions should be accounted for under the acquisition method. The accounting for acquisitions requires the identification and measurement of all acquired tangible and intangible assets and assumed liabilities at their respective fair values, as of the respective transaction dates. The determination of the fair value of net assets acquired involves significant judgment and estimates, such as estimated future cash flow projections, appropriate discount and capitalization rates and other estimates based on available market information. Estimates of future cash flows are based on a number of factors including property operating results, known and anticipated trends, as well as market and economic conditions.

In measuring the fair value of tangible and identified intangible assets acquired and liabilities assumed, management uses information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals. In the case of buildings, the fair value of the tangible assets acquired is determined by valuing the property as if it were vacant. Significant estimates impacting the measurement at fair value of the Company's real property

include construction cost data and qualitative selection of comparable market transactions as well as the assessment of the relative quality and condition of the acquired properties.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
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Recognized intangible assets primarily include the fair value of in-place resident leases. The Company estimates the fair value of in-place leases as (i) the present value of the estimated rental revenue that would have been forgone, offset by variable costs that would have otherwise been incurred during a reasonable lease-up period, as if the acquired units were vacant and (ii) the estimated absorption costs, such as additional marketing costs that would have been incurred during the lease-up period. The acquisition fair value of the in-place lease intangibles is amortized over the average length of stay of the residents on a straight-line basis.

Contingent consideration, if any, is measured at fair value on the date of acquisition. The fair value of the contingent consideration is remeasured at each reporting date with any change recorded in "Other expense (income)" in the Consolidated Statements of Operations.

Acquisition and transaction expense includes costs related to completed and potential acquisitions, dispositions and other transactions. Such costs include advisory, legal, accounting, valuation and other professional or consulting fees. Integration expense includes costs directly related to the integration of acquired businesses such as lender mandated repairs, licensing, rebranding and training incurred in connection with an acquisition. Acquisition, transaction and integration costs are expensed as incurred.

Real Estate Investments

Real estate investments are recorded at cost less accumulated depreciation or accumulated amortization.

Depreciation is calculated on a straight-line basis using estimated remaining useful lives not to exceed 40 years for buildings, 3 to 10 years for building improvements and 3 to 5 years for other fixed assets.

Amortization for in-place lease intangibles and other intangibles is calculated on a straight-line basis using estimated useful lives of 24 to 33 months and 5 to 13 years, respectively. Amortization for above/below market lease intangibles is calculated on a straight line basis using estimated useful lives of 15 to 17 years, with the exception of ground lease intangibles which are amortized over a period of 74 to 82 years.

Impairment of Long Lived Assets

The Company periodically evaluates long-lived assets, including definite lived intangible assets, primarily consisting of the Company's real estate investments, for impairment indicators. If indicators of impairment are present, the Company evaluates the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying operations. In performing this evaluation, market conditions and the Company's current intentions with respect to holding or disposing of the asset are considered. If the sum of the expected future undiscounted cash flows is less than book value, the Company recognizes an impairment loss equal to the amount by which the asset's carrying value exceeds its fair value. An impairment loss is recognized at the time any such determination is made. No impairment loss has been recognized by the Company since inception.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly liquid short term investments with maturities of 90 days or less, when purchased.

Straight-line Rent Receivables and Receivables and Other Assets, Net

Receivables and other assets, net consists primarily of escrows held by lenders and resident receivables, net of allowance and prepaid expenses. The Company assesses the collectability of rent receivables, including straight-line rent receivables, on an ongoing basis. This assessment is based on several qualitative and quantitative factors, including and as appropriate, the payment history of the resident and triple net lease tenant, the financial strength of the resident or tenant and of guarantors, the value of the underlying collateral or deposit, if any, and current economic conditions. If the evaluation of these factors indicates it is probable that the Company will not be able to recover the

full value of the receivable, the Company provides a specific reserve against the portion of the receivable that the Company estimates may not be recovered.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Deferred Financing Costs

Deferred financing costs consist of fees and direct costs incurred in obtaining financing. Deferred financing costs are presented as a direct deduction from the carrying amount of the related debt liability and are amortized over the terms of the related borrowings using the effective interest rate method as a component of interest expense. Amortized costs of \$9,582, \$9,320 and \$8,331 were included in "Interest expense" in the Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014, respectively.

Deferred Revenue

Deferred revenue primarily includes non-refundable community fees received by the Company when residents move in, and are included within "Accrued expenses and other liabilities" in the Consolidated Balance Sheets. Deferred revenue amounts are amortized into income on a straight-line basis over the average length of stay of the resident, and are included within "Resident fees and services" in the Consolidated Statements of Operations.

Income Taxes

New Senior is organized and conducts its operations to qualify as a REIT under the requirements of the Internal Revenue Code of 1986, as amended ("Code"). Requirements for qualification as a REIT include various restrictions on ownership of stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. Distribution of the remaining balance may extend until timely filing of New Senior's tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

Certain activities are conducted through a taxable REIT subsidiary ("TRS") and therefore are subject to federal and state income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period of the enactment date.

New Senior recognizes tax benefits for uncertain tax positions only if it is more likely than not that the position is sustainable based on its technical merits. Interest and penalties on uncertain tax positions are included as a component of the provision for income taxes in the Consolidated Statements of Operations. As of December 31, 2016 and 2015, the Company had no uncertain tax positions.

The Company's consolidated financial statements have been prepared based upon the operations of the Company separate from those of Drive Shack and include current and deferred income taxes calculated in accordance with the operations following the spin-off.

Fair Value Measurement

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy, which is described below, prioritizes the inputs used by the Company in measuring fair value:

- Level 1 - Quoted prices for identical instruments in active markets.

- 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 all significant inputs are observable in active markets.
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
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Derivative Instruments

In the normal course of business, the Company may use derivative instruments to manage, or hedge, interest rate risk. The Company does not use derivative instruments for trading or speculative purposes. The Company recognizes all derivatives as either assets or liabilities at fair value and they are recorded in "Receivables and other assets, net" or "Accrued expenses and other liabilities," respectively, in the Consolidated Balance Sheets. The valuation of derivatives requires the Company to make estimates and judgments that affect the fair value of the instruments. The Company estimates the fair value of derivatives based on pricing models that consider level 2 inputs including forward yield curves, cap strike rates, cap volatility and discount rates. The Company does not apply hedge accounting and fair value adjustments, if any, are recorded in "Other expense (income)" in the Consolidated Statements of Operations.

The Company has exposure to counterparty credit risk for its derivative transactions. Credit risk represents the potential for loss due to the default of a counterparty. The Company performs due diligence including reviewing the counterparty's credit quality prior to entering into derivative transactions. As of December 31, 2016, the Company's outstanding derivatives were executed with investment grade counterparties.

Assets Held for Sale

The Company classifies certain long-lived assets as held for sale once the criteria, as defined by GAAP, has been met. Assets held for sale are included in "Receivables and other assets, net" in the Consolidated Balance Sheets. Long-lived assets to be disposed of are reported at the lower of their carrying amount or fair value and are no longer depreciated.

Sale of Assets

The Company recognizes sales of assets only upon the closing of the transactions with the purchaser. The Company recognizes gains on assets sold using the full accrual method upon closing if the collectability of the sales price is reasonably assured, the Company is not obligated to perform any significant activities after the sale to earn the profit, the Company has received adequate initial investment from the purchaser, and other profit recognition criteria has been satisfied.

Stock Options

Options granted to New Senior's directors are measured at fair value at the grant date with the related expense recognized over the service term, if any.

Equity

Net loss incurred prior to the spin-off is included in additional paid-in capital instead of accumulated deficit since the accumulation of deficit began as of the date of spin-off from Drive Shack.

Expense Recognition

Management Fees and Incentive Compensation to Affiliate – During the period prior to the spin-off from Drive Shack, this represents an amount of the management fee charged to Drive Shack by the Manager and allocated to the Company. During the period after the spin-off, this represents amounts due to the Manager pursuant to the Management Agreement between the Manager and New Senior (as defined in Note 11).

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
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Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09 *Revenues from Contracts with Customers (Topic 606)*. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB deferred the effective date of this standard by one year, which will be for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company has begun its process of assessing the impact of the guidance. To date the Company’s assessment efforts include the identification of various revenue streams within the scope of the guidance and the evaluation of certain revenue contracts with residents. The Company continues to evaluate the standard (and related clarifying guidance issued by the FASB) and the allowable methods of adoption. ASU 2014-09 may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). Although the Company’s evaluation of the guidance is ongoing, it does not expect the adoption to have a material impact on its consolidated financial statements as a substantial portion of its revenue consists of rental income from leasing arrangements, which is excluded from ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01 *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company does not expect adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 *Leases*. This standard amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and early adoption is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company continues to assess the guidance and the impact it may have on its consolidated financial statements and has initiated a review to identify non-lease components, if any, in its lease agreements.

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments - Credit Losses, Measurement of Credit Losses on Financial Instruments*. This standard replaces the current incurred loss methodology with a methodology that reflects expected credit losses. Under this methodology, a company would recognize an impairment allowance equal to its current estimate of all contractual cash flows that it does not expect to collect from financial assets measured at amortized cost. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, and early adoption is permitted beginning after December 15, 2018. The Company is assessing the impact this guidance may have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15 *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*. This standard addresses the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted. The Company does not expect adoption of this ASU to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 *Statement of Cash Flows (Topic 230) - Restricted Cash*, related to the classification of restricted cash on the statement of cash flows. This ASU would require that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted. The Company is assessing the impact this guidance may have on its consolidated financial statements.

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In January 2017, the FASB issued ASU 2017-01 *Business Combinations (Topic 805) - Clarifying the Definition of a Business*. This standard narrows the FASB's definition of a business and provides a framework that assists entities with making reasonable judgments about whether a transaction involves an asset or business. ASU 2017-01 states that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted. The ASU is to be applied prospectively and upon adoption the Company expects that the majority of its acquisitions will be deemed asset acquisitions which will result in the capitalization of related third party transaction costs.

3. ACQUISITIONS

The Company did not make any acquisitions during the year ended December 31, 2016.

During the year ended December 31, 2015, the Company acquired 6 portfolios representing 54 senior housing properties (49 IL, 4 AL/MC and 1 rental CCRC). The IL and AL/MC properties were integrated into the Managed Properties segment, and Holiday, Thrive and Blue Harbor managed 47, 4 and 2, respectively. The rental CCRC was integrated into the Triple Net Lease segment.

The following table summarizes the acquisition date fair value of identifiable assets acquired and liabilities assumed in connection with the acquisitions completed in the year ended December 31, 2015, in accordance with the acquisition method of accounting:

	2015 Acquisitions		
	Managed Properties	Triple Net Lease Properties	Total
Real estate investments	\$ 1,073,826	\$ 67,070	\$ 1,140,896
In-place lease intangibles	124,233	6,081	130,314
Liabilities, net of other assets	(3,305)	(1,352)	(4,657)
Total consideration	1,194,754	71,799	1,266,553
Mortgage notes payable ^(A)	863,815	52,000	915,815
Net assets	\$ 330,939	\$ 19,799	\$ 350,738
Total acquisition-related expenses ^(B)	\$ 4,616	\$ 1,828	\$ 6,444

(A) Represents new debt issued in connection with the acquisitions.

(B) Included in "Acquisition, transaction and integration expense" in the Consolidated Statements of Operations.

Acquisition accounting is preliminary, pending the completion of various analyses and the finalization of estimates used in the determination of fair values. During the measurement period, additional assets or liabilities may be recognized if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date. The preliminary measurement of net assets acquired may be adjusted after obtaining additional information regarding, among other things, asset valuations (including market and other information with which to determine fair values), liabilities assumed and the analysis of assumed contracts. These adjustments may be significant and are accounted for in accordance with ASU 2015-16 *Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments*, which became effective in the first quarter of 2016.

During the year ended December 31, 2016, measurement period adjustments were made based on the final valuation of net assets acquired. The adjustments included a decrease of \$14,591 in real estate investments and an increase of \$14,591 for in-place lease intangibles. If these adjustments had been recognized as of the acquisition date, the

Company would have recognized additional depreciation and amortization expense of \$7,444, of which \$4,683 relates to the year ended December 31, 2015.

Acquisition accounting has been finalized for all of the Company's acquisitions as of December 31, 2016.

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The following table illustrates the pro forma effect of the acquisitions completed during 2015 on revenues and loss before income taxes as if they had been consummated as of January 1, 2015:

	Year Ended December 31, 2015
Revenues	\$ 463,755
Loss before income taxes	(110,868)

The pro forma results are not necessarily indicative of the operating results that would have been obtained had the acquisitions occurred as of January 1, 2015, nor are they necessarily indicative of future operating results.

4. DISPOSITIONS

On October 31, 2016, the Company sold two AL/MC properties for total consideration of \$22,711 and recognized a gain on sale of \$13,356 which is included in “Gain on sale of real estate” in the Consolidated Statements of Operations. In connection with this sale, the Company repaid \$13,725 of debt associated with these properties and, pursuant to the Property Management Agreement, paid an early termination fee of \$1,799 to Blue Harbor, which is included in “Acquisition, transaction and integration expense” in the Consolidated Statements of Operations.

5. SEGMENT REPORTING

As of December 31, 2016, the Company operated in two reportable business segments: Managed Properties and Triple Net Lease Properties. Under its Managed Properties segment, the Company invests in senior housing properties throughout the United States and engages property managers to manage those senior housing properties. Under its Triple Net Lease Properties segment, the Company invests in senior housing and healthcare properties throughout the United States and leases those properties to healthcare operating companies under triple net leases that obligate the tenants to pay all property-related expenses, including maintenance, utilities, taxes, insurance, repairs, capital improvements and the payroll expense of property-level employees.

The Company evaluates performance of the combined properties in each reportable business segment based on segment net operating income (“NOI”). The Company defines NOI as total revenues less property-level operating expenses, which include property management fees and travel cost reimbursements. The Company believes that net income, as defined by GAAP, is the most appropriate earnings measurement. However, the Company believes that segment NOI serves as a useful supplement to net income because it allows investors, analysts and management to measure unlevered property-level operating results and to compare the Company’s operating results between periods and to the operating results of other real estate companies on a consistent basis. Segment NOI should not be considered as an alternative to net income as determined in accordance with GAAP.

Interest expense, depreciation and amortization, general and administrative expense, acquisition, transaction and integration expense, management fees and incentive compensation to affiliate, income tax expense (benefit), gain on sale of real estate, other expense (income) and discontinued operations (if any) are not allocated to individual segments for purposes of assessing segment performance. There are no intersegment sales or transfers.

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	Year Ended December 31, 2016			Year Ended December 31, 2015			Year Ended December 31, 2014		
	Triple Net Lease Properties	Managed Properties	Consolidated	Triple Net Lease Properties	Managed Properties	Consolidated	Triple Net Lease Properties	Managed Properties	Consolidated
Revenues									
Resident fees and services	\$ —	\$ 359,472	\$ 359,472	\$ —	\$ 277,324	\$ 277,324	\$ —	\$ 156,993	\$ 156,993
Rental revenue	112,966	—	112,966	111,154	—	111,154	97,992	—	97,992
Less: Property operating expense	—	243,027	243,027	—	189,543	189,543	—	112,242	112,242
Segment NOI	<u>\$ 112,966</u>	<u>\$ 116,445</u>	<u>\$ 229,411</u>	<u>\$ 111,154</u>	<u>\$ 87,781</u>	<u>\$ 198,935</u>	<u>\$ 97,992</u>	<u>\$ 44,751</u>	<u>\$ 142,743</u>
Depreciation and amortization			184,546			160,318			103,279
Interest expense			91,780			75,021			57,026
Acquisition, transaction and integration expense			3,942			13,444			14,295
Management fees and incentive compensation to affiliate			18,143			14,279			8,470
General and administrative expense			15,194			15,233			7,416
Loss on extinguishment of debt			245			5,091			—
Other expense (income)			727			1,629			(1,500)
Total expenses			314,577			285,015			188,986
Gain on sale of real estate			13,356			—			—
Loss before income taxes			(71,810)			(86,080)			(46,243)
Income tax expense (benefit)			439			(3,655)			160
Net loss			<u>\$ (72,249)</u>			<u>\$ (82,425)</u>			<u>\$ (46,403)</u>

Property operating expense includes property management fees and travel reimbursement costs. The Company also reimbursed the Property Managers for property-level payroll expenses. See Note 11 for additional information on these expenses related to Blue Harbor and Holiday.

Assets by reportable business segment are reconciled to total assets as follows:

Assets:	December 31, 2016		December 31, 2015	
	Amount	Percentage	Amount	Percentage
Triple Net Lease Properties	\$ 1,151,102	40.8 %	\$ 1,196,578	39.7 %
Managed Properties	1,639,726	58.1 %	1,744,540	57.8 %
All Other Assets ^(A)	30,900	1.1 %	76,341	2.5 %
Total Assets	<u>\$ 2,821,728</u>	<u>100.0 %</u>	<u>\$ 3,017,459</u>	<u>100.0 %</u>

(A) Primarily consists of corporate cash which is not directly attributable to the Company's reportable business segments.

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Capital expenditures in the Managed Properties segment, including investments in real estate property, were \$17,196, \$11,411 and \$8,538 for the years ended December 31, 2016, 2015 and 2014, respectively. Capital expenditures in the Triple Net Lease segment were \$4,089, \$0 and \$0 for the years ended December 31, 2016, 2015 and 2014, respectively.

The following table presents the percentage of total revenues by geographic location:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Number of Communities	% of Total Revenue	Number of Communities	% of Total Revenue
Florida	26	19.8 %	26	20.9 %
Texas	19	12.0 %	19	13.5 %
California	11	10.0 %	12	9.3 %
North Carolina	9	6.4 %	9	5.7 %
Pennsylvania	7	6.0 %	7	6.3 %
Oregon	9	5.3 %	10	5.5 %
Utah	6	4.3 %	6	5.2 %
Other	65	36.2 %	65	33.6 %
Total	152	100.0 %	154	100.0 %

6. REAL ESTATE INVESTMENTS

	December 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value
Land	\$ 220,317	\$ —	\$ 220,317	\$ 222,795	\$ —	\$ 222,795
Building and improvements	2,430,658	(163,670)	2,266,988	2,455,170	(97,485)	2,357,685
Furniture, fixtures and equipment	122,204	(55,298)	66,906	112,963	(32,303)	80,660
Total real estate investments	\$ 2,773,179	\$ (218,968)	\$ 2,554,211	\$ 2,790,928	\$ (129,788)	\$ 2,661,140

Depreciation expense was \$92,372, \$72,767 and \$46,622 for the years ended December 31, 2016, 2015 and 2014, respectively.

The following table summarizes the Company's real estate intangibles:

	December 31, 2016				December 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Amortization Period
Above/below market lease intangibles, net	\$ 5,868	\$ (556)	\$ 5,312	53.7 years	\$ 5,868	\$ (361)	\$ 5,507	52.8 years
In-place lease intangibles	308,265	(252,684)	55,581	2.7 years	297,253	(164,772)	132,481	2.6 years
Other intangibles	5,796	(2,212)	3,584	9.5 years	5,796	(1,581)	4,215	9.4 years

Total intangibles	<u>\$ 319,929</u>	<u>\$ (255,452)</u>	<u>\$ 64,477</u>	<u>\$ 308,917</u>	<u>\$ (166,714)</u>	<u>\$ 142,203</u>
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Amortization expense was \$92,174, \$87,551 and \$56,657 for the years ended December 31, 2016, 2015 and 2014, respectively. Additionally, amortization of above/below market leases was \$143, \$142 and \$119 for the years ended December 31, 2016, 2015 and 2014, respectively, and is reported as a net reduction to “Rental revenue” in the Consolidated Statements of Operations.

Estimated future amortization of intangible assets is as follows:

Years Ending December 31	
2017	\$ 48,639
2018	8,362
2019	503
2020	503
2021	503
Thereafter	5,967
Total intangibles	\$ 64,477

7. RECEIVABLES AND OTHER ASSETS, NET

	December 31, 2016	December 31, 2015
Escrows held by lenders ^(A)	\$ 36,231	\$ 19,694
Prepaid expenses	3,617	4,828
Resident receivables, net	3,111	2,594
Deferred tax assets	8,660	8,757
Security deposits	3,238	2,932
Income tax receivable	1,313	1,920
Assets held for sale ^(B)	10,824	—
Other assets and receivables	4,240	4,594
Total receivables and other assets	\$ 71,234	\$ 45,319

(A) Represents amounts held by lenders in tax, insurance, replacement reserve and other escrow accounts that are related to mortgage notes collateralized by New Senior's properties.

(B) Represents two AL/MC properties in the Managed Properties segment classified as held for sale as of December 31, 2016. The balance primarily consists of the carrying value of buildings and land as of December 31, 2016. These properties were sold on January 31, 2017; see Note 17 for further information.

The following table summarizes the allowance for doubtful accounts and the related provision for resident receivables:

	Year Ended December 31,		
	2016	2015	2014
Balance, beginning of period	\$ 509	\$ 190	\$ 303
Provision for bad debt	2,150	2,105	922
Write-offs, net of recoveries	(1,683)	(1,786)	(1,035)
Balance, end of period	\$ 976	\$ 509	\$ 190

The provision for resident receivables and related write-offs are included in “Property operating expense” in the Consolidated Statements of Operations.

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8. MORTGAGE NOTES PAYABLE, NET

	December 31, 2016					December 31, 2015	
	Outstanding Face Amount	Carrying Value ^(A)	Maturity Date	Stated Interest Rate	Weighted Average Maturity (Years)	Outstanding Face Amount	Carrying Value ^(A)
Managed Properties							
Fixed Rate	\$ 604,749	\$ 601,232	Dec 2018 - Sep 2025	3.65% to 6.76%	7.2	\$ 607,437	\$ 603,460
Floating Rate ^(B)	717,254	710,672	Oct 2020 - May 2022	1M LIBOR + 2.20% to 1M LIBOR + 2.70%	5.0	731,318	723,554
Triple Net Lease Properties							
Fixed Rate ^(C)	683,137	667,579	Jan 2021 - Jan 2024	3.80% to 7.40%	5.2	695,984	673,732
Floating Rate	151,634	150,904	Oct 2017 - Apr 2018	3M LIBOR + 3.00% to 3M LIBOR + 3.25%	1.0	152,000	150,571
Total	\$ 2,156,774	\$ 2,130,387			5.4	\$ 2,186,739	\$ 2,151,317

(A) The totals are reported net of deferred financing costs of \$27,797 and \$37,435 as of December 31, 2016 and 2015, respectively.

(B) All of these loans have LIBOR caps that range between 3.30% and 3.80% as of December 31, 2016.

(C) Includes loans with an outstanding face amount of \$343,763 and \$292,156, as of December 31, 2016, for which the Company bought down the interest rates to 4.00% and 3.80%, respectively, through January 2019. The interest rates will increase to 4.99% and 4.55%, respectively, thereafter.

In March 2015, the Company refinanced mortgage loans of \$297,030 and recognized a loss on extinguishment of debt of \$5,091, which represents the write-off of related unamortized deferred financing costs, mortgage discounts, exit fees and other costs, as of the date of the refinancing, and is included in "Loss on extinguishment of debt" in the Consolidated Statements of Operations.

In October 2016, the Company repaid \$13,725 of floating rate debt associated with the sale of two properties in the Managed Properties segment and recognized a loss on extinguishment of debt of \$245, which represents exit fees and the write-off of related unamortized deferred financing costs, and is included in "Loss on extinguishment of debt" in the Consolidated Statements of Operations.

The carrying value of the collateral relating to fixed rate and floating rate mortgages was \$1,600,019 and \$1,018,245 as of December 31, 2016 and \$1,679,646 and \$1,122,960 as of December 31, 2015, respectively.

The Company's mortgage notes payable have contractual maturities as follows:

	Principal Payments	Balloon Payments	Total
2017 ^(A)	\$ 28,044	\$ 98,327	\$ 126,371
2018	32,075	81,435	113,510
2019	31,984	95,345	127,329
2020	33,228	31,636	64,864
2021	32,025	311,518	343,543
Thereafter	52,453	1,328,704	1,381,157
Total outstanding face amount	\$ 209,809	\$ 1,946,965	\$ 2,156,774

(A) The debt agreement for the balloon payment includes an option for the Company to extend the payment to 2019.

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The Company's mortgage notes payable contain various customary financial and other covenants, in some cases including Debt Service Coverage Ratio and Project Yield, as defined in the agreements. The Company was in compliance with the covenants in its mortgage notes payable agreements as of December 31, 2016.

During 2016, the Company finalized an amendment to the Project Yield covenant in one financing secured by a leased portfolio. The amendment reduced the Project Yield threshold for the remaining term of the loan. In connection with this amendment, the Company escrowed \$11,374 with the lender.

The fair values of mortgage notes payable as of December 31, 2016 and 2015 was \$2,137,097 and \$2,217,464, respectively. Mortgage notes payable are not measured at fair value in the Consolidated Balance Sheets. The fair value of mortgage notes payable, classified as level 3 within the fair value hierarchy, is based on a discounted cash flow valuation model. Significant inputs in the model include amounts and timing of expected future cash flows and market yields which are constructed based on inputs implied from similar debt offerings.

9. DERIVATIVE INSTRUMENTS

The Company holds interest rate caps to hedge future payments on floating rate debt obligations. The interest rate caps are carried at fair value and are included in "Receivables and other assets, net" in the Consolidated Balance Sheets. The fair value adjustment on the Company's interest rate caps was a loss of \$168 and \$964 for the years ended December 31, 2016 and 2015, respectively, and is included in "Other expense (income)" in the Consolidated Statements of Operations. The Company did not hold any derivative instruments prior to 2015.

The following table presents information related to the Company's outstanding interest rate caps:

	December 31, 2016	December 31, 2015
Outstanding notional amount	\$ 717,282	\$ 731,318
LIBOR cap range	3.30% to 3.80%	3.30% to 3.80%
LIBOR cap effective date range	Mar 2015 to Sep 2020	Mar 2015 to Sep 2020
Fair value	\$ 115	\$ 283

10. ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31, 2016	December 31, 2015
Security deposits payable	\$ 57,186	\$ 54,669
Escrow liabilities ^(A)	10,503	2,538
Accounts payable	10,137	6,816
Mortgage interest payable	6,671	6,415
Deferred community fees, net	5,257	4,450
Rent collected in advance	3,180	3,937
Property tax payable	3,877	3,599
Other liabilities ^(B)	4,012	6,749
Total accrued expenses and other liabilities	\$ 100,823	\$ 89,173

(A) Represents amounts held in tax, insurance, and replacement reserve escrow accounts that are related to mortgage notes collateralized by New Senior's triple net lease properties.

(B) Includes liabilities related to assets held for sale of \$74 related to two AL/MC properties classified as held for sale as of December 31, 2016. These properties were sold on January 31, 2017; see Note 17 for further information.

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11. TRANSACTIONS WITH AFFILIATES

Management Agreements

In conjunction with the spin-off, New Senior entered into a management agreement (the "Management Agreement") with the Manager dated November 6, 2014 (effective November 7, 2014), under which the Manager advises the Company on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Company's board of directors. For its management services, the Manager is entitled to a base management fee of 1.5% per annum of the Company's gross equity. Gross equity is generally defined as the equity invested by Drive Shack (including cash contributed to the Company) as of the completion of the spin-off from Drive Shack, plus the aggregate offering price from stock offerings, plus certain capital contributions to subsidiaries, less capital distributions (calculated without regard to depreciation and amortization) and repurchases of common stock, calculated and payable monthly in arrears in cash. During the years ended December 31, 2016 and 2015 and the period from November 7, 2014 to December 31, 2014, the Company incurred management fees of \$15,401, \$14,279 and \$1,860, respectively, under the Management Agreement, which is included in "Management fees and incentive compensation to affiliate" in the Consolidated Statements of Operations. As of December 31, 2016 and 2015, the Company had a payable for management fees of \$1,280 and \$1,349, respectively, which is included in "Due to affiliates" in the Consolidated Balance Sheets.

The Manager is entitled to receive, on a quarterly basis, incentive compensation on a cumulative, but not compounding basis, in an amount equal to the product of (A) 25% of the dollar amount by which (1)(a) funds from operations (as defined in the Management Agreement) before the incentive compensation per share of common stock, plus (b) gains (or losses) from sales of property per share of common stock, plus (c) internal and third party acquisition-related expenses, plus (d) unconsummated transaction expenses, and plus (e) other non-routine items (as defined in the Management Agreement), exceed (2) an amount equal to (a) the weighted average value per share of the equity invested by Drive Shack in the assets of the Company (including cash contributed to the Company) as of the completion of the spin-off and the price per share of the Company's common stock in any offerings by the Company (adjusted for prior capital dividends or capital distributions, which shall be calculated without regard to depreciation and amortization and repurchases of common stock) multiplied by (b) a simple interest rate of 10% per annum, multiplied by (B) the weighted average number of shares of common stock outstanding. During the years ended December 31, 2016 and 2015 and the period from November 7, 2014 to December 31, 2014, the Manager earned incentive compensation of \$2,742, \$0 and \$0, respectively, which is included in "Management fees and incentive compensation to affiliate" in the Consolidated Statements of Operations. As of December 31, 2016 and 2015, the Company had a payable for incentive compensation of \$2,106 and \$0, respectively, which is included in "Due to affiliates" in the Consolidated Balance Sheets. The Manager is also entitled to receive, upon the successful completion of an equity offering, options with respect to 10% of the number of shares sold in the offering with an exercise price equal to the price paid by the purchaser in the offering.

Because the Manager's employees perform certain legal, accounting, due diligence, asset management and other services that outside professionals or outside consultants otherwise would perform, the Manager is paid or reimbursed, pursuant to the Management Agreement, for the cost of performing such tasks, provided that such costs and reimbursements are no greater than those which would be paid to outside professionals or consultants on an arm's-length basis. The Company is also required to pay all operating expenses, except those specifically required to be borne by the Manager under the Management Agreement. The Company is required to pay expenses that include, but are not limited to, issuance and transaction costs incidental to the sourcing, evaluation, acquisition, management, disposition, and financing of the Company's investments, legal, underwriting, sourcing, asset management and accounting and auditing fees and expenses, the compensation and expenses of independent directors, the costs associated with the establishment and maintenance of any credit facilities and other indebtedness of the Company (including commitment fees, legal fees, closing costs, etc.), expenses associated with other securities offerings of the Company, the costs of printing and mailing proxies and reports to the Company's stockholders, costs incurred by employees or agents of the Manager for travel on the Company's behalf, costs associated with any computer software or hardware that is used by the Company, costs to obtain liability insurance to indemnify directors and officers and the compensation and expenses of the Company's transfer agent.

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The following table summarizes the Company's reimbursement to the Manager for costs incurred for tasks and other services performed by the Manager under the Management Agreement:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Period From November 7, 2014 to December 31, 2014
Included in:			
General and administrative expense	\$ 8,158	\$ 6,607	\$ 822
Acquisition, transaction and integration expense	1,610	3,073	729
Total reimbursements to the Manager	<u>\$ 9,768</u>	<u>\$ 9,680</u>	<u>\$ 1,551</u>

As of December 31, 2016 and 2015, the Company had a payable for Manager reimbursements of \$1,046 and \$1,518, respectively, which is included in "Due to affiliates" in the Consolidated Balance Sheets.

During 2015, the Company executed a plan to centralize operations in New York, New York and relocate certain personnel from the Plano, Texas office to New York, New York. The Company determined that this plan qualified as a restructuring activity under ASC 420. During the years ended December 31, 2016 and 2015, the Company incurred costs of \$145 and \$664, respectively, which primarily consist of severance-related costs and lease-related expenses associated with the office in Plano, Texas, and are included in "Other expense (income)" in the Consolidated Statements of Operations. The Company does not expect to incur any material costs related to this restructuring in subsequent periods.

As of, and for the periods prior to, November 6, 2014, the Company was not party to a stand-alone management agreement with the Manager. However, the Company was allocated a portion of the fees paid by Drive Shack to the Manager for management services in the amount of \$6,610 for the period from January 1, 2014 to November 6, 2014. Drive Shack's management agreement with the Manager provides that Drive Shack reimburses the Manager for various expenses incurred by the Manager or its officers, employees and agents on its behalf, including costs of legal, accounting, tax, auditing, administrative and other similar services rendered for Drive Shack by providers retained by the Manager or, if provided by the Manager's employees, based on amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis. Drive Shack's Manager was also entitled to receive incentive compensation on a cumulative, but not compounding basis, subject to certain performance targets and contingent events. The Manager earned no incentive compensation during the period from January 1, 2014 to November 6, 2014.

Property Management Agreements

Within the Company's Managed Properties segment, the Company is party to Property Management Agreements with Blue Harbor, an affiliate of Fortress, and Holiday, a portfolio company that is majority owned by a private equity fund managed by an affiliate of Fortress, to manage most of its senior housing properties. Pursuant to these Property Management Agreements, the Company pays monthly property management fees. For AL/MC properties managed by Blue Harbor and Holiday, the Company pays management fees equal to 6% of effective gross income for the first two years and 7% thereafter. For IL properties managed by Blue Harbor and Holiday, the Company generally pays management fees equal to 5% of effective gross income. For certain property management agreements, the Company may also pay an incentive fee based on operating performance of the properties. No incentive fees were incurred during the years ended December 31, 2016, 2015 and 2014. Property management fees are included in "Property operating expense" in the Consolidated Statements of Operations. Other amounts paid to affiliated managers that are included in property operating expense are payroll expense and travel reimbursement costs. The payroll expense is structured as a reimbursement to the Property Manager, who is the employer of record.

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The following table summarizes property management fees and reimbursements paid by the Company to Property Managers affiliated with Fortress:

	Year Ended December 31,		
	2016	2015	2014
Property management fees	\$ 19,724	\$ 16,167	\$ 9,327
Travel reimbursement costs	366	369	318
Property-level payroll expenses	104,180	85,477	58,017

As of December 31, 2016 and 2015, the Company had payables for property management fees of \$1,676 and \$1,689, respectively, and property-level payroll expenses of \$5,515 and \$5,088, respectively, which are included in "Due to affiliates" in the Consolidated Balance Sheets. The Property Management Agreements with affiliated managers have initial terms of 5 or 10 years and provide for automatic one-year extensions after the initial term, subject to termination rights.

In October 2016, the Company sold two properties and, pursuant to the Property Management Agreement, paid an early termination fee of \$1,799 to Blue Harbor. See Note 4 for further information.

Triple Net Lease Agreements

Within the Company's Triple Net Lease segment, the Company is party to triple net leases with Holiday. Pursuant to the leases, the tenant is required to pay monthly rent payments in accordance with the lease terms. Such payments amounted to \$71,015, \$67,957 and \$65,031 for the years ended December 31, 2016, 2015 and 2014, respectively.

12. INCOME TAXES

New Senior is organized and conducts its operations to qualify as a REIT under the requirements of the Code. However, certain of the Company's activities are conducted through its TRS and therefore are subject to federal and state income taxes at regular corporate tax rates.

The following table presents the provision (benefit) for income taxes:

	Year Ended December 31,		
	2016	2015	2014
Current			
Federal	\$ 16	\$ 26	\$ (925)
State and local	326	84	170
Total current provision	342	110	(755)
Deferred			
Federal	89	(3,576)	907
State and local	8	(189)	8
Total deferred provision	97	(3,765)	915
Total provision (benefit) for income taxes	\$ 439	\$ (3,655)	\$ 160

Generally, the Company's effective tax rate differs from the federal statutory rate as a result of state and local taxes and non-taxable REIT income. The table below provides a reconciliation of the Company's provision for income taxes, based on the statutory rate of 35%, to the effective tax rate.

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	Year Ended December 31,		
	2016	2015	2014
Statutory U.S. federal income tax rate	35.00 %	35.00 %	35.00 %
)))
Non-taxable REIT (loss)	(35.16 %	(30.87 %	(35.03 %
)))
State and local taxes	(0.39 %	0.16 %	(0.29 %
)))
Other	(0.06 %	(0.06 %	(0.03 %
)))
Effective income tax rate	(0.61 %	4.23 %	(0.35 %

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and deferred tax liabilities are presented below:

	December 31,	
	2016	2015
Deferred tax assets:		
Prepaid fees and rent	\$ 1,816	\$ 1,976
Net operating loss	4,386	5,175
Deferred rent	3,129	2,063
Tax credits	42	26
Other	113	70
Total deferred tax assets	9,486	9,310
Less valuation allowance	—	—
Net deferred tax assets	9,486	9,310
Deferred tax liabilities:		
Depreciation and amortization	826	553
Total deferred tax liabilities	826	553
Total net deferred tax assets	\$ 8,660	\$ 8,757

Net deferred tax assets are recorded within "Receivables and other assets, net" in the Consolidated Balance Sheets.

As of December 31, 2016, the Company's TRS had a loss carryforward of approximately \$11,357 for federal and state income tax purposes, which will begin to expire in 2034. The net operating loss carryforward can generally be used to offset future taxable income, if and when it arises.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income by the TRS during the periods in which temporary differences become deductible and before the net operating loss carryforward expires. The Company has not recorded a valuation allowance against its deferred tax assets as of December 31, 2016 as management believes that it is more likely than not that its deferred tax assets will be realized.

The Company and its TRS file income tax returns with the U.S. federal government and various state and local jurisdictions. Generally, the Company is no longer subject to tax examinations by tax authorities for tax years ended prior to December 31, 2013. The examination of the Company's TRS federal income tax return for the year ended December 31, 2013 was completed and is no longer subject to examination. The conclusion of the examination resulted in a minimal reduction to the TRS's net operating loss carryforward. The Company has assessed its tax positions for all open years and concluded that there are no material uncertainties to be recognized. As of

December 31, 2016, the Company does not believe that there will be a significant change to uncertain tax positions during the next 12 months.

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13. EQUITY AND EARNINGS PER SHARE

Equity and Dividends

During the years ended December 31, 2016, 2015 and 2014, dividends declared per common share were \$1.04, \$0.75 and \$0.23, respectively.

On December 17, 2015, the board of directors authorized the Company to commence a modified “Dutch auction” self-tender offer to repurchase up to \$30,000 in cash of shares of its common stock. The tender offer commenced on December 17, 2015 and expired on January 19, 2016. The Company incurred \$30,913, including transaction costs, to repurchase 3,333,333 shares at a tender price of \$9.00 per share. The cost paid to acquire the shares in excess of par was recorded in “Additional paid-in capital” in the Consolidated Statements of Changes in Equity.

In July 2016, the Company issued an aggregate of 13,029 shares of its common stock to its independent directors as compensation.

As of December 31, 2016, 1,302,720 shares of the Company's common stock were held by Fortress, through its affiliates, and its principals.

Option Plan

Effective upon the spin-off, the Company has a Nonqualified Stock Option and Incentive Award Plan (the “Plan”) which provides for the grant of equity-based awards, including restricted stock, stock options, stock appreciation rights, performance awards, tandem awards and other equity-based and non-equity based awards, in each case to the Manager and to the directors, officers, employees, service providers, consultants and advisors of the Manager who perform services for New Senior and to New Senior’s directors, officers, service providers, consultants and advisors. New Senior has initially reserved 30 million shares of its common stock for issuance under the Plan; on the first day of each fiscal year beginning during the ten-year term of the Plan in and after calendar year 2014, that number will be increased by a number of shares of New Senior’s common stock equal to 10% of the number of shares of common stock newly issued by New Senior during the immediately preceding fiscal year. New Senior’s board of directors may also determine to issue options to the Manager that are not subject to the Plan, provided that the number of shares underlying any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to NYSE rules.

Prior to the spin-off, Drive Shack had issued rights relating to shares of Drive Shack’s common stock (the “Drive Shack options”) to the Manager in connection with capital raising activities. In connection with the spin-off, 5.5 million options that were held by the Manager, or by the directors, officers or employees of the Manager, were converted into an adjusted Drive Shack option and a right relating to a number of shares of New Senior common stock (the “New Senior option”). The exercise price of each adjusted Drive Shack option and New Senior option was set to collectively maintain the intrinsic value of the Drive Shack option immediately prior to the spin-off and to maintain the ratio of the exercise price of the adjusted Drive Shack option and the New Senior option, respectively, to the fair market value of the underlying shares as of the spin-off date, in each case based on the five day average closing price subsequent to the spin-off date. The options expired or expire, as applicable, between January 12, 2015 and August 18, 2024.

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2016 Activity

In the first quarter of 2016, strike prices for outstanding options were reduced by \$0.98, reflecting the portion of the Company's 2015 dividends which were deemed return of capital.

In March 2016, the Company granted options to a new director relating to 5,000 shares of common stock, the grant date fair value of which was not material.

2015 Activity

In connection with the June 2015 public equity offering, the Company granted options to the Manager, pursuant to the Management Agreement, relating to 2,011,409 shares of New Senior's common stock at a price of \$13.75, which had a grant date fair value of \$2,976. The Company applied the Black Scholes model to value the options and the assumptions used were: a 2.51% risk-free rate, a 8.16% dividend yield, 21.32% volatility and a 10 year term. The fair value of these options was recorded as an increase in equity with an offsetting reduction of capital proceeds received.

On July 16, 2015 and November 6, 2015, former and current employees of the Manager exercised options in respect of 12,499 and 162,492 shares, respectively, of the Company's common stock. In each case, the exercise of the options was accomplished pursuant to a cashless exercise, whereby the option holders surrendered 7,864 and 137,081 shares, respectively, of common stock based on the closing market prices on July 16, 2015 and November 5, 2015, which were \$13.40 and \$9.99 per share, respectively, to cover the per share exercise price of the options. The options had a weighted average exercise price of \$8.43 per share.

The Company's outstanding options are summarized as follows:

	Outstanding Options at December 31, 2015	2016 Activity			Outstanding Options at December 31, 2016
		Exercised	Expired / Forfeited	Granted / Transferred	
Held by the Manager	6,985,606	—	(5,210)	(402,282)	6,578,114
Issued to the Manager and subsequently transferred to certain of the Manager's employees	296,079	—	(23,121)	402,282	675,240
Issued to the independent directors	20,000	—	—	5,000	25,000
Total outstanding options	<u>7,301,685</u>	<u>—</u>	<u>(28,331)</u>	<u>5,000</u>	<u>7,278,354</u>

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The following table summarizes the Company's outstanding options as of December 31, 2016. The last sale price on the NYSE for the Company's common stock in the year ended December 31, 2016 was \$9.79 per share.

Recipient	Date of Grant / Exercise (A)	Number of Options	Options Exercisable	Weighted Average Exercise Price (B)	Intrinsic Value (millions)
Manager (C)	2004 - 2007	227,073	116,330	\$ 54.94	\$ —
Manager	March 2011	182,527	182,527	6.20	0.7
Manager	September 2011	283,305	283,305	3.11	1.9
Manager (C)	April 2012	311,191	257,660	6.68	0.8
Manager (C)	May 2012	377,495	312,026	7.77	0.6
Manager (C)	July 2012	416,522	346,343	7.73	0.7
Manager (C)	January 2013	958,331	958,331	13.44	—
Manager (C)	February 2013	383,331	383,331	15.87	—
Manager (C)	June 2013	670,829	670,829	16.91	—
Manager (C)	November 2013	965,847	965,847	18.25	—
Manager	August 2014	765,416	714,388	19.91	—
Directors	November 2014	20,000	20,000	16.23	—
Manager (C)	June 2015	2,011,409	1,206,845	12.77	—
Directors	March 2016	5,000	5,000	10.12	—
Total		7,578,276	6,422,762		
Less:					
Exercised options	2014	14,188	N/A	8.41	N/A
Exercised options	2015	174,991	N/A	8.43	N/A
Expired options	2004 - 2006	110,743	N/A	57.87	N/A
Total outstanding options		7,278,354	6,422,762		
Aggregate:					
Weighted average exercise price		\$ 14.35	\$ 14.51		
Weighted average remaining life (years)		6.8	6.6		
Intrinsic value (millions)		\$ 4.7	\$ 4.7		

(A) Options expire on the tenth anniversary from date of grant.

(B) The strike prices are subject to adjustment in connection with return of capital dividends.

(C) The Manager assigned certain of its options to Fortress's employees as follows:

Date of Grant	Range of Strike Prices		Total Unexercised Inception to Date
	Min	Max	
2004 - 2007	\$ 52.28	\$ 59.94	6,301
2012	6.68	7.77	—
2013	13.44	18.25	266,657
2015	12.77	12.77	402,282
Total options assigned to employees			675,240

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Earnings Per Share

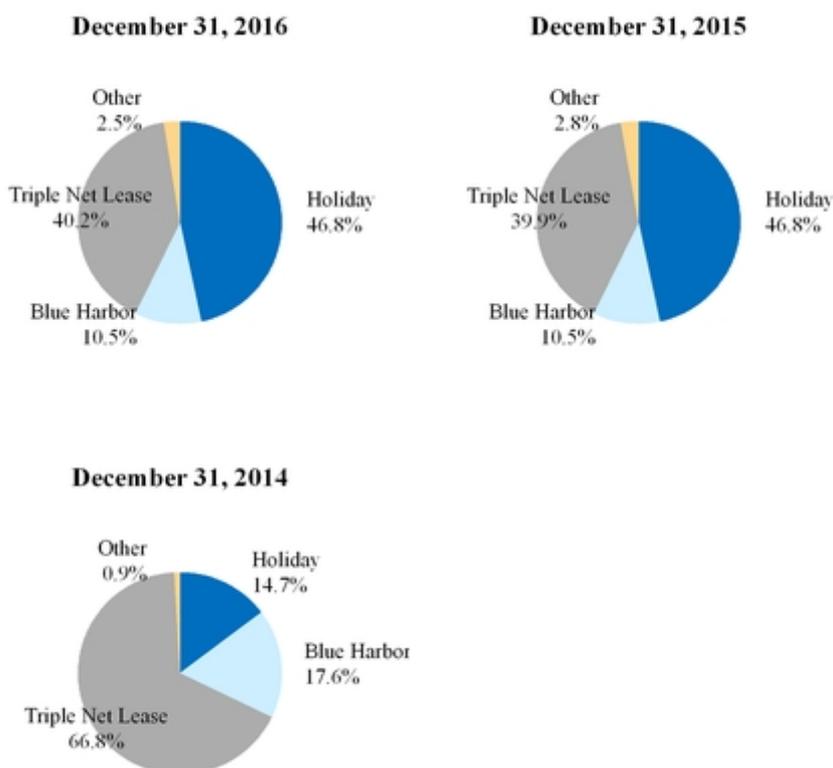
The Company is required to present both basic and diluted EPS. Basic EPS is calculated by dividing net loss by the weighted average number of shares of common stock outstanding. Diluted EPS is computed by dividing net loss by the weighted average number of shares of common stock outstanding plus the additional dilutive effect, if any, of common stock equivalents during each period. The Company's common stock equivalents are its outstanding stock options.

Basic and Diluted EPS for all periods prior to the spin-off reflect the number of distributed shares on November 7, 2014, or 66.4 million shares. For 2014 year-to-date calculations, these shares are treated as issued and outstanding from January 1, 2014 for purposes of calculating historical basic EPS, similar to a stock split. At the time of the spin-off, the Drive Shack options were converted to awards of New Senior, and, therefore, there were no potentially dilutive securities outstanding for historical periods. For 2014, the Company determined its weighted average diluted shares outstanding assuming that the date of New Senior's separation from Drive Shack was the beginning of the period.

During the years ended December 31, 2016, 2015 and 2014, 539,783, 635,624 and 162,563 potentially dilutive shares, respectively, were excluded given the Company's loss position, so basic EPS and diluted EPS were the same for each reporting period.

14. CONCENTRATION OF CREDIT RISK

The following graphs present the Company's managed properties and triple net lease properties as a percentage of the Company's real estate investments (based on their carrying amount):



Managed Properties

The following table presents the properties managed by Holiday and Blue Harbor as a percentage of segment real estate investments, net, segment revenue and segment NOI:

	As of and for the year ended December 31,					
	2016		2015		2014	
	Holiday	Blue Harbor	Holiday	Blue Harbor	Holiday	Blue Harbor
Segment Real Estate Investments, Net	78.2 %	17.5 %	77.9 %	17.5 %	44.2 %	53.0 %
Segment Revenue	65.9 %	29.6 %	57.7 %	38.8 %	45.4 %	54.4 %
Segment NOI	72.3 %	24.2 %	62.2 %	34.4 %	41.8 %	57.9 %

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Because Holiday and Blue Harbor manage, but do not lease the Company's properties in the Managed Properties segment, the Company is not directly exposed to their credit risk in the same manner or to the same extent as that of the Company's triple net lease tenants. However, the Company relies on Holiday and Blue Harbor's personnel, expertise, accounting resources and information systems, proprietary information, good faith and judgment to manage the Company's properties efficiently and effectively. The Company also relies on Holiday and Blue Harbor to otherwise operate the Company's properties in compliance with the terms of the Property Management Agreements, although the Company has various rights as the property owner to terminate and exercise remedies under the Property Management Agreements. Holiday's and Blue Harbor's inability or unwillingness to satisfy their obligations under those agreements, to efficiently and effectively manage the Company's properties, or to provide timely and accurate accounting information could have a material adverse effect on the Company. Additionally, significant changes in Holiday's and Blue Harbor's senior management or adverse developments in their business and affairs or financial condition could have a material adverse effect on the Company.

Triple Net Lease Properties

The following table presents lease agreements with the tenant for the Holiday Portfolios as a percentage of the Company's total revenue and total NOI:

	Year Ended December 31,		
	2016	2015	2014
Total Revenue	18.9 %	23.0 %	35.0 %
Total NOI	38.9 %	45.0 %	62.5 %

Pursuant to the triple net lease arrangements, the tenants are contractually obligated to pay for all property-related expenses, including maintenance, utilities, taxes, insurance, repairs, capital improvements and the payroll expense of property-level employees. If any tenant defaults under the lease, material adverse effects may include loss in revenues and funding of certain property related costs. In addition, each of the leases requires the tenant to comply with the terms of mortgage financing documents, if any, affecting the properties and has guaranty and cross default provisions tied to other leases with the same tenant.

Because the properties leased to the tenant for the Holiday Portfolios account for a significant portion of total revenues and NOI, the Company's financial condition and results of operations could be weakened and the Company's ability to service its indebtedness and to make distributions to stockholders could be limited if the tenant for the Holiday Portfolios becomes unable or unwilling to satisfy its obligations to the Company or to renew leases with the Company upon expiration of the terms thereof. New Senior cannot assure that the tenant for the Holiday Portfolios will have sufficient assets, income and access to financing to enable it to satisfy its respective obligations to the Company, and any inability or unwillingness by the tenant for the Holiday Portfolios to do so could have a material adverse effect on the Company's business, financial condition, results of operations and liquidity, the Company's ability to service its indebtedness and other obligations and ability to make distributions to stockholders, as required for the Company to continue to qualify as a REIT. New Senior also cannot assure that the tenant for the Holiday Portfolios will elect to renew leases with the Company upon expiration of the terms thereof or that New Senior will be able to reposition any properties that are not renewed on a timely basis or on the same or better economic terms, if at all.

The Company monitors the creditworthiness of its tenants by evaluating the ability of the tenants to meet their lease obligations to the Company based on the tenants' financial performance, including the evaluation of tenant lease obligations. The Company periodically obtains various financial and operational information and reviews this information in conjunction with contractually agreed coverage metrics to monitor the financial condition and performance of the tenants, and ultimately, the tenants' ability to generate sufficient liquidity to meet their obligations under the leases.

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Each triple net master lease includes (i) a covenant requiring the tenant for the Holiday Portfolios to maintain a minimum lease coverage ratio, which the triple net master lease defines as net operating income less a reserve for capital expenditures for the applicable trailing 12-month period for the Holiday Portfolios divided by the base rental revenue for such trailing 12-month period, which steps up during the term of the lease and is subject to certain cure provisions, (ii) minimum capital expenditure requirements, (iii) customary operating covenants, events of default, and remedies, (iv) a non-compete clause restricting certain affiliates of the tenant for the Holiday Portfolios from developing or constructing new independent living properties within a specified radius of any property acquired by the Company in this transaction, and (v) restrictions on a change of control of the tenant for the Holiday Portfolios and Guarantor (as defined below), subject to certain exceptions. The triple net master leases also require the tenant for the Holiday Portfolios to fund a security deposit in the amount of approximately \$43,354, which serves as security for the tenant for the Holiday Portfolios' performance of its obligations to the Company. Additionally, the tenant for the Holiday Portfolios granted the Company a first priority security interest in certain personal property and receivables arising from the operations of the Holiday Portfolios, which security interest also secures the tenant for the Holiday Portfolios' obligations under the triple net master leases. The tenant for the Holiday Portfolios' obligations to the Company under the triple net master leases are further guaranteed by Holiday AL Holdings LP, (the "Guarantor"), an affiliate of Fortress. The Guarantor is required to maintain a minimum net worth of \$150,000, a minimum fixed charge coverage ratio of 1.10 and a maximum leverage ratio of 10 to 1.

15. FUTURE MINIMUM RENTS

The following table sets forth future contracted minimum rents from tenants within the Triple Net Lease Properties segment, excluding contingent payment escalations, as of December 31, 2016:

Years Ending December 31	
2017	\$ 95,230
2018	98,471
2019	101,715
2020	105,067
2021	108,531
Thereafter	1,126,284
Total future minimum rents	\$ 1,635,298

16. COMMITMENTS AND CONTINGENCIES

As of December 31, 2016, management believes there are no material contingencies that would affect the Company's results of operations, cash flows or financial position.

Certain Obligations, Liabilities and Litigation

The Company is and may become subject to various obligations, liabilities, investigations, inquiries and litigation assumed in connection with or arising out of its acquisitions or otherwise arising in connection with its on-going business. Some of these liabilities may be indemnified by third parties. However, if these liabilities, investigations and inquiries are greater than expected or were not known to the Company at the time of acquisition, if the Company is not entitled to indemnification, or if the responsible third party fails to indemnify the Company for these liabilities, such obligations, liabilities and litigation could have a material adverse effect on the Company. In addition, in connection with the sale or leasing of properties, the Company may incur various obligations and liabilities, including indemnification obligations, relating to the operations of those properties, which could have a material adverse effect on the Company's financial position, cash flows and results of operations.

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Certain Tax-Related Covenants

If New Senior is treated as a successor to Drive Shack under applicable U.S. federal income tax rules, and if Drive Shack failed to qualify as a REIT for a taxable year ending on or before December 31, 2015, New Senior could be prohibited from electing to be a REIT. Accordingly, in the separation and distribution agreement entered into to effect our spin-off from Drive Shack (“Separation and Distribution Agreement”), Drive Shack (i) represented that it had no knowledge of any fact or circumstance that would cause New Senior to fail to qualify as a REIT, (ii) covenanted to use commercially reasonable efforts to cooperate with New Senior as necessary to enable New Senior to qualify for taxation as a REIT and receive customary legal opinions concerning REIT status, including providing information and representations to New Senior and its tax counsel with respect to the composition of Drive Shack’s income and assets, the composition of its stockholders and its operation as a REIT, and (iii) covenanted to use its reasonable best efforts to maintain its REIT status for each of Drive Shack’s taxable years ending on or before December 31, 2015 (unless Drive Shack obtains an opinion from a nationally recognized tax counsel or a private letter ruling from the Internal Revenue Service (“IRS”) to the effect that Drive Shack’s failure to maintain its REIT status will not cause New Senior to fail to qualify as a REIT under the successor REIT rule referred to above).

Proceedings Indemnified and Defended by Third Parties

From time to time, the Company is party to certain legal actions, regulatory investigations and claims for which third parties are contractually obligated to indemnify, defend and hold the Company harmless. While the Company is presently not being defended by any tenant and other obligated third parties in these types of matters, there is no assurance that its tenants, their affiliates or other obligated third parties will continue to defend the Company in these matters, or that such parties will have sufficient assets, income and access to financing to enable them to satisfy their defense and indemnification obligations to the Company.

Environmental Costs

As a commercial real estate owner, the Company is subject to potential environmental costs. As of December 31, 2016, management of the Company is not aware of any environmental concerns that would have a material adverse effect on the Company’s financial position or results of operations.

Capital Improvement, Repair and Lease Commitments

The Company is committed to making \$4,000 immediately available for capital improvements to the triple net lease properties under the LCS Portfolio, of which \$3,851 has been funded as of December 31, 2016. The Company also agreed to make available an additional \$11,500 at certain intervals over the 15 year lease period to be used for further capital improvements. Upon funding the capital improvements, the Company will be entitled to a rent increase. Additionally, the Company is committed under the Watermark triple net lease property to make \$1,000 available for lender mandated repairs, of which \$334 has been funded as of December 31, 2016. The Company has also agreed to make \$1,000 available for additional capital improvements during the 15 year lease period. Upon funding the capital improvements, the Company will be entitled to a rent increase.

17. SUBSEQUENT EVENTS

These consolidated financial statements include a discussion of material events, if any, which have occurred subsequent to December 31, 2016 (referred to as subsequent events) through the issuance of the consolidated financial statements.

During January 2017, the Company issued an aggregate of 13,969 shares of its common stock to independent directors as compensation.

On January 31, 2017, the Company sold two AL/MC properties with a net carrying value for real estate investments of \$10,774 for a purchase price of \$15,500, resulting in a gain of approximately \$4,000. In connection with this sale, the Company repaid \$14,730 of debt.

On February 27, 2017, the Company's board of directors declared a cash dividend on its common stock of \$0.26 per common share for the quarter ended December 31, 2016. The dividend is payable on March 22, 2017 to shareholders of record on March 10, 2017.

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18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

2016	Quarter Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
Revenue	\$ 117,945	\$ 118,541	\$ 118,457	\$ 117,495	\$ 472,438
Net operating income	57,320	57,935	57,103	57,053	229,411
Loss before income taxes	(22,074)	(27,883)	(19,459)	(2,394)	(71,810)
Income tax (benefit) expense	(226)	(525)	782	408	439
Net loss	\$ (21,848)	\$ (27,358)	\$ (20,241)	\$ (2,802)	\$ (72,249)
Loss per share of common stock					
Basic and diluted	\$ (0.26)	\$ (0.33)	\$ (0.25)	\$ (0.03)	\$ (0.88)
Weighted average number of shares of common stock outstanding					
Basic and diluted	83,066,599	82,114,218	82,126,397	82,127,247	82,357,349
2015					
Revenue	\$ 73,860	\$ 91,200	\$ 104,985	\$ 118,433	\$ 388,478
Net operating income	39,589	48,376	53,225	57,745	198,935
Loss before income taxes	(21,348)	(21,061)	(18,337)	(25,334)	(86,080)
Income tax (benefit) expense	(95)	129	(378)	(3,311)	(3,655)
Net loss	\$ (21,253)	\$ (21,190)	\$ (17,959)	\$ (22,023)	\$ (82,425)
Loss per share of common stock					
Basic and diluted	\$ (0.32)	\$ (0.32)	\$ (0.21)	\$ (0.26)	\$ (1.08)
Weighted average number of shares of common stock outstanding					
Basic and diluted	66,415,415	66,857,483	86,533,384	86,271,022	76,601,161

Results of operations for 2015 include \$2.2 million in out of period adjustments which primarily relate to: (a) a \$2.2 million tax benefit recognized in the fourth quarter for deferred tax assets originating in the Company's TRS which should have been recognized in prior years and (b) an adjustment of approximately \$1.8 million in additional amortization of acquired intangibles recognized in the fourth quarter, the majority of which should have been recognized in the three-month period ended September 30, 2015. The Company does not believe these out of period adjustments are material to its financial position or results of operations for any prior periods, nor to the year ended December 31, 2015.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2016
(dollars in thousands)

Property Name	Type	Location		Initial Cost to the Company				Gross Amount Carried at Close of Period					Net Accumulated Depreciation	Book Value	Year Constructed / Renovated	Year Acquired	Life on Which Depreciation in Income Statement is Computed
		City	State	Encumbrances (A)	Land	Buildings and Improvements	Furniture and Fixtures	Capitalized to Acquisition	Land	Buildings and Improvements	Furniture and Fixtures	Total					
<i>Managed Properties</i>																	
Andover Place	IL	Little Rock	AR	13,995	629	14,664	783	173	629	14,717	903	16,249	(791)	15,458	1991/NA	2015	3-40 years
Desert Flower	AL/MC	Scottsdale	AZ	17,452	2,295	16,901	101	659	2,295	17,336	325	19,956	(2,293)	17,663	1999/2005	2012	3-40 years
Arcadia Place	IL	Vista	CA	16,575	1,569	14,252	804	248	1,569	14,343	961	16,873	(839)	16,034	1989/NA	2015	3-40 years
Chateau at Harveston	IL	Temecula	CA	25,275	1,564	27,532	838	87	1,564	27,578	879	30,021	(1,553)	28,468	2008/NA	2015	3-40 years
Golden Oaks	IL	Yucaipa	CA	22,735	772	24,989	867	146	772	25,036	966	26,774	(1,519)	25,255	2008/NA	2015	3-40 years
Orchard Park	AL/MC	Clovis	CA	16,331	1,126	16,889	45	607	1,126	17,273	268	18,667	(2,237)	16,430	1998/2007	2012	3-40 years
Rancho Village	IL	Palmdale	CA	18,660	323	22,341	882	283	323	22,382	1,124	23,829	(1,410)	22,419	2008/NA	2015	3-40 years
Sunshine Villa	AL/MC	Santa Cruz	CA	21,145	2,243	21,082	58	590	2,243	21,413	317	23,973	(2,800)	21,173	1990/NA	2012	3-40 years
The Remington	IL	Hanford	CA	13,628	1,300	16,003	825	351	1,300	16,099	1,080	18,479	(880)	17,599	1997/NA	2015	3-40 years
The Springs of Escondido	IL	Escondido	CA	15,375	670	14,392	721	622	670	14,678	1,057	16,405	(807)	15,598	1986/NA	2015	3-40 years
The Springs of Napa	IL	Napa	CA	15,408	2,419	11,978	700	158	2,419	11,999	837	15,255	(748)	14,507	1996/NA	2015	3-40 years
Quincy Place	IL	Denver	CO	16,435	1,179	18,200	825	(199)	1,179	18,277	549	20,005	(939)	19,066	1996/NA	2015	3-40 years
Augustine Landing	IL	Jacksonville	FL	19,076	680	19,635	770	115	680	19,666	854	21,200	(962)	20,238	1999/NA	2015	3-40 years
Balmoral	AL/MC	Lake Placid	FL	2,415	1,173	4,548	838	311	1,173	4,619	1,078	6,870	(1,178)	5,692	2007/NA	2013	3-40 years
Barkley Place	AL/MC	Fort Myers	FL	11,395	1,929	9,158	1,040	782	1,929	9,632	1,348	12,909	(1,557)	11,352	1988/NA	2013	3-40 years
Bayside Terrace	AL/MC	Pinellas Park	FL	7,740	1,407	9,481	848	1,134	1,407	9,952	1,511	12,870	(1,859)	11,011	1986/2007	2013	3-40 years
Bradenton Oaks	AL/MC	Bradenton	FL	5,250	1,161	9,207	748	941	1,161	9,768	1,128	12,057	(1,654)	10,403	1973/1988	2013	3-40 years
Forest Oaks	AL/MC	Spring Hill	FL	7,107	787	5,614	529	263	787	5,673	733	7,193	(1,010)	6,183	1988/2006	2013	3-40 years
Grace Manor	AL/MC	Port Orange	FL	4,146	950	4,482	135	81	950	4,511	187	5,648	(276)	5,372	2011/NA	2015	3-40 years
Lake Morton Plaza	AL/MC	Lakeland	FL	8,605	1,098	14,707	918	562	1,098	14,884	1,303	17,285	(2,132)	15,153	1984/NA	2013	3-40 years
Marion Woods	IL	Ocala	FL	19,936	540	20,048	882	266	540	20,126	1,070	21,736	(1,099)	20,637	2003/NA	2015	3-40 years
Renaissance	AL/MC	Sanford	FL	5,260	1,390	8,901	629	886	1,390	9,405	1,011	11,806	(1,506)	10,300	1984/NA	2013	3-40 years
Royal Palm	AL/MC	Port Charlotte	FL	14,350	2,019	13,696	1,370	1,332	2,019	14,321	2,077	18,417	(2,529)	15,888	1985/NA	2013	3-40 years
Spring Haven	AL/MC	Winter Haven	FL	18,199	3,446	21,523	1,477	1,829	3,446	22,780	2,049	28,275	(3,397)	24,878	1984/NA	2013	3-40 years
Spring Oaks	AL/MC	Brooksville	FL	5,625	700	5,077	439	290	700	5,140	666	6,506	(927)	5,579	1988/NA	2013	3-40 years
Sterling Court	IL	Deltona	FL	9,365	1,095	13,960	954	171	1,095	14,055	1,030	16,180	(1,078)	15,102	2008/NA	2015	3-40 years
Summerfield	AL/MC	Bradenton	FL	12,435	1,367	14,361	1,247	1,222	1,367	14,596	2,234	18,197	(2,598)	15,599	1988/NA	2013	3-40 years
Sunset Lake Village	AL/MC	Venice	FL	10,055	1,073	13,254	838	419	1,073	13,343	1,168	15,584	(1,961)	13,623	1998/NA	2013	3-40 years
The Grande	AL/MC	Brooksville	FL	7,410	1,754	8,536	569	884	1,754	9,050	939	11,743	(1,405)	10,338	1960/2012	2013	3-40 years
University Pines	IL	Pensacola	FL	21,057	1,080	19,150	777	137	1,080	19,238	826	21,144	(935)	20,209	1996/NA	2015	3-40 years
Venetian Gardens	IL	Venice	FL	16,565	865	21,173	860	284	865	21,241	1,076	23,182	(1,386)	21,796	2007/NA	2015	3-40 years
Village Place	AL/MC	Port Charlotte	FL	8,365	1,064	8,503	679	589	1,064	8,593	1,178	10,835	(1,482)	9,353	1998/NA	2013	3-40 years
Windward Palms	IL	Boynton Beach	FL	16,805	1,564	20,097	867	318	1,564	20,308	974	22,846	(1,363)	21,483	2007/NA	2015	3-40 years
Ivy Springs Manor	AL/MC	Buford	GA	13,704	1,230	13,067	270	144	1,230	13,131	350	14,711	(721)	13,990	2012/NA	2015	3-40 years
Pinegate	IL	Macon	GA	12,902	540	12,290	811	167	540	12,346	922	13,808	(734)	13,074	2001/NA	2015	3-40 years

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Property Name	Type	Location		Initial Cost to the Company					Gross Amount Carried at Close of Period					Net Accumulated Depreciation	Book Value	Year Constructed / Renovated	Year Acquired	Life on Which Depreciation in Income Statement is Computed
		City	State	Encumbrances (A)	Land	Buildings and Land Improvements	Furniture and Fixtures	Capitalized Costs Subsequent to Acquisition	Land	Buildings and Land Improvements	Furniture and Fixtures	Total						
Kalama Heights	IL	Kihei	HI	22,896	3,360	27,212	846	219	3,360	27,300	977	31,637	(1,339)	30,298	2000/NA	2015	3-40 years	
Willow Park	AL/MC	Boise	ID	13,621	1,456	13,548	58	468	1,456	13,883	191	15,530	(1,891)	13,639	1997/2011	2012	3-40 years	
Grandview	AL/MC	Peoria	IL	11,500	1,606	12,015	280	83	1,606	12,080	298	13,984	(819)	13,165	2014	2014	3-40 years	
Redbud Hills	IL	Bloomington	IN	16,500	2,140	17,839	797	170	2,140	17,919	887	20,946	(927)	20,019	1998/NA	2015	3-40 years	
Greenwood Terrace	IL	Lenexa	KS	19,643	950	21,883	811	821	950	21,982	1,533	24,465	(1,140)	23,325	2003/NA	2015	3-40 years	
Waterview Court	IL	Shreveport	LA	6,530	1,267	4,070	376	637	1,267	4,519	564	6,350	(553)	5,797	1999/NA	2015	3-40 years	
Bluebird Estates	IL	East Longmeadow	MA	22,085	5,745	24,591	954	97	5,745	24,626	1,016	31,387	(1,662)	29,725	2008/NA	2015	3-40 years	
Quail Run Estates	IL	Agawam	MA	18,799	1,410	21,330	853	352	1,410	21,378	1,157	23,945	(1,212)	22,733	1996/NA	2015	3-40 years	
Ashford Court	IL	Westland	MI	9,360	1,500	9,000	450	568	1,500	9,387	631	11,518	(1,154)	10,364	1988/1992/1997	2014	3-40 years	
Genesee Gardens	IL	Flint Township	MI	15,900	420	17,080	825	349	420	17,318	936	18,674	(890)	17,784	2001/NA	2015	3-40 years	
Sterling Place	IL	Southfield	MI	3,920	463	2,707	251	495	463	2,866	587	3,916	(395)	3,521	1986/NA	2015	3-40 years	
The Gardens	AL/MC	Ocean Springs	MS	6,185	850	7,034	460	365	850	7,231	628	8,709	(768)	7,941	1999/2004/2013	2014	3-40 years	
Aspen View	IL	Billings	MT	14,110	930	22,611	881	(289)	930	22,702	501	24,133	(1,143)	22,990	1996/NA	2015	3-40 years	
Cedar Ridge	IL	Burlington	NC	15,637	1,030	20,330	832	129	1,030	20,364	927	22,321	(986)	21,335	2006/NA	2015	3-40 years	
Courtyards at Berne Village	AL/MC	New Bern	NC	19,970	1,657	12,893	1,148	750	1,657	13,170	1,621	16,448	(2,281)	14,167	1985/2004	2013	3-40 years	
Crescent Heights	IL	Concord	NC	21,285	1,960	21,290	867	168	1,960	21,345	980	24,285	(1,424)	22,861	2008/NA	2015	3-40 years	
Forsyth Court	IL	Winston Salem	NC	13,440	1,428	13,286	499	569	1,428	13,628	726	15,782	(982)	14,800	1989/NA	2015	3-40 years	
Lodge at Wake Forest	IL	Wake Forest	NC	22,820	1,209	22,571	867	213	1,209	22,631	1,020	24,860	(1,421)	23,439	2008/NA	2015	3-40 years	
Shads Landing	IL	Charlotte	NC	22,005	1,939	21,988	846	105	1,939	22,028	911	24,878	(1,495)	23,383	2008/NA	2015	3-40 years	
Woods at Holly Tree	IL	Wilmington	NC	27,382	3,310	24,934	811	192	3,310	24,987	950	29,247	(1,229)	28,018	2001/NA	2015	3-40 years	
Rolling Hills Ranch	IL	Omaha	NE	14,475	1,022	16,251	846	12	1,022	16,327	782	18,131	(1,149)	16,982	2007/NA	2015	3-40 years	
Kirkwood Corners	AL/MC	Lee	NH	2,490	578	1,847	124	215	578	1,944	242	2,764	(298)	2,466	1996	2014	3-40 years	
Maple Suites	IL	Dover	NH	25,205	1,084	30,943	838	168	1,084	31,011	938	33,033	(1,967)	31,066	2007/NA	2015	3-40 years	
Pine Rock Manor	AL/MC	Warner	NH	8,175	780	8,580	378	317	780	8,761	514	10,055	(1,061)	8,994	1994	2014	3-40 years	

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Property Name	Type	Location		Initial Cost to the Company					Gross Amount Carried at Close of Period					Net Book Value	Year Constructed / Renovated	Year Acquired	L.V. Depreciated in Status
		City	State	Encumbrances (A)	Land	Buildings and Improvements	Furniture and Equipment	Costs Capitalized Subsequent to Acquisition	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Total (B)					
Pines of New Market	AL/MC	Newmarket	NH	5,950	629	4,879	353	217	629	4,997	452	6,078	(607)	5,471	1999	2014	3-
Montara Meadows	IL	Las Vegas	NV	11,670	1,840	11,654	1,206	986	1,840	11,935	1,911	15,686	(953)	14,733	1986/NA	2015	3-
Manor at Woodside	IL	Poughkeepsie	NY	17,365	—	12,130	670	689	—	12,610	879	13,489	(1,838)	11,651	2001/NA	2013	3-
Alexis Gardens	IL	Toledo	OH	17,384	450	18,412	811	210	450	18,474	959	19,883	(959)	18,924	2002/NA	2015	3-
Copley Place	IL	Copley	OH	15,500	553	19,125	867	128	553	19,193	927	20,673	(1,265)	19,408	2008/NA	2015	3-
Laurelwood	AL/MC	Dayton	OH	6,900	1,056	7,755	750	571	1,056	7,912	1,164	10,132	(1,295)	8,837	1994/NA	2014	3-
Lionwood	IL	Oklahoma City	OK	4,580	744	5,180	383	296	744	5,348	511	6,603	(491)	6,112	2000/NA	2015	3-
Parkrose Chateau	IL	Portland	OR	12,569	2,740	17,472	749	246	2,740	17,584	883	21,207	(915)	20,292	1991/NA	2015	3-
Sheldon Park	AL/MC	Eugene	OR	19,607	929	20,662	91	530	929	21,078	205	22,212	(2,704)	19,508	1998/NA	2012	3-
Stone Lodge	IL	Bend	OR	19,675	1,200	25,753	790	134	1,200	25,797	880	27,877	(1,176)	26,701	1999/NA	2015	3-
Glen Riddle	AL/MC	Media	PA	20,000	1,932	16,169	870	656	1,932	16,517	1,178	19,627	(2,265)	17,362	1995/NA	2013	3-
Niagara Village	IL	Erie	PA	12,845	750	16,544	790	229	750	16,577	986	18,313	(885)	17,428	1999/NA	2015	3-
Schenley Gardens	AL/MC	Pittsburgh	PA	6,500	3,227	11,521	410	945	3,227	12,088	788	16,103	(1,662)	14,441	1996/NA	2013	3-
Indigo Pines	IL	Hilton Head	SC	15,334	2,850	15,970	832	677	2,850	16,036	1,443	20,329	(883)	19,446	1999/NA	2015	3-
Holiday Hills Estates	IL	Rapid City	SD	12,063	430	22,209	790	148	430	22,260	887	23,577	(1,037)	22,540	1999/NA	2015	3-
Echo Ridge	IL	Knoxville	TN	20,910	1,522	21,469	770	97	1,522	21,506	830	23,858	(1,072)	22,786	1997/NA	2015	3-
Maple Court	AL/MC	Powell	TN	3,720	761	6,482	305	88	761	6,489	386	7,636	(595)	7,041	2013	2014	3-
Raintree Terrace	AL/MC	Knoxville	TN	7,430	643	8,643	490	433	643	8,764	802	10,209	(1,002)	9,207	2012	2014	3-
Courtyards at River Park	AL/MC	Fort Worth	TX	20,775	2,140	16,671	672	1,120	2,140	17,406	1,057	20,603	(2,859)	17,744	1986/NA	2012	3-
Cypress Woods	IL	Kingwood	TX	17,800	1,376	19,815	860	139	1,376	19,892	922	22,190	(1,316)	20,874	2008/NA	2015	3-
Legacy at Bear Creek	AL/MC	Keller	TX	11,375	1,770	11,468	810	98	1,770	11,496	880	14,146	(597)	13,549	2013/NA	2015	3-
Legacy at Georgetown	AL/MC	Georgetown	TX	14,625	3,540	14,653	840	52	3,540	14,679	866	19,085	(728)	18,357	2013/NA	2015	3-
Windsor Canyon Creek	AL/MC	Dallas	TX	33,875	5,580	31,306	1,250	659	5,580	31,712	1,503	38,795	(2,651)	36,144	1972/2009	2014	3-
Chateau Brickyard	AL/MC	Cottonwood Heights	UT	16,146	1,488	16,308	59	501	1,488	16,574	294	18,356	(2,197)	16,159	2001/NA	2012	3-
Golden Living	IL	Salt Lake City	UT	6,600	700	3,297	15	816	700	3,841	287	4,828	(716)	4,112	1984/2007	2012	3-
Heritage Place	AL/MC	Taylorsville	UT	7,455	1,111	3,126	39	608	1,111	3,456	317	4,884	(690)	4,194	1976/1994	2012	3-
Heritage Oaks	AL/MC	Bountiful	UT	13,970	570	9,558	50	1,243	570	10,404	447	11,421	(1,641)	9,780	1978/2000	2012	3-
Olympus Ranch	IL	Murray	UT	18,890	1,407	20,515	846	202	1,407	20,666	897	22,970	(1,265)	21,705	2008/NA	2015	3-
Elm Park Estates	IL	Roanoke	VA	13,582	990	15,648	770	223	990	15,676	965	17,631	(820)	16,811	1991/NA	2015	3-
Heritage Oaks	IL	Richmond	VA	11,550	1,630	9,570	705	648	1,630	9,866	1,057	12,553	(1,584)	10,969	1987/NA	2013	3-
Bridge Park	IL	Seattle	WA	15,890	2,315	18,607	1,135	183	2,315	18,663	1,262	22,240	(1,300)	20,940	2008/NA	2015	3-
Peninsula	IL	Gig Harbor	WA	21,455	2,085	21,983	846	90	2,085	22,034	885	25,004	(1,346)	23,658	2008/NA	2015	3-
The Jefferson	IL	Middleton	WI	13,394	1,460	15,540	804	148	1,460	15,580	912	17,952	(842)	17,110	2005/NA	2015	3-
Managed Properties Total				1,312,098	133,513	1,395,618	63,470	38,035	133,513	1,414,006	83,117	1,630,636	(120,907)	1,509,729			

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		City	State	Encumbrances (A)	Land	Buildings and Improvements	Furniture and Fixtures	Land	Buildings and Improvements	Furniture and Fixtures	Total						
<i>Triple Net Lease</i>																	
Vista de la Montana	IL	Surprise	AZ	9,313	1,131	11,077	635	—	1,131	11,077	635	12,843	(1,258)	11,585	1998/NA	2013	3-40 years
Simi Hills	IL	Simi Valley	CA	18,991	3,209	21,999	730	—	3,209	21,999	730	25,938	(2,145)	23,793	2006/NA	2013	3-40 years
The Westmont	IL	Santa Clara	CA	13,634	—	18,049	754	—	—	18,049	754	18,803	(1,901)	16,902	1991/NA	2013	3-40 years
Courtyard at Lakewood	IL	Lakewood	CO	11,623	1,327	14,198	350	—	1,327	14,198	350	15,875	(1,339)	14,536	1992/NA	2013	3-40 years
Greeley Place	IL	Greeley	CO	10,757	237	13,859	596	—	237	13,859	596	14,692	(1,426)	13,266	1986/NA	2013	3-40 years
Parkwood Estates	IL	Fort Collins	CO	14,145	638	18,055	627	—	638	18,055	627	19,320	(1,769)	17,551	1987/NA	2013	3-40 years
Pueblo Regent	IL	Pueblo	CO	10,604	446	13,800	377	—	446	13,800	377	14,623	(1,280)	13,343	1985/NA	2013	3-40 years
Lodge at Cold Spring	IL	Rocky Hill	CT	19,152	—	25,807	605	—	—	25,807	605	26,412	(2,353)	24,059	1998/NA	2013	3-40 years
Village Gate	IL	Farmington	CT	19,660	3,591	23,254	268	—	3,591	23,254	268	27,113	(1,928)	25,185	1989/NA	2013	3-40 years
Cherry Laurel	IL	Tallahassee	FL	16,273	1,100	20,457	669	—	1,100	20,457	669	22,226	(2,004)	20,222	2001/NA	2013	3-40 years
Desoto Beach Club	IL	Sarasota	FL	18,510	668	23,944	669	—	668	23,944	669	25,281	(2,262)	23,019	2005/NA	2013	3-40 years
Regency Residence	IL	Port Richey	FL	11,685	1,100	14,088	771	—	1,100	14,088	771	15,959	(1,544)	14,415	1987/NA	2013	3-40 years
Illahee Hills	IL	Urbandale	IA	9,536	694	11,980	476	—	694	11,980	476	13,150	(1,228)	11,922	1995/NA	2013	3-40 years
Palmer Hills	IL	Bettendorf	IA	9,305	1,488	10,878	466	—	1,488	10,878	466	12,832	(1,118)	11,714	1990/NA	2013	3-40 years
Blair House	IL	Normal	IL	11,315	329	14,498	627	—	329	14,498	627	15,454	(1,513)	13,941	1989/NA	2013	3-40 years
Grasslands Estates	IL	Wichita	KS	14,053	504	17,888	802	—	504	17,888	802	19,194	(1,878)	17,316	2001/NA	2013	3-40 years
Thornton Place	IL	Topeka	KS	11,222	327	14,415	734	—	327	14,415	734	15,476	(1,566)	13,910	1998/NA	2013	3-40 years
Jackson Oaks	IL	Paducah	KY	14,882	267	19,195	864	—	267	19,195	864	20,326	(2,013)	18,313	2004/NA	2013	3-40 years
Summerfield Estates	IL	Shreveport	LA	4,600	525	5,584	175	—	525	5,584	175	6,284	(532)	5,752	1988/NA	2013	3-40 years
Blue Water Lodge	IL	Fort Gratiot	MI	12,395	62	16,034	833	—	62	16,034	833	16,929	(1,771)	15,158	2001/NA	2013	3-40 years
Briarcrest Estates	IL	Ballwin	MO	13,390	1,255	16,510	525	—	1,255	16,510	525	18,290	(1,594)	16,696	1990/NA	2013	3-40 years
Country Squire	IL	St. Joseph	MO	13,065	864	16,353	627	—	864	16,353	627	17,844	(1,660)	16,184	1990/NA	2013	3-40 years
Orchid Terrace	IL	St. Louis	MO	20,689	1,061	26,636	833	—	1,061	26,636	833	28,530	(2,555)	25,975	2006/NA	2013	3-40 years
Chateau Ridgeland	IL	Ridgeland	MS	6,427	967	7,277	535	—	967	7,277	535	8,779	(907)	7,872	1986/NA	2013	3-40 years
Grizzly Peak	IL	Missoula	MT	12,749	309	16,447	658	—	309	16,447	658	17,414	(1,666)	15,748	1997/NA	2013	3-40 years
Durham Regent	IL	Durham	NC	18,720	1,061	24,149	605	—	1,061	24,149	605	25,815	(2,228)	23,587	1989/NA	2013	3-40 years
Jordan Oaks	IL	Cary	NC	17,202	2,103	20,847	774	—	2,103	20,847	774	23,724	(2,088)	21,636	2003/NA	2013	3-40 years
Sky Peaks	IL	Reno	NV	15,561	1,061	19,793	605	—	1,061	19,793	605	21,459	(1,927)	19,532	2002/NA	2013	3-40 years
Fleming Point	IL	Greece	NY	16,116	699	20,644	668	—	699	20,644	668	22,011	(1,999)	20,012	2004/NA	2013	3-40 years
Maple Downs	IL	Fayetteville	NY	19,846	782	25,656	668	—	782	25,656	668	27,106	(2,378)	24,728	2003/NA	2013	3-40 years
Stoneybrook Lodge	IL	Corvallis	OR	15,013	1,543	18,119	843	—	1,543	18,119	843	20,505	(1,922)	18,583	1999/NA	2013	3-40 years
Fountains at Hidden Lakes	IL	Salem	OR	5,417	903	6,568	—	—	903	6,568	—	7,471	(552)	6,919	1990/NA	2013	3-40 years
Hidden Lakes	IL	Salem	OR	13,720	1,389	16,639	893	—	1,389	16,639	893	18,921	(1,828)	17,093	1990/NA	2013	3-40 years
Rock Creek	IL	Hillsboro	OR	10,069	1,617	11,783	486	—	1,617	11,783	486	13,886	(1,203)	12,683	1996/NA	2013	3-40 years

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2016
(dollars in thousands)

Property Name	Location		Initial Cost to the Company						Gross Amount Carried at Close of Period						Year Constructed / Renovated	Year Acquired	Life in U.S. State
	Type	City	State	Encumbrances (A)	Land	Buildings and Improvements	Furniture and Equipment	Capitalized Costs Subsequent to Acquisition	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Net Accumulated Depreciation	Book Value				
Sheldon Oaks	IL	Eugene	OR	14,235	1,577	17,380	675	—	1,577	17,380	675	19,632	(1,768)	17,864	1995/NA	2013	3-40
The Regent	IL	Corvallis	OR	6,569	1,111	7,720	228	—	1,111	7,720	228	9,059	(725)	8,334	1983/NA	2013	3-40
Essex House	IL	Lemoyne	PA	19,908	936	25,585	668	—	936	25,585	668	27,189	(2,366)	24,823	2002/NA	2013	3-40
Manor at Oakridge	IL	Harrisburg	PA	18,951	992	24,379	764	—	992	24,379	764	26,135	(2,330)	23,805	2000/NA	2013	3-40
Walnut Woods	IL	Boyetown	PA	13,677	308	18,058	496	—	308	18,058	496	18,862	(1,677)	17,185	1997/NA	2013	3-40
Watermark at Logan Square	CCRC	Philadelphia	PA	51,921	8,575	46,031	2,380	325	8,575	46,286	2,450	57,311	(2,755)	54,556	1984/2009	2015	3-40
Uffelman Estates	IL	Clarksville	TN	8,298	625	10,521	298	—	625	10,521	298	11,444	(990)	10,454	1993/NA	2013	3-40
Arlington Plaza	IL	Arlington	TX	7,710	319	9,821	391	—	319	9,821	391	10,531	(1,012)	9,519	1987/NA	2013	3-40
The El Dorado	IL	Richardson	TX	10,430	1,316	12,220	710	—	1,316	12,220	710	14,246	(1,390)	12,856	1996/NA	2013	3-40
Ventura Place	IL	Lubbock	TX	14,642	1,018	18,034	946	—	1,018	18,034	946	19,998	(2,003)	17,995	1997/NA	2013	3-40
Dogwood Estates	IL	Denton	TX	14,678	1,002	18,525	714	—	1,002	18,525	714	20,241	(1,880)	18,361	2005/NA	2013	3-40
Madison Estates	IL	San Antonio	TX	12,070	1,528	14,850	268	—	1,528	14,850	268	16,646	(1,292)	15,354	1984/NA	2013	3-40
Pinewood Hills	IL	Flower Mound	TX	14,742	2,073	17,552	704	—	2,073	17,552	704	20,329	(1,802)	18,527	2007/NA	2013	3-40
The Bentley	IL	Dallas	TX	10,983	2,351	12,270	526	—	2,351	12,270	526	15,147	(1,268)	13,879	1996/NA	2013	3-40
Whiterock Court	IL	Dallas	TX	11,231	2,837	12,205	446	—	2,837	12,205	446	15,488	(1,230)	14,258	2001/NA	2013	3-40
Autumn Leaves	CCRC	Dallas	TX	16,410	3,851	18,728	1,097	1,293	3,851	19,975	1,143	24,969	(1,821)	23,148	1971/2012	2014	3-40
Monticello West	AL/MC	Dallas	TX	17,877	3,344	21,226	1,225	677	3,344	21,904	1,224	26,472	(1,990)	24,482	1980/2013	2014	3-40
Parkwood Healthcare	CCRC	Bedford	TX	13,143	2,746	15,463	755	—	2,746	15,463	755	18,964	(1,392)	17,572	1986/2008	2014	3-40
Parkwood Retirement	IL	Bedford	TX	10,240	2,829	11,639	306	651	2,829	12,290	306	15,425	(983)	14,442	1986/2007	2014	3-40
Signature Pointe	CCRC	Dallas	TX	25,129	5,192	29,486	1,579	131	5,192	29,566	1,630	36,388	(2,692)	33,696	1998/2013	2014	3-40
Walnut Place	CCRC	Dallas	TX	16,914	5,241	18,255	907	1,014	5,241	19,253	923	25,417	(1,691)	23,726	1980/2012	2014	3-40
Pioneer Valley Lodge	IL	North Logan	UT	14,430	1,049	17,920	740	—	1,049	17,920	740	19,709	(1,870)	17,839	2001/NA	2013	3-40
Colonial Harbor	IL	Yorktown	VA	16,418	2,211	19,523	689	—	2,211	19,523	689	22,423	(1,932)	20,491	2005/NA	2013	3-40
Oakwood Hills	IL	Eau Claire	WI	14,526	516	18,872	645	—	516	18,872	645	20,033	(1,867)	18,166	2003/NA	2013	3-40
Triple Net Lease Total				834,771	86,804	1,012,743	38,905	4,091	86,804	1,016,652	39,087	1,142,543	(98,061)	1,044,482			
Grand Total				2,146,869	220,317	2,408,361	102,375	42,126	220,317	2,430,658	122,204	2,773,179	(218,968)	2,554,211			

(A) Excludes two properties that were classified as held for sale as of December 31, 2016.

(B) For United States federal income tax purposes, the initial aggregate cost basis, including furniture, fixtures, and equipment, was approximately \$2.80 billion as of December 31, 2016.

NEW SENIOR INVESTMENT GROUP INC. AND SUBSIDIARIES
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The following is a rollforward of the gross carrying amount and accumulated depreciation (depreciation is calculated on a straight line basis using the estimated useful lives detailed in Note 2):

	Year Ended December 31,		
	2016	2015	2014
<u>Gross carrying amount</u>			
Beginning of period	\$ 2,790,928	\$ 1,638,929	\$ 1,373,428
Acquisitions	—	1,140,896	260,543
Additions	21,285	11,411	8,538
Sales and/or transfers to assets held for sale	(23,213)	—	—
Disposals and other	(15,821)	(308)	(3,580)
End of period	<u>\$ 2,773,179</u>	<u>\$ 2,790,928</u>	<u>\$ 1,638,929</u>
<u>Accumulated depreciation</u>			
Beginning of period	\$ (129,788)	\$ (56,988)	\$ (10,526)
Depreciation expense	(92,372)	(72,767)	(46,622)
Sales and/or transfers to assets held for sale	3,084	—	—
Disposals and other	108	(33)	160
Balance at end of year	<u>\$ (218,968)</u>	<u>\$ (129,788)</u>	<u>\$ (56,988)</u>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

- (a) **Disclosure Controls and Procedures.** The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.
- (b) **Changes in Internal Control Over Financial Reporting.** There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control-Integrated Framework.

Based on our assessment, management concluded that, as of December 31, 2016, the Company's internal controls over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included herein.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference to our definitive proxy statement for the 2017 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A Exchange Act, within 120 days after the fiscal year ended December 31, 2016.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to our definitive proxy statement for the 2017 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A Exchange Act, within 120 days after the fiscal year ended December 31, 2016.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference to our definitive proxy statement for the 2017 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A Exchange Act, within 120 days after the fiscal year ended December 31, 2016.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Incorporated by reference to our definitive proxy statement for the 2017 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A Exchange Act, within 120 days after the fiscal year ended December 31, 2016.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to our definitive proxy statement for the 2017 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A Exchange Act, within 120 days after the fiscal year ended December 31, 2016.

PART IV

ITEM 15. EXHIBITS; FINANCIAL STATEMENT SCHEDULES

(a) Financial statements and schedules:

See "Financial Statements and Supplementary Data" included in Part II, Item 8 of this Form 10-K

(b) Exhibits filed with this Form 10-K:

- 2.1 Separation and Distribution Agreement dated October 16, 2014, between the Registrant and Drive Shack (incorporated by reference to Drive Shack's Report on Form 10-Q, Exhibit 2.2, filed on November 5, 2014).
- 2.2 Purchase and Sale Agreement, dated as of June 22, 2015, by and among the purchaser named therein and the sellers named therein (incorporated by reference to New Senior's Report on Form 8-K, Exhibit 2.1, filed on June 22, 2015).
- 3.1 Amended and Restated Certificate of Incorporation of the Registrant. (incorporated by reference to New Senior's Report on Form 10-Q, Exhibit 3.1, filed on November 25, 2014).
- 3.2 Amended and Restated Bylaws of the Registrant. (incorporated by reference to New Senior's Report on Form 10-Q, Exhibit 3.2, filed on November 25, 2014).
- 10.1 Management Agreement between the Registrant and FIG LLC (incorporated by reference to the Registrant's Current Report on Form 8-K, filed November 12, 2014).
- 10.2 Form of Indemnification Agreement by and between New Senior Investment Group Inc. and its directors and officers (incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form 10, filed July 29, 2014).
- 10.3 New Senior Investment Group Inc. Nonqualified Stock Option and Incentive Award Plan (incorporated by reference to New Senior's report on Form 10-Q, Exhibit 10.3, filed on November 25, 2014).
- 10.4 Purchase and Sale Agreement, dated November 18, 2013, by and between the Sellers named therein and the Purchasers named therein (incorporated by reference to Drive Shack's Report on Form 10-K, Exhibit 10.16, filed on March 3, 2014).
- 10.5 Master Lease, dated December 23, 2013, by and among the Landlords named therein and NCT Master Tenant I LLC (incorporated by reference to Drive Shack's Report on Form 10-K, Exhibit 10.17, filed on March 3, 2014).
- 10.6 Guaranty of Lease, dated December 23, 2013, by Holiday AL Holdings LP in favor of the Landlords named therein (incorporated by reference to Drive Shack's Report on Form 10-K, Exhibit 10.18, filed on March 3, 2014).
- 10.7 Purchase and Sale Agreement, dated as of December 21, 2014, by and among the Purchasers named therein and the Sellers named therein, each of which is an affiliate of Hawthorn Retirement Group LLC (incorporated by reference to New Senior's Report on Form 10-K, Exhibit 10.17, filed on February 26, 2015).
- 10.8 Multifamily Loan and Security Agreement - Seniors Housing, dated as of March 27, 2015, by and between NIC 11 Ashford Court Owner LLC, a Delaware limited liability company, as Borrower ("Borrower"), and Walker & Dunlop, LLC, as Lender ("Lender") (incorporated by reference to New Senior's Report on Form 8-K, Exhibit 10.1, filed on May 14, 2015).
- 10.9 Multifamily Note - Floating Rate, dated March 27, 2015, executed by Borrower in favor of Lender, as defined in Exhibit 10.8 (incorporated by reference to New Senior's Report on Form 8-K, Exhibit 10.2, filed on May 14, 2015).
- 10.10 Multifamily Loan and Security Agreement - Seniors Housing dated as of August 12, 2015, by and between SNR 27 Alexis Gardens Owner LLC, a Delaware limited liability company, as Borrower ("Borrower"), and Walker & Dunlop, LLC, as Lender ("Lender") (incorporated by reference to New Senior's report on Form 8-K, Exhibit 10.1, filed August 17, 2015).
- 10.11 Multifamily Note - Fixed Rate Defeasance, dated as of August 12, 2015, executed by Borrower in favor of Lender, as defined in Exhibit 10.10 (incorporated by reference to New Senior's report on Form 8-K, Exhibit 10.2, filed August 17, 2015).
- 10.12 Settlement Agreement, dated as of February 23, 2016, by and among the Registrant and Levin Capital Strategies, L.P. and the other persons listed on Schedule A thereto (incorporated by reference to New Senior's report on Form 10-K, Exhibit 10.12, filed on February 26, 2016).
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Ernst & Young LLP, independent registered accounting firm.
- 23.2 Consent of Ernst & Young LLP, independent auditors, relating to financial statements of Holiday AL Holdings LP.

- 31.1 Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- EX-99.1 Consolidated Financial Statements of Holiday AL Holdings LP for the years ended December 31, 2016, 2015, and 2014.
- 101.INS* XBRL Instance Document.
- 101.SCH* XBRL Taxonomy Extension Schema Document.
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.
 - * XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.
 - ** The schedules to the Purchase Agreement included as Exhibit 2.2 have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish copies of such schedules to the SEC upon request.

The following Master Lease and Guaranty of Lease are substantially identical in all material respects, except as to the parties thereto, to the Master Lease and Guaranty of Lease that are filed as Exhibits 10.5 and 10.6, respectively, hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

Master Lease, dated December 23, 2013, by and among the Landlords named therein and NCT Master Tenant II LLC.

Guaranty of Lease, dated December 23, 2013, by Holiday AL Holdings LP in favor of the Landlords named therein.

In accordance with Instruction 2 to Item 601 of Regulation S-K, the Company has filed only one of 52 Multifamily Loan and Security Agreements dated as of March 27, 2015 and the related Multifamily Notes as Exhibit 10.8 and Exhibit 10.9, respectively, as the omitted Multifamily Loan and Security Agreements and the related Multifamily Notes are substantially identical in all material respects to the loan and note included as Exhibit 10.8 and Exhibit 10.9, respectively, except as to the borrower thereto, the principal amount and certain property-specific provisions.

In accordance with Instruction 2 to Item 601 of Regulation S-K, the Company has filed only one of 28 Multifamily Loan and Security Agreements dated as of August 12, 2015 and the related Multifamily Notes as Exhibit 10.10 and Exhibit 10.11, respectively, as the omitted Multifamily Loan and Security Agreements and the related Multifamily Notes are substantially identical in all material respects to the loan and note included as Exhibit 10.10 and Exhibit 10.11, respectively, except as to the borrower thereto, the principal amount and certain property-specific provisions.

