

Manning & Napier, Inc.
Form 10-K
March 14, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

.. 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 001-35355

MANNING & NAPIER, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

45-2609100

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

290 Woodcliff Drive

Fairport, New York

(Address of principal executive offices)

(585) 325-6880

(Registrant's telephone number, including area code)

14450

(Zip code)

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

Title of each class

Class A common stock, \$0.01 par value per share

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

None

Name of each exchange in which registered
New York Stock Exchange

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 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

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information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
x

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.

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 registrant's common equity held by non-affiliates of the registrant (assuming for purposes of this computation only that the directors and executive officers may be affiliates) at June 30, 2015, which was the last business day of the registrant's most recently completed second fiscal quarter was approximately \$145.2 million based on the closing price of \$9.97 for one share of common stock, as reported on the New York Stock Exchange on that date.

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

Class	Outstanding at March 10, 2016
Class A common stock, \$0.01 par value per share	14,735,130
Class B common stock, \$0.01 par value per share	1,000

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2016 Annual Meeting of Stockholders to be held June 16, 2016 are incorporated by reference into Part III of this Form 10-K.

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In this Annual Report on Form 10-K, “we”, “our”, “us”, the “Company”, “Manning & Napier” and the “Registrant” refers to Manning & Napier, Inc. and, unless the context otherwise requires, its direct and indirect subsidiaries and predecessors on a consolidated basis.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our views with respect to, among other things, our operations and financial performance. Words like “believes,” “expects,” “may,” “estimates,” “will,” “should,” “could,” “intend” or “anticipates” or the negative thereof or other variations thereon or comparable terminology, are used to identify forward-looking statements, although not all forward-looking statements contain these words. Although we believe that we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know about our business and operations, there can be no assurance that our actual results will not differ materially from what we expect or believe. Some of the factors that could cause our actual results to differ materially from our expectations or beliefs are disclosed in the “Risk Factors” as well as other sections of this report which include, without limitation: changes in securities or financial markets or general economic conditions; a decline in the performance of the Company’s products; client sales and redemption activity; any loss of an executive officer or key personnel; changes in our business related to strategic acquisitions and other transactions; and changes of government policy or regulations. All forward-looking statements speak only as of the date on which they are made and we undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

Item 1. Business.

Overview

Manning & Napier, Inc. is an independent investment management firm that provides a broad range of investment solutions through separately managed accounts, mutual funds, and collective investment trust funds, as well as a variety of consultative services that complement its investment process. Founded in 1970, we offer equity, fixed income and alternative strategies, as well as a range of blended asset portfolios, such as life cycle funds.

Headquartered in Fairport, New York, we serve a diversified client base of high net worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans ("Taft-Hartley"), endowments and foundations.

Since our inception, we have taken the view that an active, team-based approach to portfolio management is the best way to manage risk for clients as market conditions change. Across our variety of equity, fixed income and blended asset portfolios, our goal is to provide competitive absolute returns over full market cycles. We employ disciplined processes that seek to avoid areas of speculation by focusing on investments with strong fundamentals at reasonable prices or stable fundamentals at attractive prices. To ensure a focus on absolute returns, we employ a compensation structure for our research team that rewards positive and above benchmark results and penalizes negative and below benchmark results. This active, absolute-returns based approach requires flexibility to invest where opportunities are and avoid speculation, regardless of the allocations within a comparative benchmark.

Initially, this approach helped us build a client base of high net worth individuals, small business owners and middle market institutions, and we maintain these relationships in many targeted geographic regions. This foundation allowed us to expand our business to serve the needs of larger institutions, investment consultants and other intermediaries.

A key aspect of our client service approach is a commitment to internal subject matter experts that can provide consultative services beyond investment management, which we believe helps us attract new clients and build close relationships through multiple service touch points and a solutions-oriented approach. We have designed solutions that are specific to our clients' needs, such as our family wealth management service and trust services. This service oriented approach combined with competitive long-term investment performance across portfolios, has allowed us to achieve a high average annual separate account retention rate. For the ten-year period ending December 31, 2015, our average annual separate account retention rate was 95%.

Our commitment to team-based research, an absolute return focus and a flexible process that is benchmark-agnostic have been central to our success, and we believe are distinctive within the industry. Over the course of our 45+ year history our mutual funds have earned several industry accolades, including a finalist ranking for Morningstar's international manager of the decade during the 2000s and multiple Lipper awards. Several of our investment strategies have value-added track records over multiple decades, which has led to strong growth in our total discretionary assets under management ("AUM") over the long-term. However, our active approach causes us to be out of favor relative to benchmarks and/or peers over shorter time periods. As of December 31, 2015, 28% of our total mutual fund AUM rated by Morningstar were in funds rated at least four stars, and 97% were in funds that were rated at least three stars. These short-term periods can lead to changes in AUM trends over time. The following chart reflects our AUM as of December 31 for each year since 2000.

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We offer our investment management capabilities primarily through direct sales to high net worth individuals and institutions, as well as through third-party intermediaries, platforms and institutional investment consultants. As of December 31, 2015, our investment management offerings include 40 distinct separate account composites and 65 mutual funds and collective investment trusts.

Our separate accounts are primarily distributed through our Direct Channel, where our representatives form relationships with high net worth individuals, middle market institutions or large institutions that are working with a consultant. To a lesser extent, we also obtain a portion of our separate account distribution via third parties, either through our Intermediary Channel where national brokerage firm representatives or independent financial advisors select our separate account strategies for their clients, or through our Platform/Sub-Advisory Channel, where unaffiliated registered investment advisors approve our strategies for their product platforms. Our separate account products are a primary driver of our blended asset portfolios for high net worth and middle market institutional clients and financial intermediaries. In contrast, larger institutions and unaffiliated registered investment advisor platforms are a driver of our separate account equity portfolios.

Our mutual funds and collective investment trusts are primarily distributed through financial intermediaries, including brokers, financial advisors, retirement plan advisors and platform relationships. We also obtain a portion of our mutual fund and collective investment trust distribution through our direct sales representatives, in particular within the defined contribution and institutional marketplace. Our mutual fund and collective investment trust products are an important driver of our blended asset class portfolios, in particular with 401(k) plan sponsors, advisors and recordkeepers that select our funds as default options for participants. In addition, financial intermediaries, mutual fund advisory programs and retail platforms are a driver of equity strategies within our mutual fund offerings. Our AUM as of December 31, 2015 by investment vehicle and portfolio were as follows:

Recent Developments

In December of 2015, we announced the agreement to acquire a majority interest in Rainier Investment Management, LLC ("Rainier"), an active investment management firm with more than \$3 billion in AUM. Under the terms of the transaction, key professionals will maintain a 25% ownership stake in Rainier, with Manning & Napier owning the remaining 75%. The transaction is expected to close in the first half of 2016, subject to customary regulatory approvals and closing conditions.

Our Strategy

Our approach for continued success is focused on the strategies described below.

Maintain a Strong, Team-Based Research Engine

With a research department of over 70 investment professionals, we are committed to a team-based approach to portfolio management to ensure that success can be repeated over time. All of our investment products are managed by a team, so that stability of process takes precedence over any individual personality. Our Senior Research Group, which consists of long-tenured members of the research department, maintains oversight responsibility for our investment disciplines and policies. We take a home-grown approach to maintaining this strong research engine. Analysts begin their employment with us as Research Assistants or Associates, and progress to the Analyst level only after learning our process and disciplines in a role that supports the portfolio management teams. We believe this ensures consistency with our time-tested philosophies and also provides a source of future analysts to address growth and turnover.

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Over time and as product development warrants, we may add to our research team or supplement that team with additional investment professionals through corporate development activities. In 2014, we acquired an alternative investment manager and integrated the research professionals into our existing team to enhance our alternatives capabilities. In December of 2015, we announced our intention to acquire a majority interest in Rainier in part to expand the product set available to our clients. The investment teams of both Manning & Napier and Rainier will remain autonomous, and the transaction will not result in changes to either firm's investment personnel or processes.

Broad, Multi Channel Distribution Team

We continue to focus on the depth of our multi-channel distribution structure, which includes both direct and intermediary channels. Within our direct and intermediary channels, we recognize the growing influence and specialization of retirement plan advisors. To address this opportunity, we have established a specific Defined Contribution Investment Only wholesaling team to focus their sales efforts on retirement specialist advisors, who work with small-to-mid market defined contribution plans. In these channels, we believe we have a competitive advantage that allows us to offer our multi-asset class strategies, including our life cycle and retirement target mutual fund and collective trust products. Non-retirement plan advisors have and will continue to be focused on wealth management investment solutions.

Within our direct channel, our high-touch distribution strategy has allowed us to build strong relationships over time. We continuously look to opportunistically enhance our direct distribution sales force domestically. Beyond deepening these current channels and territories, we continue to look at ways to expand our global distribution, including leveraging our current relationships in Europe and expanding into new markets.

Innovative Product Development

We are committed to on-going development of products and consultative services in response to current and prospective client needs. Today's market environment presents new challenges for investors. Historically low yields on fixed income securities, the potential for rising interest rates and future inflation, and continued global uncertainty have created an investing landscape that requires new solutions to meeting objectives. We understand that we must stay relevant and competitive by ensuring that we are consistently providing innovative solutions that address today's challenges.

We have approximately \$30 million invested in seed capital to our investment teams as of December 31, 2015 across more than fifteen products, including equity, fixed income and alternative strategies. Over the last two years, we have seen five of those seeded products reach a three year track record, including our Emerging Markets and Global Quality equity strategies as well as our Global Fixed Income, Strategic Income Conservative and Strategic Income Moderate strategies. In addition, our intent to acquire a majority interest in Rainier during 2016 will add several equity products to our product set, including small-to-mid cap, mid cap and large cap U.S. equity offerings as well as an international small cap equity strategy.

Enhanced Consultative Services

Offering consultative services alongside our team-based, process-driven investment management has been a source of both new business and client retention over our history. Currently, we offer a variety of consultative services to individual and institutional clients, including estate and tax planning, asset/liability modeling for defined benefit pension plans, retirement and health plan design analysis for employers, and donor relations and planned giving services for endowment and foundation clients.

Many of these services are offered through our Client Analytics Group, which consists of internal consultants whose primary responsibilities include working with prospective and current clients to solve investment and planning-related problems. This group includes several chartered financial analysts, certified financial planners, an accredited investment fiduciary and professionals with law and masters degrees.

We also offer practice management concepts and tools to both wealth advisors and retirement plan advisors to assist in their new business and service efforts, and certain technology-driven products and services aimed at the middle market employer marketplace to assist both employers and employees with their health and wealth planning.

Products and Services

We manage a variety of equity, fixed income, alternative and blended asset strategies, using primarily traditional asset classes such as stocks and bonds. These strategies may include a mix of the different vehicles we offer, including

separate accounts, mutual funds, and collective investment trusts. Our goal is to help our clients meet their investment objectives by providing competitive positive returns over full stock market cycles, including both bull and bear market environments. Three key elements of our investment process help to keep us focused on that goal:

Team-Based Research. Our analysts and economists work together to understand market opportunities from both a broad, macro level and a more detailed industry and company level. This combination of both "top-down" and "bottom-up" research allows us to identify trends, themes and company specific investment opportunities across the

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globe, and has been a key factor in our success. The use of a team rather than an individual to manage strategies means we emphasize repeatable processes over personalities.

A Focus on Absolute Returns. Whether investing in a country, industry or individual company, we hold a strong belief that price matters. We are focused on helping our clients avoid permanent loss of capital over their time horizon, which is different than day-to-day volatility, which could in fact present opportunities. We believe that active management has consistently been the most appropriate and relevant investment strategy to achieve these goals across changing market environments. To that end, we believe we have aligned the incentives of our analysts with the goals of our clients by structuring our analyst compensation system such that returns that are both negative and below benchmarks produce a negative bonus the analyst has to offset before earning a positive bonus. The analysts earn their largest bonus, which could be multiples of their salary and the largest part of their total compensation, when they earn returns that are both positive and above benchmarks for our clients. We believe this focus on price has provided capital preservation in many valuation-based bear markets during our history, and reduces the risk of permanent, downside price fluctuation from our buy price.

Flexibility to be Benchmark Agnostic. The flexibility to invest across sectors, countries and asset classes allows us to focus on companies we view as having greater upside potential than downside risk, and allows us to have a broad enough opportunity set to freely navigate away from areas of excess or speculation without limiting the number of investment opportunities. While this approach may often result in our strategies having meaningfully different allocations and exposures when compared to market benchmarks, we believe this type of differentiation is necessary to manage risk in many environments.

Sales and Distribution

We distribute our products and services through direct sales to high net worth individuals, middle market institutions and larger institutional clients that are working with consultants. In addition, we have dedicated efforts to sell through financial intermediaries and platforms. In identifying prospective new business, we focus on individuals and institutions that have long-term objectives and needs, and are looking for a partner in addressing those objectives. We believe our problem-solving approach fosters strong relationships, and our focus on communicating our investment process helps to manage long-term expectations and minimize AUM turnover.

As of December 31, 2015, we have nearly 60 sales and distribution professionals, with an average of approximately 18 years of industry experience. Our Managing Director of Sales, who has been with us since 1993, oversees 13 direct institutional and regional sales representatives. Our Managing Director of Regional Sales and Managing Director of Intermediary Distribution, who have respectively been with us for 17 and 6 years, report to our Managing Director of Sales and help to manage our various sales and service representatives. Specifically, our direct national sales representatives cover large, multiple state territories prospecting large plans. Our direct regional sales representatives cover smaller territories and pursue both individual and middle market institutional business opportunities, and our regional service representatives focus on servicing individual and small institutional clients. Our Intermediary Channel includes external and internal wholesalers, separately covering retirement plan advisors and wealth management advisors, and key account representatives. Lastly, we have Portfolio Strategists who are primarily responsible for consultant relations.

Sales representatives have different areas of focus in terms of client type, product and vehicle, but are highly knowledgeable about the investment markets, our investment process and our product and service offerings, so as to lessen the need for our research department personnel to assist in bringing new relationships on board. Our sales representatives are responsible for generating new business as well as maintaining existing business. Referrals are an important source of new business in both our direct and intermediary marketing efforts. To assist the sales representatives, we have over 30 service professionals who are responsible for responding to client requests and questions.

Our separate accounts are primarily distributed by direct sales representatives that market to individuals and institutions in defined territories within North America. Our regional sales representatives form separate account relationships with high net worth individuals that own businesses, sit on boards of endowments or foundations, or are generally well-connected in their communities, and leverage those relationships to obtain middle market, institutional separate account business. Our high net worth and middle market separate account clients also often use the

consultative services of our Client Analytics Group, which includes a variety of planning services. Our regional sales representatives focus more on large institutional mandates across the United States. We obtain a smaller portion of our separate account business through our external and internal wholesalers, who work with intermediaries, including national brokerage firm representatives and independent financial advisors working with high net worth individuals, and unaffiliated registered investment advisor platforms that select our strategies for inclusion in their investment programs.

Our mutual funds and collective investment trusts are distributed through intermediaries, platforms and investment consultants, as well as direct to institutional clients. Our internal and external wholesale professionals are focused on distributing through retirement plan advisors who work with defined contribution plans, as well as through brokers and

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advisors who work with retail clients. Our consultant relations specialists are dedicated to building relationships with investment consultants. The primary responsibilities of these individuals are to educate consultants, platform providers and advisors on our investment products and process and to ensure our products are among those considered for placement within mutual fund advisory programs, on platforms' approved lists and in active searches conducted by consultants. Our direct institutional and regional sales representatives also contribute to mutual fund and collective investment trust distribution through sales and servicing of fund vehicles to large market retirement plan sponsors and institutions.

Structure

The Company was incorporated in 2011 as a Delaware corporation, and is the sole managing member of Manning & Napier Group, LLC and its subsidiaries ("Manning & Napier Group"), a holding company for the investment management businesses conducted by its operating subsidiaries. The diagram below depicts our organization structure as of December 31, 2015.

The operating subsidiaries of Manning & Napier Group include Manning & Napier Advisors, LLC, Manning & (1)Napier Alternative Opportunities, LLC, Perspective Partners LLC, Manning & Napier Information Services, LLC, Manning & Napier Benefits, LLC, Manning & Napier Investor Services, Inc. and Exeter Trust Company.

As of December 31, 2015, we had 474 employees, including William Manning, our Chairman and controlling stockholder, and other current employee-owners, most of whom are based in Fairport, New York. Collectively, these owners and former employee-owners own approximately 83.3% of our operating subsidiary, Manning & Napier Group. We believe that our culture of employee ownership aligns our interests with those of our clients and shareholders by delivering strong long-term investment performance and solutions.

Competition

Historically, we have competed to attract assets to manage principally on the basis of:

- a broad portfolio and service offering that provides solutions for our clients;

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the disciplined and repeatable nature of our team-based investment processes;
the quality of the service we provide to our clients and the duration of our relationships with them;
our pricing compared to other investment management products offered;
the tenure and continuity of our management and team-based investment professionals; and
our long-term investment track record.

Our ability to continue to compete effectively will also depend upon our ability to retain our current investment professionals and employees and to attract highly qualified new investment professionals and employees. We compete in all aspects of our business with a large number of investment management firms, commercial banks, broker-dealers, insurance companies and other financial institutions.

Regulation

Our business is subject to extensive regulation in the United States at the federal level and, to a lesser extent, the state level, as well as by self-regulatory organizations and regulations outside the United States. Under certain of these laws and regulations, agencies that regulate investment advisers have broad administrative powers, including the power to limit, restrict or prohibit an investment adviser from carrying on its business in the event that it fails to comply with such laws and regulations. Possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser and other registrations, censures and fines.

SEC Regulation

Manning & Napier Advisors, LLC ("MNA") is registered with the U.S. Securities and Exchange Commission, or SEC, as investment advisers under the U.S. Investment Advisers Act of 1940, as amended, ("the Advisers Act"). Additionally, the Manning & Napier Fund, Inc., (the "Fund"), and several of the third-party investment companies we sub-advise are registered under the U.S. Investment Company Act of 1940, (the "1940 Act"). The Advisers Act and the 1940 Act, together with the SEC's regulations and interpretations thereunder, impose substantive and material restrictions and requirements on the operations of advisers and mutual funds. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act and the 1940 Act, ranging from fines and censures to termination of an adviser's registration.

As an investment adviser, we have a fiduciary duty to our clients. The SEC has interpreted these duties to impose standards, requirements and limitations on, among other things:

trading for proprietary, personal and client accounts;
allocations of investment opportunities among clients;
use of soft dollars;
execution of transactions; and
recommendations to clients.

We manage accounts for all of our clients on a discretionary basis, with authority to buy and sell securities for each portfolio, select broker-dealers to execute trades and negotiate brokerage commission rates. In connection with these transactions, we receive soft dollar credits from broker-dealers that have the effect of reducing certain of our expenses. All of our soft dollar arrangements are intended to be within the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, (the "Exchange Act"). If our ability to use soft dollars were reduced or eliminated as a result of statutory amendments or new regulations, our operating expenses would increase.

As a registered adviser, we are subject to many additional requirements that cover, among other things:

disclosure of information about our business to clients;
maintenance of formal policies and procedures;
maintenance of extensive books and records;
restrictions on the types of fees we may charge;
custody of client assets;
client privacy;
advertising; and

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solicitation of clients.

The SEC has authority to inspect any investment adviser and typically inspects a registered adviser periodically to determine whether the adviser is conducting its activities (i) in accordance with applicable laws, (ii) consistent with disclosures made to clients and (iii) with adequate policies, procedures and systems to ensure compliance.

For the year ended December 31, 2015, 32% of our revenues were derived from our advisory services to investment companies registered under the 1940 Act, including 32% derived from our advisory services to the Fund. The 1940 Act imposes significant requirements and limitations on a registered fund, including with respect to its capital structure, investments and transactions. While we exercise broad discretion over the day-to-day management of the business and affairs of the Fund and the investment portfolios of the Fund and the funds we sub-advise, our own operations are subject to oversight and management by each fund's board of directors. Under the 1940 Act, a majority of the directors must not be "interested persons" with respect to us (sometimes referred to as the "independent director" requirement). The responsibilities of the board include, among other things, approving our investment management agreement with the Fund; approving other service providers; determining the method of valuing assets; and monitoring transactions involving affiliates. Our investment management agreements with the Fund may be terminated by the funds on not more than 60 days' notice, and are subject to annual renewal by the Fund board after their initial term.

The 1940 Act also imposes on the investment adviser to a mutual fund a fiduciary duty with respect to the receipt of the adviser's investment management fees. That fiduciary duty may be enforced by the SEC through administrative action or litigation by investors in the fund pursuant to a private right of action.

Under the Advisers Act, our investment management agreements may not be assigned without the client's consent. Under the 1940 Act, investment management agreements with registered funds (such as the mutual funds we manage) terminate automatically upon assignment. The term "assignment" is broadly defined and includes direct assignments as well as assignments that may be deemed to occur upon the transfer, directly or indirectly, of a controlling interest in us.

Manning & Napier Investor Services ("MNBD"), our SEC-registered broker-dealer subsidiary, is subject to the SEC's Uniform Net Capital Rule, which requires that at least a minimum part of a registered broker-dealer's assets be kept in relatively liquid form. As of December 31, 2015, MNBD was in compliance with its net capital requirements.

ERISA-Related Regulation

We are a fiduciary under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, with respect to assets that we manage for benefit plan clients subject to ERISA. ERISA, regulations promulgated thereunder and applicable provisions of the Internal Revenue Code of 1986, as amended, impose certain duties on persons who are fiduciaries under ERISA, prohibit certain transactions involving ERISA plan clients and provide monetary penalties for violations of these prohibitions.

The fiduciary duties under ERISA may be enforced by the U.S. Department of Labor by administrative action or litigation and by our benefit plan clients pursuant to a private right of action. In addition, the IRS may assess excise taxes against us if we engage in prohibited transactions on behalf of or with our benefit plan clients.

CFTC/NFA Regulation

MNA is registered with the Commodity Futures Trading Commission, or CFTC, as a commodity pool operator ("CPO") and is also a member of the National Futures Association, or NFA. The CFTC and NFA each administer a regulatory system covering futures contracts and various other financial instruments in which certain of our clients may invest.

New Hampshire Banking Regulation

Exeter Trust Company is a state-chartered non-depository trust company subject to the laws of the State of New Hampshire and the regulations promulgated thereunder by the New Hampshire Bank Commissioner.

Insurance-Related Regulation

Manning & Napier Benefits, LLC is a registered insurance broker in multiple states including the District of Columbia and, as such, is subject to various state insurance and health-related rules and regulations.

Non-U.S. Regulation

In addition to the extensive regulation our investment management industry is subject to in the United States, we are also subject to regulation by various Canadian regulatory authorities in the Canadian provinces where we operate pursuant to exemptions from registration. We are authorized to act as a non-resident sub-advisory investment manager to collective investment vehicles in Ireland. Our business is also subject to the rules and regulations of the more than 30 countries in which we currently buy and sell portfolio investments.

Employees

As of December 31, 2015, we had 474 employees, most of whom are based in Fairport, New York. None of our employees are subject to a collective bargaining agreement. We believe that relations with our employees are good. We strive to attract and retain the best talent in the industry.

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Available Information

All annual, quarterly and current reports, and amendments to those reports, proxy statements and other filings we file or furnish with the SEC are available free of charge from the SEC's website at <http://www.sec.gov/> or from the Public Reference Room at 100 F Street N.E., Washington, D.C. 20549; 1-800-SEC-0330.

We also make the documents listed above available without charge through the Investor Relations section of our website at <http://ir.manning-napier.com/>. Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC.

Item 1A. Risk Factors.

Risks Related to our Business

Our revenues are dependent on the market value and composition of our AUM, all of which are subject to fluctuation due to factors outside of our control.

We derive the majority of our revenue from investment management fees, typically calculated as a percentage of the market value of our AUM. As a result, our revenues are dependent on the value and composition of our AUM, all of which are subject to fluctuation due to many factors, including:

Declines in prices of securities in our portfolios. The prices of the securities held in the portfolios we manage may decline due to any number of factors beyond our control, including, among others, declining stock or commodities markets, changes in interest rates, a general economic downturn, political uncertainty or acts of terrorism. The U.S. and global financial markets continue to be subject to uncertainty and instability. Such factors could cause an unusual degree of volatility and price declines for securities in the portfolios we manage.

Redemptions and other withdrawals. Our clients generally may withdraw their funds at any time, on very short notice and without any significant penalty. A substantial portion of our revenue is derived from investment advisory agreements that are terminable by clients upon short notice or no notice and investors in the mutual funds we advise can redeem their investments in those funds at any time without prior notice. Also, new clients and portfolios may not have the same client retention characteristics as we have experienced in the past. In addition, in a declining stock market, the pace of redemptions could accelerate.

Investment performance. Our ability to deliver strong investment performance depends in large part on our ability to identify appropriate investment opportunities in which to invest client assets. If we are unable to identify sufficient appropriate investment opportunities for existing and new client assets on a timely basis, our investment performance could be adversely affected. The risk that sufficient appropriate investment opportunities may be unavailable is influenced by a number of factors including general market conditions. If our portfolios perform poorly, even over the short-term, as compared with our competitors or applicable third-party benchmarks, or the rankings of mutual funds we manage decline, we may lose existing AUM and have difficulty attracting new assets.

If any of these factors cause a decline in our AUM, it would result in lower investment management revenues. If our revenues decline without a commensurate reduction in our expenses, our net income will be reduced and our business will be adversely affected.

We derive substantially all of our revenues from contracts and relationships that may be terminated upon short or no notice.

We derive substantially all of our revenues from investment advisory and sub-advisor agreements, all of which are terminable by clients upon short notice or no notice and without any significant penalty. Our investment management agreements with mutual funds, as required by law, are generally terminable by the funds' board of directors or a vote of the majority of the funds' outstanding voting securities on not more than 60 days' written notice. After an initial term, each fund's investment management agreement must be approved and renewed annually by such fund's board, including by its independent members. In addition, all of our separate account clients and some of the pooled investment vehicles, including mutual funds, that we sub-advise have the ability to re-allocate all or any portion of the assets that we manage away from us at any time with little or no notice. These investment management agreements and mutual fund and collective investment trust client

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relationships may be terminated or not renewed for any number of reasons. The decrease in revenues that could result from the termination of a material client relationship or group of client relationships could have an adverse effect on our business.

Our portfolios may not obtain attractive returns under certain market conditions or at all.

The goal of our investment process is to provide competitive absolute returns over full market cycles. Accordingly, our portfolios may not perform well compared to benchmarks or other investment managers' strategies during certain periods of time or under certain market conditions. Short-term underperformance may negatively affect our ability to retain clients and attract new clients. We are likely to be most out of favor when the markets are running on positive or negative price momentum and market prices become disconnected from underlying investment fundamentals. During and shortly following such periods of relative under performance, we are likely to see our highest levels of client turnover, even if our absolute returns are positive. Loss of client assets and the failure to attract new clients could adversely affect our revenues and growth.

The loss of key investment professionals or members of our senior management team could have an adverse effect on our business.

We depend on the skills and expertise of qualified investment professionals and our success depends on our ability to retain key employees, including members of our senior management team. Our investment professionals possess substantial experience in investing and have been primarily responsible for the historically attractive investment performance we have achieved. We particularly depend on our executive officers as well as senior members of our research department. The loss of any of these key individuals could limit our ability to successfully execute our business strategy and could have an adverse effect on our business.

Any of our investment or management professionals may resign at any time, subject to various covenants not to compete with us. In addition, employee-owners are subject to additional covenants not to compete.

Competition for qualified investment, management, marketing and client service professionals is intense and we may fail to attract and retain qualified personnel in the future. Our ability to attract and retain our named executive officers and other key employees will depend heavily on the amount and structure of compensation and opportunities for equity ownership we offer. We utilize a compensation structure that uses a combination of cash and equity-based incentives as appropriate. However, our compensation may not be effective to recruit and retain the personnel we need, especially if our equity-based compensation does not return significant value to employees. Any cost-reduction initiative or adjustments or reductions to compensation could negatively impact our ability to retain key personnel. In addition, changes to our management structure, corporate culture and corporate governance arrangements could negatively impact our ability to retain key personnel.

We may be required to reduce the fees we charge, or our fees may decline due to changes in our AUM composition, which could have an adverse effect on our profit margins and results of operations.

Our current fee structure may be subject to downward pressure due to a variety of factors, including a trend in recent years toward lower fees in the investment management industry. We may be required to reduce fees with respect to both the separate accounts we manage and the mutual funds and collective trust funds we advise. In addition, we may charge lower fees to attract future new business as compared to our existing business, which may result in us having to reduce our fees with respect to our existing business accordingly. The investment management agreements pursuant to which we advise mutual funds are terminable on short notice and, after an initial term, are subject to an annual process of review and renewal by the funds' boards. As part of that annual review process, the fund board considers, among other things, the level of compensation that the fund has been paying us for our services, and that process may result in the renegotiation of our fee structure or increase our obligations, thus increasing the cost of our performance. Any fee reductions on existing or future new business could have an adverse effect on our profit margins and results of operations.

Our AUM is concentrated in certain portfolios.

As of December 31, 2015, 64% of our AUM was invested in products that comprise our blended asset portfolio. As a result, a substantial portion of our operating results depends upon the performance of these products, and our ability to retain client assets in such products. If a significant portion of the investors in our blended asset portfolio decide to withdraw their investments or terminate their investment management agreements for any reason, including poor

investment performance or adverse market conditions, our revenues from these portfolios would decline, which could have an adverse effect on our earnings and financial condition.

Several of our portfolios involve investing principally in the securities of non-U.S. companies, which involve foreign currency exchange risk, and tax, political, social and economic uncertainties and risks.

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As of December 31, 2015, approximately 30% of our AUM across all of our portfolios was invested in securities of non-U.S. companies. Fluctuations in foreign currency exchange rates could negatively affect the returns of our clients who are invested in these strategies. In addition, an increase in the value of the U.S. dollar relative to non-U.S. currencies is likely to result in a decrease in the U.S. dollar value of our AUM, which, in turn, could result in lower revenue since we report our financial results in U.S. dollars.

Investments in non-U.S. issuers may also be affected by tax positions taken in countries or regions in which we are invested as well as political, social and economic uncertainty. Declining tax revenues may cause governments to assert their ability to tax the local gains and/or income of foreign investors (including our clients), which could adversely affect clients' interests in investing outside their home markets. Many financial markets are not as developed, or as efficient, as the U.S. financial markets and, as a result, those markets may have limited liquidity and higher price volatility and may lack established regulations. Liquidity may also be adversely affected by political or economic events, government policies, social or civil unrest within a particular country, and our ability to dispose of an investment may also be adversely affected if we increase the size of our investments in smaller non-U.S. issuers. Non-U.S. legal and regulatory environments, including financial accounting standards and practices, may also be different, and there may be less publicly available information about such companies. These risks could adversely affect the performance of our strategies that are invested in securities of non-U.S. issuers and may be particularly acute in the emerging or less developed markets in which we invest.

The growth we have experienced historically has been and may continue to be difficult to sustain, and we may have difficulty managing our growth effectively.

The growth in our AUM we have experienced historically has been and may continue to be difficult to sustain. The future growth of our business will depend on, among other things:

- our success in achieving desired investment performance from our portfolios;
- our ability to deal with changing market conditions;
- our ability to retain key investment professionals;
- our ability to attract investment professionals as necessary;
- our ability to devote sufficient resources to maintaining existing portfolios and to selectively develop new portfolios;
- our ability to maintain and extend our distribution capabilities;
- our ability to successfully consummate and integrate strategic acquisitions;
- our ability to maintain adequate financial and business controls; and
- our ability to comply with new legal and regulatory requirements arising in response to both the increased sophistication of the investment management industry and the significant market and economic events of the last few years.

Unless our growth results in an increase in our revenues that is proportionate to the increase in our costs associated with this growth, our future profitability will be adversely affected. In addition, failure to successfully diversify into new asset classes may adversely affect our growth strategy and our future profitability.

The historical returns of our existing portfolios may not be indicative of their future results or of the portfolios we may develop in the future.

The historical returns of our portfolios and the ratings and rankings we or the mutual funds that we advise have received in the past should not be considered indicative of the future results of these portfolios or of any other portfolios that we may develop in the future. The investment performance we achieve for our clients varies over time and the variance can be wide. The ratings and rankings we or the mutual funds we advise have received are typically revised monthly. The historical performance and ratings and rankings included in this report are as of December 31, 2015 and for periods then ended except where otherwise stated. The performance we have achieved and the ratings and rankings received at subsequent dates and for subsequent periods may be higher or lower and the difference could be material. Our portfolios' returns have benefited during some periods from investment opportunities and positive economic and market conditions. In other periods, general economic and market conditions have negatively affected our portfolios' returns. These negative conditions may occur again, and in the future we may not be able to identify and invest in profitable investment opportunities within our current or future portfolios.

We may elect to pursue growth in the United States and abroad through acquisitions or joint ventures, which would expose us to risks inherent in assimilating new operations, expanding into new jurisdictions, and making non-controlling minority investments in other entities.

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In order to maintain and enhance our competitive position, we may review and pursue acquisition and joint venture opportunities. We cannot assure we will identify and consummate any such transactions on acceptable terms or have sufficient resources to accomplish such a strategy. In addition, any strategic transaction can involve a number of risks, including:

- additional demands on our staff;
- unanticipated problems regarding integration of investor account and investment security recordkeeping, operating facilities and technologies, and new employees;
- adverse effects in the event acquired intangible assets or goodwill become impaired;
- the existence of liabilities or contingencies not disclosed to or otherwise known by us prior to closing such a transaction; and
- dilution to our public stockholders if we issue shares of our Class A common stock, or units of Manning & Napier Group with exchange rights, in connection with future acquisitions.

We depend in part on third-party intermediaries to market our portfolios and help service our client base.

Our ability to attract additional assets to manage is in part dependent on our access to third-party intermediaries. We gain access to mutual fund investors and some retail and institutional clients through third parties, including mutual fund platforms and financial intermediaries. As of December 31, 2015, the largest relationship we have with a third party represents approximately 5.0% of our total AUM and the mutual fund platform representing the largest portion of our fund assets represents an additional 1.8% of our total AUM. We compensate most of the intermediaries through which we gain access to investors in our mutual funds by paying fees, most of which are based on a percentage of assets invested in our mutual funds through that intermediary and with respect to which that intermediary provides services. These intermediaries and their client bases may not continue to be accessible to us on terms we consider commercially reasonable, or at all. Limiting or the total absence of such access could have an adverse effect on our results of operations. In addition, the service levels provided by these intermediaries may increase under certain trading and servicing models and could result in increased fees charged by the intermediary. Many of these intermediaries have internal manager due diligence teams that review and evaluate our products and our firm from time to time. Poor evaluations of a particular product, portfolio or us as an investment management firm, or decreased demand for our active investment style or mutual fund vehicles, may result in client withdrawals or may impair our ability to attract new assets through these intermediaries. In addition, the industry trends toward consolidation in the broker-dealer industry may lead to reduced distribution access and increases in fees we are required to pay to intermediaries. If such increased fees should be required, refusal to pay them could restrict our access to those client bases while paying them could adversely affect our profitability.

Our efforts to establish new portfolios or new products or services may be unsuccessful and could negatively impact our results of operations and our reputation.

As part of our growth strategy, we may seek to take advantage of opportunities to develop new portfolios consistent with our philosophy of managing portfolios to meet our clients' objectives and using a team-based investment approach. The costs associated with establishing a new portfolio initially likely will exceed the revenues that the portfolio generates. If any such new portfolio performs poorly or fails to attract sufficient assets to manage, our results of operations could be negatively impacted. Further, a new portfolio's poor performance may negatively impact our reputation and the reputation of our other portfolios within the investment community. In addition, we have developed and may seek from time to time to develop new products and services to take advantage of opportunities involving technology, insurance, participant and plan sponsor education and other products beyond investment management.

The development of these products and services could involve investment of financial and management resources and may not be successful in developing client relationships, which could have an adverse effect on our business. The cost to develop these products initially will likely exceed the revenue they generate. If establishing new portfolios or offering new products or services requires hiring new personnel, to the extent we are unable to recruit and retain sufficient personnel, we may not be successful in further diversifying our portfolios, client assets and business, which could have an adverse effect on our business and future prospects.

Our lenders may require us to provide additional collateral, which may restrict us from leveraging our assets as fully as desired, and reduce our liquidity, earnings and cash available for distribution to our shareholders.

Certain of our corporate assets are invested in products that we leverage. We are required to maintain cash held by brokers as collateral for managed futures. If the market value of these securities fluctuate, we may be required by the lender to provide additional collateral on minimal notice. Posting additional collateral will reduce our liquidity and limit our ability to leverage our assets, which could adversely affect our business. Additionally, we may be required to liquidate assets at a disadvantageous time, which could cause us to incur further losses and adversely affect our results of operations and financial condition, and may impair our ability to make distributions to our shareholders.

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Our revolving credit agreement contains, and our future indebtedness may contain, various covenants that may limit our business activities.

Our revolving credit agreement contains financial and operating covenants that limit our business activities, including restrictions on our ability to incur additional indebtedness and pay dividends to our stockholders. For example, the agreement includes financial covenants requiring us not to exceed specified ratios of indebtedness to consolidated earnings before interest, taxes, depreciation and amortization (as defined in the agreements), or EBITDA, and interest expense to consolidated EBITDA. The failure to comply with any of these restrictions, or our inability to generate sufficient cash flow to service our debt, could result in an event of default, giving our lenders the ability to accelerate repayment of our obligations, which could adversely affect our business and financial condition. As of December 31, 2015, there was no outstanding principal amount due under the agreement and we believe we are in compliance with all of the covenants and other requirements set forth in the agreement.

Our failure to comply with investment guidelines set by our clients and limitations imposed by applicable law, could result in damage awards against us and a loss of our AUM, either of which could adversely affect our reputation, results of operations or financial condition.

When clients retain us to manage assets on their behalf, they generally specify certain guidelines regarding investment allocation that we are required to follow in managing their portfolios. We are also required to invest the mutual funds' assets in accordance with limitations under the 1940 Act, and applicable provisions of the Internal Revenue Code of 1986, as amended. Other clients, such as plans subject to ERISA, or non-U.S. funds, require us to invest their assets in accordance with applicable law. Our failure to comply with any of these guidelines and other limitations could result in losses to clients or investors in our products which, depending on the circumstances, could result in our obligation to make clients whole for such losses. If we believed that the circumstances did not justify a reimbursement, or clients believed the reimbursement we offered was insufficient, clients could seek to recover damages from us, withdraw assets from our products or terminate their investment management agreement with us. Any of these events could harm our reputation and adversely affect our business.

A change of control of our company could result in termination of our investment advisory agreements.

Under the 1940 Act, each of the investment advisory agreements for SEC registered mutual funds that our affiliate, MNA, advises automatically terminates in the event of its assignment, as defined under the 1940 Act. If such an assignment were to occur, MNA could continue to act as adviser to any such fund only if that fund's board of directors and stockholders approved a new investment advisory agreement, except in the case of certain of the funds that we sub-advise for which only board approval would be necessary. In addition, under the Advisers Act each of the investment advisory agreements for the separate accounts we manage may not be assigned without the consent of the client. An assignment may occur under the 1940 Act and the Advisers Act if, among other things, MNA undergoes a change of control. In certain other cases, the investment advisory agreements for the separate accounts we manage require the consent of the client for any assignment. If such an assignment occurs, we cannot be certain that MNA will be able to obtain the necessary approvals from the boards and stockholders of the mutual funds that it advises or the necessary consents from separate account clients.

Operational risks may disrupt our business, result in losses or limit our growth.

We are heavily dependent on the capacity and reliability of the communications, information and technology systems supporting our operations, whether developed, owned and operated by us or by third parties. Operational risks such as trading or operational errors or interruption of our financial, accounting, trading, compliance and other data processing systems, whether caused by fire, natural disaster or pandemic, power or telecommunications failure, act of terrorism or war or otherwise, could result in a disruption of our business, liability to clients, regulatory intervention or reputational damage, and thus adversely affect our business. Some types of operational risks, including, for example, trading errors, may be increased in periods of increased volatility, which can magnify the cost of an error. Although we have back-up systems in place, our back-up procedures and capabilities in the event of a failure or interruption may not be adequate, and the fact that we operate our business out of multiple physical locations may make such failures and interruptions difficult to address on a timely and adequate basis. As and if our client base, number of portfolios and/or physical locations increase, developing and maintaining our operational systems and infrastructure may become increasingly challenging, which could constrain our ability to expand our business. Any upgrades or

expansions to our operations or technology to accommodate increased volumes of transactions or otherwise may require significant expenditures and may increase the probability that we will suffer system degradations and failures. We also depend on our headquarters in Fairport, New York, where a majority of our employees, administration and technology resources are located, for the continued operation of our business. Any significant disruption to our headquarters could have an adverse effect on our business.

We depend on third-party service providers for services that are important to our business, and an interruption or cessation of such services by any such service providers could have an adverse effect on our business.

We depend on a number of service providers, including custodial and clearing firms, and vendors of communications and networking products and services. We are not assured that these providers will be able to continue to provide these services in

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an efficient manner or that they will be able to adequately expand their services to meet our needs. An interruption or malfunction in or the cessation of an important service by any third-party and our inability to make alternative arrangements in a timely manner, or at all, could have an adverse impact on our business, financial condition and operating results.

Employee misconduct could expose us to significant legal liability and reputational harm.

We operate in an industry in which integrity and the confidence of our clients are of critical importance. Accordingly, if any of our employees engage in illegal or suspicious activities or other misconduct, we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial condition, client relationships and ability to attract new clients. For example, our business often requires that we deal with confidential information. If our employees were to improperly use or disclose this information, even if inadvertently, we could suffer serious harm to our reputation, financial condition and current and future business relationships. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. Misconduct by our employees, or even unsubstantiated allegations of misconduct, could result in an adverse effect on our reputation and our business.

Failure to implement effective information and cyber security policies, procedures and capabilities could disrupt operations and cause financial losses that could result in a decrease in earnings.

We are dependent on the effectiveness of our information and cyber security policies, procedures and capabilities to protect our computer and telecommunications systems and the data that reside on or are transmitted through them. An externally caused information security incident, such as a hacker attack, virus or worm, or an internally caused issue, such as failure to control access to sensitive systems, could materially interrupt business operations or cause disclosure or modification of sensitive or confidential client or competitive information and could result in material financial loss, loss of competitive position, regulatory actions, breach of client contracts, reputational harm or legal liability, which, in turn, could cause a decline in the Company's earnings.

Failure to properly address conflicts of interest could harm our reputation, business and results of operations.

As we expand the scope of our business and our client base, we must continue to monitor and address any conflicts between our interests and those of our clients. The SEC and other regulators scrutinize potential conflicts of interest, and we have implemented procedures and controls that we believe are reasonably designed to address these issues.

However, appropriately dealing with conflicts of interest is complex and if we fail, or appear to fail, to deal appropriately with conflicts of interest, we could face reputational damage, litigation or regulatory proceedings or penalties, any of which could adversely affect our reputation, business and results of operations.

If our techniques for managing risk are ineffective, we may be exposed to material unanticipated losses.

In order to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and control our exposure to operational, legal and reputational risks. Our risk management methods may prove to be ineffective due to their design or implementation, or as a result of the lack of adequate, accurate or timely information or otherwise. If our risk management efforts are ineffective, we could suffer losses that could have an adverse effect on our financial condition or operating results. Additionally, we could be subject to litigation, particularly from our clients, and sanctions or fines from regulators. Our techniques for managing risks in client portfolios may not fully mitigate the risk exposure in all economic or market environments, or against all types of risk, including risks that we might fail to identify or anticipate.

The cost of insuring our business is substantial and may increase.

We believe our insurance costs are reasonable but they could fluctuate significantly from year to year. In addition, certain insurance coverage may not be available or may only be available at prohibitive costs. As we renew our insurance policies, we may be subject to additional costs resulting from rising premiums, the assumption of higher deductibles or co-insurance liability and, to the extent certain of our mutual funds purchase separate director and officer or errors and omissions liability coverage, an increased risk of insurance companies disputing responsibility for joint claims. Higher insurance costs and incurred deductibles, as with any expense, would reduce our net income.

Risks Related to our Industry

We are subject to extensive regulation.

We are subject to extensive regulation for our investment management business and operations, including regulation by the SEC under the 1940 Act and the Advisers Act, by the U.S. Department of Labor under ERISA, by the Financial Industry Regulatory Authority, Inc., or FINRA, by the National Futures Association and U.S. Commodity Futures Trading Commission. The U.S. mutual funds we advise are registered with and regulated by the SEC as investment companies under the 1940 Act. The Advisers Act imposes numerous obligations on investment advisers including record keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities. The 1940 Act imposes similar obligations, as well

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as additional detailed operational requirements, on registered investment companies, which must be adhered to by their investment advisers. The U.S. mutual funds that we advise and our broker-dealer subsidiary are each subject to the USA PATRIOT Act of 2001, which requires them to know certain information about their clients and to monitor their transactions for suspicious financial activities, including money laundering. The U.S. Office of Foreign Assets Control, or OFAC, has issued regulations requiring that we refrain from doing business, or allow our clients to do business through us, in certain countries or with certain organizations or individuals on a list maintained by the U.S. government. In addition, Manning & Napier Benefits, LLC is a registered insurance broker with the New York State Insurance Department and, as such, is subject to various insurance and health-related rules and regulations.

Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of our registration as an investment adviser. Even if a sanction imposed against us or our personnel is small in monetary amount, the adverse publicity arising from the imposition of sanctions against us by regulators could harm our reputation, result in withdrawal by our clients from our products and impede our ability to retain clients and develop new client relationships, which may reduce our revenues.

We face the risk of significant intervention by regulatory authorities, including extended investigation and surveillance activity, adoption of costly or restrictive new regulations and judicial or administrative proceedings that may result in substantial penalties. Among other things, we could be fined or be prohibited from engaging in some of our business activities. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us, and are not designed to protect our stockholders. Accordingly, these regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements.

The regulatory environment in which we operate is subject to continual change, and regulatory developments designed to increase oversight could adversely affect our business.

The legislative and regulatory environment in which we operate has undergone significant changes in the recent past. We believe that significant regulatory changes in our industry are likely to continue on a scale that exceeds the historical pace of regulatory change, which is likely to subject industry participants to additional, more costly and generally more punitive regulation.

New laws or regulations, or changes in the enforcement of existing laws or regulations, applicable to us and our clients could adversely affect our business. Our ability to function in this environment will depend on our ability to constantly monitor and promptly react to legislative and regulatory changes. There have been a number of highly publicized regulatory inquiries that have focused on the investment management industry. These inquiries have resulted in increased scrutiny of the industry and new rules and regulations for mutual funds and investment managers. This regulatory scrutiny may limit our ability to engage in certain activities that might be beneficial to our shareholders. Further, adverse results of regulatory investigations of mutual fund, investment advisory and financial services firms could tarnish the reputation of the financial services industry generally and mutual funds and investment advisers more specifically, causing investors to avoid further fund investments or redeem their account balances. Redemptions would decrease our AUM, which would reduce our advisory revenues and net income. Further, due to acts of serious fraud in the investment management industry and perceived lapses in regulatory oversight, U.S. and non-U.S. governmental and regulatory authorities may continue to increase regulatory oversight of our business. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations, as well as by U.S. courts. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

The investment management industry is intensely competitive.

The investment management industry is intensely competitive, with competition based on a variety of factors, including investment performance, investment management fee rates, recent trend towards favor for passive investment products, continuity of investment professionals and client relationships, the quality of services provided

to clients, corporate positioning and business reputation, continuity of selling arrangements with intermediaries and differentiated products. A number of factors, including the following, serve to increase our competitive risks:

- some competitors, including those with passive investment products and exchange traded funds, charge lower fees for their investment services than we do;
- a number of our competitors have greater financial, technical, marketing and other resources, more comprehensive name recognition and more personnel than we do;

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potential competitors have a relatively low cost of entering the investment management industry;
the recent trend toward consolidation in the investment management industry, and the securities business in general, has served to increase the size and strength of a number of our competitors;
some investors may prefer to invest with an investment manager that is not publicly traded based on the perception that a publicly traded asset manager may focus on the manager's own growth to the detriment of investment performance for clients;

some competitors may invest according to different investment styles or in alternative asset classes that the markets may perceive as more attractive than the portfolios we offer;

- some competitors may have more attractive investment returns due to current market conditions;

some competitors may operate in a different regulatory environment than we do, which may give them certain competitive advantages in the investment products and portfolio structures that they offer; and

other industry participants, hedge funds and alternative asset managers may seek to recruit our investment professionals.

If we are unable to compete effectively, our revenues could be reduced and our business could be adversely affected.

The investment management industry faces substantial litigation risks, which could adversely affect our business, financial condition or results of operations or cause significant reputational harm to us.

We depend to a large extent on our network of relationships and on our reputation to attract and retain client assets. If a client is not satisfied with our services, its dissatisfaction may be more damaging to our business than client dissatisfaction would be to other types of businesses. We make investment decisions on behalf of our clients that could result in substantial losses to them. If our clients suffer significant losses, or are otherwise dissatisfied with our services, we could be subject to the risk of legal liabilities or actions alleging negligent misconduct, breach of fiduciary duty, breach of contract, unjust enrichment and/or fraud. These risks are often difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time, even after an action has been commenced. We may incur significant legal expenses in defending against litigation whether or not we engaged in conduct as a result of which we might be subject to legal liability. Substantial legal liability or significant regulatory action against us could adversely affect our business, financial condition or results of operations or cause significant reputational harm to us.

Catastrophic and unpredictable events could have an adverse effect on our business.

A terrorist attack, war, power failure, cyber-attack, natural disaster or other catastrophic or unpredictable event could adversely affect our future revenues, expenses and earnings by:

- decreasing investment valuations in, and returns on, the assets that we manage;
- causing disruptions in national or global economies that decrease investor confidence and make investment products generally less attractive;
- interrupting our normal business operations;
- sustaining employee casualties, including loss of our key members of our senior management team or our investment team;
- requiring substantial expenditures and expenses to repair, replace and restore normal business operations; and
- reducing investor confidence.

We have a disaster recovery plan to address certain contingencies, but we cannot be assured that this plan will be sufficient in responding or ameliorating the effects of all disaster scenarios. If our employees or vendors we rely upon for support in a catastrophic event are unable to respond adequately or in a timely manner, we may lose clients resulting in a decrease in AUM which may have an adverse effect on revenues and net income.

Risks Related to Our Structure

Control of a majority of the combined voting power of our capital stock by William Manning, and ownership of approximately 83% of Manning & Napier Group's ownership interests by our current and former employee owners, including William Manning, may give rise to conflicts of interest; failure to properly address these or other conflicts of interests could harm our reputation, business and results of operations.

William Manning holds a majority of the combined voting power of our capital stock through his ownership of 100% of our outstanding Class B common stock. Accordingly, William Manning, acting alone, has the ability to approve or disapprove substantially all transactions and other matters submitted to a vote of shareholders, including those relating to the tax receivable agreement, the exchange agreement and other material corporate transactions, such as a merger, consolidation, dissolution or sale of all or substantially all of our assets, the issuance or redemption of certain additional equity interests, and the election of

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directors. These voting and class approval rights could enable William Manning to consummate transactions that may not be in the best interests of holders of our Class A common stock or, conversely, prevent the consummation of transactions that may be in the best interests of holders of our Class A common stock. In addition, although he has voting control of Manning & Napier, all of William Manning's economic interest in us is in the form of his indirect interests in Manning & Napier Group. Through William Manning's economic interest, he may receive payments from Manning & Napier under the tax receivable agreement entered into with him at the time of the reorganization transactions and the proceeds he may receive as a result of M&N Group Holdings, LLC ("M&N Group Holdings") and Manning & Napier Capital Company, LLC ("MNCC") exchanging the interests attributable to him in Manning & Napier Group for cash or, at our election, shares of our Class A common stock and, in the case of exchanges for shares of our Class A common stock, from selling such Class A common stock. As a result, William Manning's economic interests may conflict with the interests of Manning & Napier and its public stockholders.

Our current and former employee owners, including William Manning, directly and through their ownership of M&N Group Holdings and MNCC, indirectly hold approximately 83% of the ownership interests in Manning & Napier Group which, as discussed elsewhere, is our sole source of revenue. M&N Group Holdings and MNCC are entities controlled by William Manning, who, through his ownership indirectly owns a total of approximately 74% of the ownership interests in Manning & Napier Group. All of the other owners of interests in M&N Group Holdings and MNCC are current or former management team members of ours, including our executive officers. Further, such owners have the right to cause M&N Group Holdings and MNCC to exchange their indirect interests in Manning & Napier Group for cash or shares of our Class A common stock. If they exercise this right in sufficient amounts, receive shares of our Class A common stock and do not resell such shares, it is possible that after the cancellation of our Class B common stock, these owners may control us. The interests of these owners may conflict with our interests and the interests of the holders of our Class A common stock. Decisions of these owners with respect to Manning & Napier Group, including those relating to the tax receivable agreement, the exchange agreement and the structuring of future transactions, may take into consideration these owners' tax or other considerations even where no similar benefit would accrue to us or the holders of our Class A common stock.

Because we are a "controlled company" within the meaning of the New York Stock Exchange listing rules, our board of directors is not required to consist of a majority of independent directors, and our stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange. William Manning has a controlling influence over our board, and the interests of William Manning may conflict with the interests of our other stockholders.

Because William Manning holds a majority of the combined voting power of our capital stock through his ownership of 100% of our outstanding Class B common stock, we are considered a "controlled company" for the purposes of the New York Stock Exchange (the "NYSE") listing requirements. As such, we are permitted to, and may, opt out of the corporate governance requirements that our board of directors, our compensation committee and our nominating and corporate governance committee meet the standard of independence established by the NYSE. As a result, our board of directors and compensation committee may have more directors who do not meet the independence standards than they would if those standards were to apply. In particular, so long as we are a "controlled company," we are exempt from the NYSE rule that requires that a board be comprised of a majority of "independent directors." Although we have a majority independent board at December 31, 2015, William Manning has a controlling influence over our board, and has sufficient voting power to elect the entire board, and our certificate of incorporation permits stockholders to remove directors at any time with or without cause. In addition, although we have established a nominating and corporate governance committee, we may opt out of the NYSE's requirement that such committee contain independent directors. Our stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE, and circumstances may occur in which the interests of William Manning could conflict with the interests of our other stockholders.

Our ability to pay regular dividends to our stockholders is subject to the discretion of our board of directors and may be limited by our structure and applicable provisions of Delaware law.

We intend to declare cash dividends on our Class A common stock, however, our board of directors may, in its sole discretion, change the amount or frequency of dividends or discontinue the payment of dividends entirely. In addition,

because of our structure, we will be dependent upon the ability of our subsidiaries to generate earnings and cash flows and distribute them to us so that we may pay dividends to our stockholders. We expect to cause Manning & Napier Group to make distributions to its members, including us, in an amount sufficient for us to pay dividends. However, its ability to make such distributions will be subject to its and its subsidiaries' operating results, cash requirements and financial condition, the applicable laws of the State of Delaware, which may limit the amount of funds available for distribution, and its compliance with covenants and financial ratios related to any indebtedness it has or may incur in the future. As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our Class A common stock. Any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our Class A common stock.

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We depend on distributions from Manning & Napier Group to pay taxes and expenses, including payments under the tax receivable agreement, but Manning & Napier Group's ability to make such distributions will be subject to various limitations and restrictions.

We have no material assets other than our ownership of Class A units of Manning & Napier Group and have no independent means of generating revenue. Manning & Napier Group is treated as a partnership for U.S. federal income tax purposes and, as such, is not subject to U.S. federal income tax. Instead, taxable income is allocated to holders of its units, including us. Accordingly, we incur income taxes on our allocable share of any net taxable income of Manning & Napier Group. Under the terms of its operating agreement, Manning & Napier Group is obligated to make tax distributions to holders of its units, including us. In addition to tax expenses, we also incur expenses related to our operations, including expenses under the tax receivable agreement, which we expect to be significant. We intend, as its managing member, to cause Manning & Napier Group to make distributions in an amount sufficient to allow us to pay our taxes and operating expenses, including any payments due under the tax receivable agreement. However, Manning & Napier Group's ability to make such distributions is subject to various limitations and restrictions including, but not limited to, restrictions on distributions that would violate any contract or agreement to which Manning & Napier Group is then a party or any applicable law or that would have the effect of rendering Manning & Napier Group insolvent. If we do not have sufficient funds to pay tax or other liabilities to fund our operations, we may have to borrow funds, which could adversely affect our liquidity and financial condition and subject us to various restrictions imposed by any such lenders. To the extent that we are unable to make payments under the tax receivable agreement for any reason, such payments will be deferred and will accrue interest until paid. We are required to pay holders of units of Manning & Napier Group for certain tax benefits we may claim as a result of the tax basis step up we realize in connection with the future purchases or exchanges of those units for shares of our Class A common stock, and the amounts we may pay could be significant.

Our current and former employee owners indirectly hold a substantial majority of the ownership interests in Manning & Napier Group. Any future purchases or exchanges of their units of Manning & Napier Group for cash or, at our election, shares of our Class A common stock are expected to produce favorable tax attributes for us. When we acquire such units, both the existing basis and the anticipated basis adjustments are likely to increase, for tax purposes, depreciation and amortization deductions allocable to us from Manning & Napier Group and therefore reduce the amount of income tax we would otherwise be required to pay in the future. This increase in tax basis may also decrease gain, or increase loss, on future dispositions of certain capital assets to the extent the increased tax basis is allocated to those capital assets.

We entered into a tax receivable agreement with the other holders of Class A units of Manning & Napier Group, pursuant to which we are required to pay to such holder of such Class A units 85% of the applicable cash savings, if any, in U.S. federal, state, local and foreign income tax that we actually realize, or is deemed to realize in certain circumstances, as a result of any step-up in tax basis in Manning & Napier Group's assets as a result of (i) certain tax attributes of our purchase of such Class A units or exchanged (for shares of Class A common stock) and that are created as a result of the sales or exchanges and payments under the tax receivable agreement and (ii) payments under the tax receivable agreement, including any tax benefits related to imputed interest deemed to be paid by us as a result of such agreement.

We expect that the payments we will be required to make under the tax receivable agreement will be substantial. Assuming no material changes in the relevant tax law, that the purchase or exchange of Class A units would result in depreciable or amortizable basis and that we earn sufficient taxable income to realize all tax benefits that are subject to the tax receivable agreement, we expect that the reduction in tax payments for us is approximately \$45.5 million as of December 31, 2015. Under such scenario, we would be required to pay the holders of such Class A units 85% of such amount, or approximately \$41.9 million. The actual amounts may materially differ from these estimated amounts, as potential future reductions in tax payments for us and tax receivable agreement payments by us will be calculated using the market value of our Class A common stock and the prevailing tax rates at the time of purchase or exchange and will be dependent on us generating sufficient future taxable income to realize the benefit. In general, increases in the market value of our shares or in prevailing tax rates will increase the amounts we pay under the tax receivable agreement.

The actual increase in tax basis, as well as the amount and timing of any payments under the tax receivable agreement, will vary depending upon a number of factors, including:

- the timing of exchanges by the holders of units of Manning & Napier Group, the number of units purchased or exchanged, or the price of our Class A common stock, as the case may be, at the time of the purchase or exchange;
- the amount and timing of the taxable income we generate in the future and the tax rate then applicable; and
- the portion of our payments under the tax receivable agreement constituting imputed interest and whether the purchases or exchanges result in depreciable or amortizable basis.

There is a possibility that not all of the 85% of the applicable cash savings will be paid to the selling or exchanging holder of Class A units at the time described above. If we determine that all or a portion of such applicable tax savings is in

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doubt, we will pay to the holders of such Class A units the amount attributable to the portion of the applicable tax savings that we determine is not in doubt and pay the remainder at such time as we determine the actual tax savings or that the amount is no longer in doubt.

Payments under the tax receivable agreement, if any, will be made pro rata among all tax receivable agreement holders entitled to payments on an annual basis to the extent we have sufficient taxable income to utilize the increased depreciation and amortization expense. The availability of sufficient taxable income to utilize the increased depreciation and amortization expense will not be determined until such time as the financial results for the year in question are known and tax estimates prepared.

In certain cases, payments under the tax receivable agreement to holders of Manning & Napier Group units may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement.

The tax receivable agreement provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control, or if, at any time, we elect an early termination of the tax receivable agreement, our obligations under the tax receivable agreement with respect to all Class A units of Manning & Napier Group, whether or not such units have been purchased or exchanged before or after such transaction, would be based on certain assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. As a result, (i) we could be required to make payments under the tax receivable agreement that are greater than or less than the specified percentage of the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement and (ii) if we elect to terminate the tax receivable agreement early, we would be required to make an immediate payment equal to the present value of the anticipated future tax benefits, which payment may be made significantly in advance of the actual realization of such future benefits. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. There can be no assurance that we will be able to finance our obligations under the tax receivable agreement. If we were to elect to terminate the tax receivable agreement immediately as of December 31, 2015, we estimate that we would be required to pay \$37.8 million in the aggregate under the tax receivable agreement. If we were deemed an investment company under the 1940 Act as a result of our ownership of Manning & Napier Group, applicable restrictions could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business.

We do not believe that we are an “investment company” under the 1940 Act. Because we, as the sole managing member of Manning & Napier Group, control the management of and operations of Manning & Napier Group, we believe that our interest in Manning & Napier Group is not an “investment security” as such term is used in the 1940 Act. If we were to cease participation in the management of Manning & Napier Group or not be deemed to control Manning & Napier Group, our interest in Manning & Napier Group could be deemed an “investment security” for purposes of the 1940 Act. A person may be an “investment company” if it owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items). Our sole asset is our equity investment in Manning & Napier Group. A determination that such investment is an investment security could cause us to be deemed an investment company under the 1940 Act and to become subject to the registration and other requirements of the 1940 Act. In addition, we do not believe that we are an investment company under Section 3(b)(1) of the 1940 Act because we are not primarily engaged in a business that causes us to fall within the definition of “investment company.” The 1940 Act and the rules thereunder contain detailed prescriptions for the organization and operations of investment companies. Among other things, the 1940 Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, prohibit the issuance of stock options, and impose certain governance requirements. We and Manning & Napier Group intend to conduct our operations so that we will not be deemed an investment company. However, if we nevertheless were to be deemed an investment company, restrictions imposed by the 1940 Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business, financial condition and results of operations.

Risks Related to Our Class A Common Stock

The market price and trading volume of our Class A common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

The market price of our Class A common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume of our Class A common stock may fluctuate and cause significant price variations to occur. If the market price of our Class A common stock declines significantly, investors may be unable to sell shares of Class A common stock at or above their purchase price, if at all. The market price of our Class A common stock may fluctuate or decline

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significantly in the future. Some of the factors that could negatively affect the price of our Class A common stock, or result in fluctuations in the price or trading volume of our Class A common stock, include:

- actual or anticipated variations in our quarterly operating results;
- failure to meet the market's earnings expectations;
- publication of negative research reports about us or the investment management industry, or the failure of securities analysts to cover our Class A common stock;
- a limited float and low average daily trading volume, which may result in illiquidity as investors try to buy and sell and thereby exacerbating positive or negative pressure on our stock;
- departures of any members of our senior management team or additions or departures of other key personnel;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- changes in market valuations of similar companies;
- actual or anticipated poor performance in one or more of the portfolios we offer;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of these laws and regulations, or announcements relating to these matters;
- adverse publicity about the investment management industry generally, or particular scandals, specifically;
- litigation and governmental investigations;
- consummation by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- actions by stockholders;
- exchange of units of Manning & Napier Group for shares of our Class A common stock or the expectation that such conversions or exchanges may occur; and
- general market and economic conditions.

William Manning and our other owners directly and indirectly own interests in M&N Group Holdings and directly own interests in MNCC, and they will have the right to exchange and cause M&N Group Holdings and MNCC to exchange, as applicable, such interests for cash or an aggregate of 67,896,484 shares of our Class A common stock pursuant to the terms of an exchange agreement; future sales of such shares in the public market, or the perception that such sales may occur, could lower our stock price.

The market price of our Class A common stock could decline as a result of sales of a large number of shares of our Class A common stock available for sale, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also may make it more difficult for us to raise additional capital by selling equity securities in the future, at a time and price that we deem appropriate.

We have 14,755,130 shares of Class A common stock outstanding as of December 31, 2015. We have entered into an exchange agreement with M&N Group Holding and MNCC, the other direct holders of all of the units of Manning & Napier Group that are not held by the Company and, subject to certain restrictions, are entitled to exchange such units for an aggregate of up to 67,896,484 shares of our Class A common stock, subject to customary adjustments. In addition, the holders of any units of Manning & Napier Group will also become parties to the exchange agreement and, pursuant to the terms of the exchange agreement, we may also purchase or exchange such units for shares of our Class A common stock. We are party to a registration rights agreement pursuant to which the shares of Class A common stock issued upon such exchanges are eligible for resale, subject to certain limitations set forth therein.

We cannot predict the size of future issuances of our Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock may have on the market price of our Class A common stock. Sales or distributions of substantial amounts of our Class A common stock, including shares issued in connection with an acquisition, or the perception that such sales or distributions could occur, may cause the market price of our Class A common stock to decline.

The disparity in the voting rights among the classes of our capital stock may have a potential adverse effect on the price of our Class A common stock.

Each share of our Class A common stock entitles its holder to one vote on all matters to be voted on by stockholders generally, while the holder of our Class B common stock controls a majority of the vote on all matters submitted to a vote of all stockholders. The difference in voting rights could adversely affect the value of our Class A common stock if, for example,

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investors view, or any potential future purchaser of our company views, the superior voting rights of the Class B common stock to have value or to delay or deter a change of control.

Our Class A common stockholders may experience dilution in the future as a result of the issuance of Class A common stock or units of Manning & Napier Group in connection with future acquisitions and/or equity grants under our 2011 Equity Compensation Plan.

We may issue shares of our Class A common stock or units of Manning & Napier Group in connection with future acquisitions or grants under the 2011 Plan. If we grant exchange rights with respect to the issuance of the units of Manning & Napier Group that allow its holder to exchange such units for shares of our Class A common stock, stockholders will incur dilution in the percentage of the issued and outstanding shares of Class A common stock that are owned at such time.

If we fail to comply with fulfilling our public company financial reporting and other regulatory obligation, our business and stock price could be adversely affected.

As a public company, we are subject to the reporting requirements of the Exchange Act, and have implemented specific corporate governance practices and adhere to a variety of reporting requirements under the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC, as well as the rules of the New York Stock Exchange (the "NYSE").

Our management is required to conduct an annual assessment of the effectiveness of our internal controls over financial reporting and include a report on our internal controls in our annual reports on Form 10-K pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. In addition, we are required to have our independent registered public accounting firm attest to and report on the effectiveness of our internal controls over financial reporting. If our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting, market perception of our financial condition and the trading price of our stock may be adversely affected and customer perception of our business may suffer.

Our corporate documents and Delaware law contain provisions that could discourage, delay or prevent a change in control of the Company.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult. These provisions:

authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of our Class A common stock;

prohibit stockholder action by written consent and instead require all stockholder actions to be taken at a meeting of our stockholders;

provide that the board of directors is expressly authorized to make, alter, or repeal our amended and restated bylaws;

establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and

establish a dual class structure of our voting stock, granting the holder of our Class B common stock majority voting rights.

These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, even if doing so would benefit the holders of our Class A common stock.

Any issuance of preferred stock could make it difficult for another company to acquire us or could otherwise adversely affect holders of our Class A common stock, which could depress the price of our Class A common stock.

Our board of directors has the authority to issue preferred stock and to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our Class A common stock. The potential issuance of

preferred stock may delay or prevent a change in control of us, discouraging bids for our Class A common stock at a premium over the market price, and adversely affect the market price and the voting and other rights of the holders of our Class A common stock.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

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The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters is located in Fairport, New York, and we have regional offices in St. Petersburg, Florida, Chicago, Illinois and Dublin, Ohio. We also lease office space in various other locations throughout the United States. We do not own any facilities. The table below lists our principal leased facilities.

Location	Lease Expiration	Approximate Square Footage
Fairport, New York	December 31, 2022	138,567
St. Petersburg, Florida	December 31, 2022	10,438
Chicago, Illinois	May 31, 2024	4,854
Dublin, Ohio	October 31, 2016	887
Portsmouth, New Hampshire	March 31, 2016	600

We believe our properties are in good operating condition and adequately serve our current business operations. We also anticipate suitable additional or alternative space will be available at commercially reasonable terms for future expansion and to replace existing facilities at lease terminations to the extent necessary. Under the lease agreement for our corporate headquarters, we are required to pay a minimum of approximately \$2.9 million annually for the use of the facility.

Item 3. Legal Proceedings.

As an investment adviser to a variety of investment products, we are subject to routine reviews and inspections by the SEC and FINRA. From time to time we may also be involved in various legal proceedings arising in the ordinary course of our business. We do not believe that the outcome of any of these reviews, inspections or other legal proceedings will have a material impact on our consolidated financial statements; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. Currently, there are no legal proceedings pending or to our knowledge threatened against us.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

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

Market for the Registrant's Common Equity

Our Class A common stock is traded on the New York Stock Exchange under the symbol "MN". Our Class B common stock is not listed on the New York Stock Exchange and there is no established trading market for such shares.

The following table presents information on the high and low sales prices per share as reported on the New York Stock Exchange for our Class A common stock for the periods indicated and dividends declared during such periods:

	2015			2014		
	High	Low	Dividends Declared Per Share	High	Low	Dividends Declared Per Share
First quarter	\$13.80	\$10.71	\$ 0.16	\$18.06	\$14.46	\$ 0.16
Second quarter	\$13.60	\$9.97	\$ 0.16	\$17.94	\$15.92	\$ 0.16
Third quarter	\$11.40	\$7.09	\$ 0.16	\$18.57	\$16.76	\$ 0.16
Fourth quarter	\$9.57	\$7.28	\$ 0.16	\$16.84	\$13.69	\$ 0.24

Holders

As of March 10, 2016 there were 43 holders of record of our Class A common stock and one holder of record of our Class B common stock. A substantial number of holders of our Class A common stock are held in "street name" and thereby held of record by depositories, banks, brokers, and other financial institutions.

Dividends

We currently intend to pay quarterly cash dividends of our Class A common stock. We intend to fund such dividends from our portion of distributions made by Manning & Napier Group, from its available cash generated from operations. William Manning, as the holder of our Class B common stock, will not be entitled to any cash dividends in his capacity as a Class B stockholder, but will, in his capacity as an indirect holder of Class A units of Manning & Napier Group, generally participate on a pro rata basis in distributions by Manning & Napier Group. Distributions to members upon a liquidation of Manning & Napier Group or a capital transaction, such as a sale of all or substantially all of its assets or any financing or refinancing of all or substantially all of its assets or debt, generally will be made to its members pro rata in proportion to their capital account balances, subject to the claims of creditors.

The declaration and payment of all future dividends, if any, will be at the sole discretion of our board of directors. In determining the amount of any future dividends, our board of directors will take into account:

- the financial results of Manning & Napier Group;
- our available cash, as well as anticipated cash requirements, including any debt servicing and payments required under the tax receivable agreement;
- our capital requirements and the capital requirements of our subsidiaries, including Manning & Napier Group; contractual, legal, tax and regulatory restrictions on, and implications of, the payment of dividends by us to our stockholders or by Manning & Napier Group to us, including the obligation of Manning & Napier Group to make tax distributions to its unitholders, including us;
- general economic and business conditions; and
- any other factors that our board of directors may deem relevant.

We have no material assets other than our ownership of Class A units of Manning & Napier Group and, accordingly, will depend on distributions from Manning & Napier Group to fund any dividends we may pay. As managing member of Manning & Napier Group, we will determine the timing and amount of any distributions to be paid to its members. We intend to cause Manning & Napier Group to distribute cash to its members, including us, in an amount sufficient to cover dividends, if any, declared by us. If we do cause Manning & Napier Group to make such distributions, M&N Group Holdings, MNCC and any other holders of units of Manning & Napier Group will be entitled to receive equivalent distributions on a pari passu basis.

Our dividend policy has certain risks and limitations, particularly with respect to liquidity. Although we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy, or at all, if, among other things, Manning & Napier Group is unable to make distributions to us as a result of its operating results, cash requirements and

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financial condition, its making certain mandatory distributions to its members relating to their income tax liability, the applicable laws of the State of Delaware, which may limit the amount of funds available for distribution, and its compliance with covenants and financial ratios related to any indebtedness it may incur in the future. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

We are taxable as a corporation for U.S. federal income tax purposes and therefore holders of our Class A common stock will not be taxed directly on our earnings. Distributions of cash or other property that we pay to our stockholders will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax rules. If the amount of a distribution by us to our stockholders exceeds our current and accumulated earnings and profits, such excess will be treated first as a tax-free return of capital to the extent of a holder’s adjusted tax basis in the Class A common stock and thereafter as capital gain.

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the year ended December 31, 2015.

Performance Graph

The following graph compares the cumulative total stockholder return on our common stock from November 18, 2011, the date of our initial public offering, through December 31, 2015, with the cumulative total return of the Standard & Poor’s 500 Stock Index and the SNL Asset Manager Index. The SNL Manager Index is a composite of 44 publicly traded asset management companies prepared by SNL Financial, Charlottesville, Virginia. The graph assumes the investment of \$100 in our Class A common stock and in each of the two indexes on November 18, 2011 and the reinvestment of all dividends, if any.

Company/Index	Period Ending					
	11/18/2011	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Manning & Napier, Inc.	\$100.00	\$104.08	\$108.80	\$158.69	\$129.70	\$85.19
S&P 500® Index	\$100.00	\$103.72	\$120.32	\$159.29	\$181.10	\$183.61
SNL Asset Manager Index	\$100.00	\$104.42	\$133.97	\$205.88	\$217.19	\$185.22

In accordance with the rules of the SEC, this section entitled “Performance Graph” shall not be incorporated by reference into any future filings by us under the Securities Act or Exchange Act, and shall not be deemed to be soliciting material or to be filed under the Securities Act or the Exchange Act.

Item 6. Selected Financial Data.

The following tables set forth selected consolidated financial data of Manning & Napier, Inc. The audited consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013 and the audited consolidated statements of financial condition as of December 31, 2015 and 2014 are included elsewhere in this report.

The selected consolidated statements of operations data for the years ended December 31, 2012 and 2011 and the selected consolidated statements of financial condition data as of December 31, 2013, 2012 and 2011 have been derived from our audited financial statements for such periods which are not included in this report.

The consolidated financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and accompanying notes in “Item 8. Financial Statements and Supplemental Data.”

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	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands, except share data)				
Revenues					
Investment management services revenue	\$327,818	\$405,465	\$376,068	\$339,055	\$329,992
Expenses					
Compensation and related costs	103,992	158,183	191,803	165,698	305,957
Distribution, servicing and custody expenses	59,013	77,165	67,688	58,068	54,446
Other operating costs	36,261	35,624	31,738	31,145	28,373
Total operating expenses	199,266	270,972	291,229	254,911	388,776
Operating income (loss)	128,552	134,493	84,839	84,144	(58,784)
Non-operating income (loss)					
Interest expense on shares subject to mandatory redemption	—	—	—	—	(45,833)
Other non-operating income (loss)	(6,961)	1,902	1,230	435	183
Total non-operating income (loss)	(6,961)	1,902	1,230	435	(45,650)
Income (loss) before provision for income taxes	121,591	136,395	86,069	84,579	(104,434)
Provision for income taxes	4,639	12,660	9,128	8,160	1,982
Net income (loss) attributable to controlling and noncontrolling interests	116,952	123,735	76,941	76,419	(106,416)
Less: net income (loss) attributable to noncontrolling interests	103,738	114,418	74,285	73,950	(79,249)
Net income (loss) attributable to Manning & Napier, Inc. ⁽¹⁾	\$13,214	\$9,317	\$2,656	\$2,469	\$(27,167)
Net income (loss) per share available to Class A common stock ⁽¹⁾					
Basic	\$0.91	\$0.68	\$0.20	\$0.18	\$(2.11)
Diluted	\$0.90	\$0.67	\$0.19	\$0.18	\$(2.11)
Weighted average shares of Class A common stock outstanding					
Basic	13,736,042	13,678,494	13,617,823	13,583,873	12,894,136
Diluted	13,964,846	13,881,437	13,741,647	13,583,873	12,894,136
Cash dividends declared per share of Class A common stock	\$0.64	\$0.72	\$0.72	\$0.64	\$—
Other financial and operating data					
Economic income ⁽²⁾	\$121,591	\$174,971	\$167,492	\$156,853	\$156,723
Economic net income ⁽²⁾	\$78,333	\$108,045	\$103,426	\$96,857	\$96,776
Economic net income per adjusted share ⁽²⁾	\$0.92	\$1.22	\$1.15	1.08	1.08
Weighted average adjusted Class A common stock outstanding ⁽²⁾	84,763,495	88,508,381	89,891,854	89,983,873	89,983,873

We consummated the initial public offering on November 18, 2011. Since that date, we have consolidated the results of Manning & Napier Group, LLC due to our role as its managing member. Therefore, all income for the (1) period prior to November 18, 2011 is entirely attributable to the noncontrolling interest which existed prior to the initial public offering. As a result, in the computation of GAAP earnings per share, only the net income attributable to our controlling interest from the period subsequent to the initial public offering is considered.

Economic income, economic net income and economic net income per adjusted share are not financial measures prepared in accordance with GAAP. Our management uses the non-GAAP financial measures of economic income, economic net income and economic net income per adjusted share to evaluate the profitability and efficiency of our business. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Supplemental Non-GAAP Financial Information” for our reasons for including these non-GAAP measures in this

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report. Our non-GAAP financial measures may differ from similar measures used by other companies, even if similar terms are used to identify such measures.

	As of December 31,				
	2015	2014	2013	2012	2011
	(in thousands, except as noted)				
Statements of financial condition data:					
Cash and cash equivalents	\$ 117,591	\$ 124,992	\$ 125,250	\$ 108,324	\$ 81,208
Investment securities ⁽¹⁾	\$ 22,567	\$ 26,915	\$ 21,321	\$ 13,082	\$ 4,642
Due from broker ⁽¹⁾	\$ 7,472	\$ 5,391	\$ 5,816	\$ —	\$ —
Total assets	\$ 230,796	\$ 257,473	\$ 252,604	\$ 218,180	\$ 178,833
Total liabilities	\$ 96,016	\$ 108,762	\$ 106,815	\$ 94,434	\$ 87,025
Assets Under Management (in millions)					
Assets under management ⁽²⁾	\$ 35,442.2	\$ 47,801.6	\$ 50,826.2	\$ 45,208.9	\$ 40,200.1

(1) Investment securities and due from broker includes consolidated funds for which we hold a financial controlling interest.

(2) Reflects the amount of money we managed for our clients as of the last day of the period.

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The following table sets forth, for the periods indicated, a reconciliation of non-GAAP financial measures to GAAP measures:

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands, except share data)				
Net income (loss) attributable to Manning & Napier, Inc.	\$ 13,214	\$ 9,317	\$ 2,656	\$ 2,469	\$(27,167)
Plus: net income (loss) attributable to the noncontrolling interests	103,738	114,418	74,285	73,950	(79,249)
Net income (loss) attributable to the controlling and the noncontrolling interests	116,952	123,735	76,941	76,419	(106,416)
Provision for income taxes	4,639	12,660	9,128	8,160	1,982
Income (loss) before provision for income taxes	121,591	136,395	86,069	84,579	(104,434)
Interest expense on shares subject to mandatory redemption	—	—	—	—	45,833
Reorganization-related share-based compensation	—	38,576	81,423	72,274	215,324
Economic income	121,591	174,971	167,492	156,853	156,723
Adjusted income taxes	43,258	66,926	64,066	59,996	59,947
Economic net income	\$78,333	\$108,045	\$103,426	\$96,857	\$96,776
Net income (loss) available to Class A common stock per basic share	\$0.91	\$0.68	\$0.20	\$0.18	\$(2.11)
Plus: net income (loss) attributable to noncontrolling interests per basic share	7.60	8.36	5.45	5.45	(6.14)
Net income (loss) attributable to controlling and noncontrolling interests per basic share	8.51	9.04	5.65	5.63	(8.25)
Provision for income taxes per basic share	0.34	0.93	0.67	0.60	0.15
Income (loss) before provision for income taxes per basic share	8.85	9.97	6.32	6.23	(8.10)
Interest expense on shares subject to mandatory redemption per basic share	—	—	—	—	3.55
Reorganization-related share-based compensation per basic share	—	2.82	5.98	5.32	16.70
Economic income per basic share	8.85	12.79	12.30	11.55	12.15
Adjusted income taxes per basic share	3.15	4.89	4.70	4.42	4.65
Economic net income per basic share	5.70	7.90	7.60	7.13	7.50
Less: impact of Manning & Napier Group, LLC units and unvested equity awards converted to Class A common stock	(4.78)	(6.68)	(6.45)	(6.05)	(6.42)
Economic net income per adjusted share	\$0.92	\$1.22	\$1.15	\$1.08	\$1.08
Weighted average shares of Class A common stock outstanding - Basic	13,736,042	13,678,494	13,617,823	13,583,873	13,583,873
Weighted average exchangeable units of Manning & Napier Group, LLC	69,280,947	74,162,792	75,993,040	76,400,000	76,400,000
Weighted average unvested equity awards	1,746,506	667,095	280,991	—	—
Weighted average adjusted Class A common stock outstanding	84,763,495	88,508,381	89,891,854	89,983,873	89,983,873

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

Overview

Business

We are an independent investment management firm that provides a broad range of investment solutions, as well as a variety of consultative services that complement our investment process. Founded in 1970, we offer equity, fixed income and

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alternative strategies, as well as a range of blended asset portfolios, such as life cycle funds. We serve a diversified client base of high net worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans, endowments and foundations. Our operations are based principally in the United States, with our headquarters located in Fairport, New York.

Our Products

We derive substantially all of our revenues from investment management fees earned from providing advisory services to separately managed accounts and mutual funds and collective investment trusts—including those offered by the Manning & Napier Fund, Inc., or the Fund, and Exeter Trust Company.

Our separate accounts are primarily distributed through our Direct Channel, where our representatives form relationships with high net worth individuals, middle market institutions or large institutions that are working with a consultant. To a lesser extent, we also obtain a portion of our separate account distribution via third parties, either through our Intermediary Channel where national brokerage firm representatives or independent financial advisors select our separate account strategies for their clients, or through our Platform/Sub-Advisory Channel, where unaffiliated registered investment advisors approve our strategies for their product platforms. Our separate account products are a primary driver of our blended asset portfolios for high net worth and middle market institutional clients and financial intermediaries. In contrast, larger institutions and unaffiliated registered investment advisor platforms are a driver of our separate account equity portfolios.

Our mutual funds and collective investment trusts are primarily distributed through financial intermediaries, including brokers, financial advisors, retirement plan advisors and platform relationships. We also obtain a portion of our mutual fund and collective investment trust distribution through our direct sales representatives, in particular within the defined contribution and institutional marketplace. Our mutual fund and collective investment trust products are an important driver of our blended asset class portfolios, in particular with 401(k) plan sponsors, advisors and recordkeepers that select our funds as default options for participants. In addition, financial intermediaries and retail platforms are a driver of equity strategies within our mutual fund offerings.

Our assets under management ("AUM") were \$35.4 billion as of December 31, 2015. The composition of our AUM by vehicle and portfolio is illustrated in the table below.

AUM - by investment vehicle and portfolio:	December 31, 2015			
	Blended Asset (in millions)	Equity	Fixed Income	Total
Separately managed accounts	\$12,010.0	\$7,610.6	\$1,114.8	\$20,735.4
Mutual funds and collective investment trusts	10,432.4	4,217.8	56.6	14,706.8
Total	\$22,442.4	\$11,828.4	\$1,171.4	\$35,442.2

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The composition of our separately managed accounts as of December 31, 2015, by channel and portfolio, is set forth in the table below:

	December 31, 2015			
	Blended Asset	Equity	Fixed Income	Total
	(dollars in millions)			
Separate account AUM				
Direct Channel	\$8,602.9	\$5,642.0	\$978.2	\$15,223.1
Intermediary Channel	3,402.9	722.1	136.6	4,261.6
Platform/Sub-advisor Channel	4.2	1,246.5	—	1,250.7
Total	\$12,010.0	\$7,610.6	\$1,114.8	\$20,735.4
Percentage of separate account AUM				
Direct Channel	41	% 28	% 4	% 73
Intermediary Channel	17	% 3	% 1	% 21
Platform/Sub-advisor Channel	0	% 6	% —	6
Total	58	% 37	% 5	% 100
Percentage of portfolio by channel				
Direct Channel	72	% 74	% 88	% 73
Intermediary Channel	28	% 10	% 12	% 21
Platform/Sub-advisor Channel	0	% 16	% —	6
Total	100	% 100	% 100	% 100
Percentage of channel by portfolio				
Direct Channel	57	% 37	% 6	% 100
Intermediary Channel	80	% 17	% 3	% 100
Platform/Sub-advisor Channel	0	% 100	% —	100

Our separate accounts contributed 36% of our total gross client inflows for the year ended December 31, 2015 and represented 59% of our total AUM as of December 31, 2015.

Our separate account business has historically been driven primarily by our Direct Channel, where sales representatives form relationships with high net worth investors, middle market institutions, and large institutional clients working in conjunction with a consultant. The Direct Channel contributed 56% of the total gross client inflows for our separate account business for the year ended December 31, 2015, compared to 57% for the year ended December 31, 2014. The Direct Channel represented 73% of our total separate account AUM as of December 31, 2015. We anticipate the Direct Channel to continue to be the largest driver of new separate account business going forward, given the Channel's high net worth and middle market institutional client-type focus.

During 2015, the blended asset portfolios represented 68% of the separate account gross client inflows from the Direct Channel, while equity and fixed income portfolios accounted for 17% and 15%, respectively. As of December 31, 2015, blended asset and equity portfolios represented 57% and 37% of total Direct Channel separate account AUM, while our fixed income portfolios were 6%. We expect our focus on individuals and middle market institutions to continue to drive interest in our blended asset class portfolios, where we provide a comprehensive portfolio of stocks and bonds managed to a client's specific investment objectives. Our relationships with larger institutions may also be a driver of growth in separately managed account equity strategies, though many of these larger institutions may seek exposure to non-U.S. equity strategies through commingled vehicles rather than separately managed accounts to limit related custody expenses.

To a lesser extent, we also obtain separate account business from third parties, including financial advisors or unaffiliated registered investment advisor programs or platforms. During 2015, 15% of the total gross client inflows for separate accounts came from financial advisor representatives (Intermediary Channel), and an additional 29% came from unaffiliated registered investment advisor platforms (Platform/Sub-advisor Channel). The Intermediary and Platform/Sub-advisor Channels represented 27% of our total separate account AUM as of December 31, 2015.

New separate account business through the Intermediary Channel flowed into both our blended asset and equity portfolios, driven by advisors' needs to identify either a one-stop solution (blended asset portfolio) or to fill a mandate within a multi-strategy portfolio. During 2015, blended asset and equity portfolios represented 79% and 19%, respectively, of the

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separate account gross client inflows from the Intermediary Channel, while fixed income portfolios represented 2%. As of December 31, 2015, 80% of our separate account AUM derived from financial advisors was allocated to blended asset portfolios, with 17% allocated to equity and 3% allocated to fixed income. We expect that equity and fixed income portfolios may see additional interest from financial advisors over time as more advisors structure a multi-strategy portfolio for their clients.

During the year ended December 31, 2015, 100% of our separate account gross client inflows from the Platform/Sub-advisory Channel were into equity portfolios. Gross client inflows through the Platform/Sub-advisor Channel are primarily directed to our equity strategies, where we are filling a specific mandate within the investment program or platform product.

Our annualized separate account retention rate across all channels was approximately 89% during the calendar year 2015, representing the strong relationship focus that is inherent in our direct sales model, which is the primary driver of our separate account business.

The composition of our mutual fund and collective investment trust AUM as of December 31, 2015, by portfolio, is set forth in the table below:

	December 31, 2015			
	Blended Asset (in millions)	Equity	Fixed Income	Total
Mutual funds and collective investment trusts AUM	\$10,432.4	\$4,217.8	\$56.6	\$14,706.8

Our mutual funds and collective investment trusts contributed 64% of our total gross client inflows for the year ended December 31, 2015 and represented 41% of our total AUM as of December 31, 2015. As of December 31, 2015, our mutual funds and collective investment trusts' AUM consisted of 71% from blended asset portfolios and 29% from equity portfolios, compared to 54% and 46% for blended asset and equity portfolios as of December 31, 2014. The shift to a heavier concentration of AUM in blended asset portfolios is the result of equity portfolio net client outflows of \$6.0 billion, or 85% of of mutual fund and collective net client outflows for the year ended December 31, 2015. Net client outflows were concentrated in our World Opportunities, Overseas and Equity series where net outflows were \$3.8 billion, \$1.0 billion and \$0.8 billion, respectively, during the twelve months ended December 31, 2015. The outflows were largely attributable to challenging portfolio performance relative to benchmarks.

Our mutual fund and collective investment trust business is driven by financial intermediaries and to a lesser extent, our direct sales representatives. Intermediary distribution of our mutual fund and collective investment trust vehicles is achieved via financial advisors, brokers and retirement plan advisors. Through our Intermediary Channel, we are focused on our blended asset life cycle fund vehicles given our emphasis on advisors that work with retirement plans. Our blended asset portfolios are also used by advisors seeking a multi-asset class solution for their retail clients. In addition, we are focused on equity and fixed income portfolios within the Intermediary Channel for intermediaries who wish to use our mutual funds as a component of a larger portfolio.

Through our Platform/Sub-advisor Channel, we have relationships with consultants and advisors at platforms. We are focused on equity and fixed income portfolio assets in this channel through the selection of our funds within advisory programs where our mutual funds are used within a multi-strategy portfolio, or through placement on platforms' approved lists of funds. To facilitate our relationships with intermediaries, we currently have more than 290 dealer relationships. These relationships are important to the support of our retail business as well as our 401(k) life cycle and institutional business.

Our Direct Sales Representatives distribute our equity portfolios to large institutional clients with which we have direct relationships with the client and often, the client's consultant. Through the Direct Channel, we also form relationships with middle market and large market defined contribution plan sponsors seeking to use our life cycle mutual funds and collective investment trusts as default options on their investment menu. We expect this channel to be focused on distributing blended asset and equity portfolio funds in the future.

Recent Developments

In December of 2015, we announced the agreement to acquire a majority interest in Rainier Investment Management, LLC ("Rainier"), an active investment management firm with more than \$3 billion in AUM. Under the terms of the

transaction, key professionals will maintain a 25% ownership stake in Rainier, with Manning & Napier owning the remaining 75%. The transaction is expected to close in the first half of 2016, subject to customary regulatory approvals and closing conditions.

Results of Operations

Below is a discussion of our consolidated results of operations for the years ended December 31, 2015, 2014 and 2013.

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Key Components of Results of Operations

Overview

Changes to our operating results over time are largely driven by net client asset flows and changes to the market value of our AUM. The line item "market appreciation/(depreciation) and other" within our AUM tables throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes investment gains/(losses) on AUM, net flows from non-sales related activities including asset acquisitions and net reinvested dividends.

An important factor influencing inflows and outflows of our AUM is the investment performance of our various investment approaches. Our variety of stock selection strategies, absolute pricing discipline and active asset allocation management approach generally results in specific absolute and relative return characteristics in different market environments. For example, during a fundamental-driven bull market when prices are rising alongside improving fundamentals, we are likely to experience positive absolute returns and competitive relative returns. However, in a more momentum-driven bull market, when prices become disconnected from underlying fundamentals, we are likely to experience positive absolute returns but lagging relative returns. Similarly, during a valuation-driven bear market, when markets experience a period of price correction following a momentum-driven bull market, we are likely to experience negative absolute returns but strong relative returns. However, in a momentum-driven bear market, which is typically characterized by broad price declines in a highly correlated market, we are likely to experience negative absolute returns and lagging relative returns. Essentially, our approach is likely to do well when markets are driven by fundamentals, but lag when markets are driven primarily by momentum.

Other components of our operating results include:

- asset-based fee rates and changes in those rates;
- the composition of our AUM among various portfolios, vehicles and client types;
- changes in our variable costs, including incentive compensation and distribution, servicing and custody expenses, which are affected by our investment performance, level of our AUM and revenue; and
- fixed costs, including changes to base compensation, vendor-related costs and investment spending on new products.

Assets Under Management and Investment Performance

The following tables reflect the indicated components of our AUM for our investment vehicles for the years ended December 31, 2015, 2014, and 2013.

	Separately managed accounts	Mutual funds and collective investment trusts	Total	Separately managed accounts	Mutual funds and collective investment trusts	Total
	(in millions)					
As of December 31, 2012	\$24,683.6	\$20,525.3	\$45,208.9	55%	45%	100%
Gross client inflows	2,549.2	5,803.6	8,352.8			
Gross client outflows	(4,867.1)	(5,979.1)	(10,846.2)			
Market appreciation/(depreciation) & other	4,469.3	3,641.4	8,110.7			
As of December 31, 2013	\$26,835.0	\$23,991.2	\$50,826.2	53%	47%	100%
Gross client inflows	3,000.7	6,235.6	9,236.3			
Gross client outflows	(5,313.8)	(7,213.7)	(12,527.5)			
Market appreciation/(depreciation) & other	886.8	(620.2)	266.6			
As of December 31, 2014	\$25,408.7	\$22,392.9	\$47,801.6	53%	47%	100%
Gross client inflows	2,426.5	4,227.6	6,654.1			
Gross client outflows	(6,391.2)	(11,260.4)	(17,651.6)			
Market appreciation/(depreciation) & other	(708.6)	(653.3)	(1,361.9)			
As of December 31, 2015	\$20,735.4	\$14,706.8	\$35,442.2	59%	41%	100%

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Average AUM:	Separately managed accounts (in millions)	Mutual funds and collective investment trusts	Total
Average AUM for the year ended December 31, 2013	\$25,906.0	\$ 22,406.1	\$48,312.1
Average AUM for the year ended December 31, 2014	\$26,823.8	\$ 24,798.3	\$51,622.1
Average AUM for the year ended December 31, 2015	\$23,720.0	\$ 18,780.5	\$42,500.5

The following tables reflect the indicated components of our AUM for our portfolios for the years ended December 31, 2015, 2014, and 2013:

	Blended Asset (in millions)	Equity	Fixed Income	Total	Blended Asset	Equity	Fixed Income	Total
As of December 31, 2012	\$20,470.7	\$23,472.5	\$1,265.7	\$45,208.9	45%	52%	3%	100%
Gross client inflows	4,399.5	3,795.1	158.2	8,352.8				
Gross client outflows	(4,318.7)	(6,249.0)	(278.5)	(10,846.2)				
Market appreciation/(depreciation) & other	3,158.7	4,958.4	(6.4)	8,110.7				
As of December 31, 2013	\$23,710.2	\$25,977.0	\$1,139.0	\$50,826.2	47%	51%	2%	100%
Gross client inflows	4,820.5	4,094.8	321.0	9,236.3				
Gross client outflows	(4,404.3)	(7,772.5)	(350.7)	(12,527.5)				
Market appreciation/(depreciation) & other	1,152.6	(1,015.2)	129.2	266.6				
As of December 31, 2014	\$25,279.0	\$21,284.1	\$1,238.5	\$47,801.6	53%	44%	3%	100%
Gross client inflows	4,327.3	2,047.1	279.7	6,654.1				
Gross client outflows	(6,285.7)	(11,005.5)	(360.4)	(17,651.6)				
Market appreciation/(depreciation) & other	(878.2)	(497.3)	13.6	(1,361.9)				
As of December 31, 2015	\$22,442.4	\$11,828.4	\$1,171.4	\$35,442.2	64%	33 %	3%	100%

Average AUM:	Blended Asset (in millions)	Equity	Fixed Income	Total
Average AUM for the year ended December 31, 2013	\$22,263.6	\$24,849.8	\$1,198.7	\$48,312.1
Average AUM for the year ended December 31, 2014	\$25,033.3	\$25,386.0	\$1,202.8	\$51,622.1
Average AUM for the year ended December 31, 2015	\$24,490.1	\$16,815.8	\$1,194.6	\$42,500.5

The following table summarizes the annualized returns for our key investment strategies and the relative performance of the industry benchmark over the periods indicated. Since inception and over long-term periods, these strategies have earned attractive returns on both an absolute and relative basis. These strategies are used across separate account, mutual fund and collective investment trust vehicles, and represent approximately 79% of our total AUM as of December 31, 2015.

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Key Strategies	AUM as of		Annualized Return as of December 31, 2015 (3)					
	December 31, 2015 (in millions)	Inception Date	One Year	Three Year	Five Year	Ten Year	Market Cycle (1)	Inception
Long-Term Growth 30%-80% Equity Exposure	\$ 10,025.1	1/1/1973	(3.1)%	6.0%	6.0%	5.6%	6.2%	9.6%
Blended Benchmark: 55% S&P 500 Total Return / 45% Barclays Government/Credit Bond			1.1%	8.8%	8.6%	6.3%	4.9%	9.2%
Growth with Reduced Volatility 20%-60% Equity Exposure	\$ 4,592.4	1/1/1973	(2.5)%	4.6%	4.9%	5.1%	5.8%	8.9%
Blended Benchmark: 40% S&P 500 Total Return / 60% Barclays Government/Credit Bond			0.9%	6.7%	7.2%	5.9%	5.1%	8.8%
Aggregate Fixed Income Benchmark: Barclays U.S. Aggregate Bond	\$ 502.3	1/1/1984	1.0%	1.3%	3.1%	4.6%	5.1%	7.5%
Equity-Oriented	\$ 2,926.7	1/1/1993	(4.9)%	8.1%	6.4%	5.8%	6.3%	9.8%
Blended Benchmark: 65% Russell 3000® / 20% ACWIxUS / 15% Barclays U.S. Aggregate Bond			(0.6)%	10.1%	8.7%	6.3%	4.4%	8.2%
Core Equity (Unrestricted) 90%-100% Equity Exposure	\$ 1,368.8	1/1/1995	(5.2)%	10.4%	7.8%	6.7%	7.0%	10.9%
Blended Benchmark: 80% Russell 3000® / 20% ACWIxUS			(0.7)%	12.0%	9.9%	6.5%	4.1%	8.6%
Core Non-U.S. Equity Benchmark: ACWIxUS Index	\$ 7,365.2	10/1/1996	(5.0)% (5.7)%	1.0% 1.5%	0.7% 1.1%	3.8% 2.9%	5.2% 2.7%	7.3% 4.6%
Core U.S. Equity Benchmark: Russell 3000® Index	\$ 1,305.1	7/1/2000	(4.2)% 0.5%	11.7% 14.7%	8.3% 12.2%	6.7% 7.4%	N/A (2) 4.3%	6.7% 4.6%

The market cycle performance numbers are calculated from April 1, 2000 to December 31, 2015. We believe that a full market cycle time period should contain a wide range of market conditions and usually consists of a bear market, recovery and bull market stage. Our definition of the current market cycle includes the bear market that (1) began with an abrupt decline in the technology sector (4/1/2000 - 9/30/2002), the subsequent failed recovery (10/1/2002 - 10/31/2007), the financial crisis bear market (11/1/2007 - 2/28/2009), and the current bull market (3/1/2009 - current). The period utilized in our current market cycle may differ from periods used by other investment managers.

(2) Market Cycle performance not available given the product's July 1, 2000 inception date.

(3) Key investment strategy returns are presented net of fees. Benchmark returns do not reflect any fees or expenses.

Revenue

Our revenues primarily consist of investment management fees earned from managing our clients' AUM. We earn our investment management fees as a percentage of our clients' AUM either as of a specified date or on a daily basis. Our investment management fees can fluctuate based on the average fee rate for our investment management products, which are affected by the composition of our AUM among various portfolios and investment vehicles.

Manning & Napier Advisors, LLC ("MNA"), a subsidiary of Manning & Napier Group, serves as the investment advisor to the Fund and Exeter Trust Company. The Fund is a family of open-end mutual funds that offer no-load share classes designed to meet the needs of a range of institutional and other investors. Exeter Trust Company is an

affiliated New Hampshire-chartered trust company that sponsors a family of collective investment trusts for qualified retirement plans, including 401(k) plans. These mutual funds and collective investment trusts comprised \$14.7 billion, or 41%, of our AUM as of December 31, 2015, and investment management fees from these mutual funds and collective investment trusts were \$155.7 million for the year ended December 31, 2015. MNA also serves as the investment advisor to all of our separately managed accounts, managing \$20.7 billion, or 59%, of our AUM as of December 31, 2015, including assets managed as a sub-advisor to pooled investment vehicles and assets in client accounts invested in the Fund.

Operating Expenses

Our largest operating expenses are employee compensation and distribution, servicing and custody expenses, discussed further below, with a significant portion of these expenses varying in a direct relationship to our absolute and relative investment management performance, as well as AUM and revenues. We review our operating expenses in relation to the investment market environment and changes in our revenues. However, we are generally willing to make expenditures as necessary even when

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faced with declining rates of growth in revenues in order to support our investment products, our client service levels, strategic initiatives and our long-term value.

Compensation and related costs. Employee compensation and related costs represent our largest expense, including employee salaries and benefits, incentive compensation to investment and sales professionals and equity-based compensation issued under our equity compensation plan. These costs are affected by changes in the employee headcount, the mix of existing job descriptions, competitive factors, the addition of new skill sets, variations in the level of our AUM and revenues, and the timing of and the number of equity awards issued. In addition, incentive compensation for our research team considers the cumulative impact of both absolute and relative investment performance over the trailing one-, two- and three-year time periods, with more weight placed on the recent periods. As such, incentive compensation paid to our research team will vary based on absolute and relative investment performance.

Distribution, servicing and custody expenses. Distribution, servicing and custody expense represents amounts paid to various intermediaries that provide access to and service investors in our mutual funds and collective trust funds, as well as costs for custodial services and 12b-1 distribution. These expenses generally increase or decrease in line with changes in our mutual fund and collective trust AUM or services performed by these intermediaries.

Other operating expenses. Other operating expenses include fund fee waiver and/or expense reimbursement, professional fees, including accounting and legal fees, occupancy and facility costs, travel and entertainment expenses, insurance, market data service expenses and all other miscellaneous costs associated with managing the day-to-day operations of our business.

Non-Operating Income (Loss)

Non-operating income (loss) includes interest expense, interest and dividend income, changes in liability under the tax receivable agreement and gains (losses) related to investment securities sales and changes in values of those investment securities designated as trading. Interest expense primarily relates to unused commitment fees and amortization of debt issuance costs. We expect the interest and investment components of non-operating income (loss) to fluctuate based on market conditions, the performance of our investments and the overall amount of our investments held by the Company to provide initial cash seeding for product development purposes as well as the timing and amounts (if any) outstanding under the revolving credit agreement.

Provision for Income Taxes

The Company is comprised of entities that have elected to be treated as either a limited liability company ("LLC"), or a "C-Corporation". As such, the entities functioning as LLC's are not liable for or able to benefit from U.S. federal or most state and local income taxes on their earnings, and their earnings (losses) will be included in the personal income tax returns of each entity's unit holders. The entities functioning as C-Corporations are liable for or able to benefit from U.S. federal and state and local income taxes on their earnings and losses, respectively.

Noncontrolling Interests

Manning & Napier, Inc. holds an economic interest of approximately 16.7% in Manning & Napier Group, but as managing member controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest in our consolidated financial statements. Net income attributable to noncontrolling interests on the consolidated statements of operations represents the portion of earnings attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared in accordance with GAAP and related rules and regulations of the SEC. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates or assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Accordingly, actual results could differ from these estimates or assumptions and may have a material effect on the consolidated financial statements. Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial condition. Our management has identified the following significant accounting policies that are critical to understanding our business and

prospects for future performance, as these policies affect the reported amounts of revenue and other significant areas that involve management's judgment and estimates.

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These policies and our procedures related to these policies are described in detail below. In addition, please refer to the notes to our consolidated financial statements included elsewhere in this report for further discussion of our accounting policies.

Revenue Recognition

The majority of our revenues are based on fees charged to manage customers' portfolios. Investment management fees are generally computed as a percentage of AUM and recognized as earned. Fees for providing investment advisory services are computed and billed in accordance with the provisions of the applicable investment management agreements. For our separately managed accounts, clients either pay investment management fees in advance, typically for a semi-annual or quarterly period, or in arrears, typically for a monthly or quarterly period. When investment management fees are paid in advance, we defer the revenue and recognize it over the applicable period. When investment management fees are paid in arrears, we estimate revenues based on AUM market values as of the most recent month end date, and adjust to actual when billed. Revenue is also earned for providing custodial services, sub-advisor services to mutual funds and collective investment trusts and other services. For mutual funds and collective investment trust vehicles, our fees are calculated and earned daily based on AUM.

Certain investment advisory contracts provide for a performance-based fee, in addition to a base investment management fee, which is calculated as a percentage of cumulative profits over and above the aggregate of previous period cumulative profits. Performance-based fees are recorded as a component of revenue at the end of each contract's measurement period, when all contingencies are resolved, typically on a quarterly basis.

Because the majority of our revenues are earned based on AUM that has been determined using fair value methods and since market appreciation/depreciation has a significant impact on our revenue, we have presented our AUM using the GAAP framework for measuring fair value. A fair value hierarchy is provided that gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The following three-tier fair value hierarchy prioritizes the inputs used in measuring fair value:

Level 1—observable inputs such as quoted prices in active markets for identical securities;

Level 2—other significant observable inputs (including but not limited to quoted prices for similar securities, interest rates, prepayment rates, credit risk, etc.); and

Level 3—significant unobservable inputs (including our own assumptions in determining the fair value of investments).

The table below summarizes the approximate amount of AUM for the periods indicated for which fair value is measured based on Level 1, Level 2 and Level 3:

	Level 1 (in millions)	Level 2	Level 3	Total
December 31, 2015 AUM	\$21,188	\$14,254	\$—	\$35,442
December 31, 2014 AUM	\$28,641	\$19,161		

Depreciation and amortization

12

—

5,232

2,059

—

7,303

Interest

—

4,757

463

2,478

—

7,698

General and administrative

3,882

—

419

20

—

4,321

Total expenses

3,894

4,757

6,114

4,557

—

19,322

Income in subsidiary

8,293

13,050

202

—

(21,545

)

—

Net income attributable to common stockholders

\$

4,405

\$

8,293

\$

11,361

\$
1,891

\$
(21,545
)

\$
4,405

Net income attributable to common stockholders, per:

Basic common share

\$
0.12

Diluted common share

\$

0.12

Weighted-average number of common shares outstanding, basic

37,035,970

Weighted-average number of common shares outstanding, diluted

37,058,886

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Three Months Ended March 31, 2013

(in thousands)

(unaudited)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination	Consolidated
Net cash provided by operating activities	\$ 20,103	\$—	\$—	\$1,500	\$—	\$21,603
Cash flows from investing activities:						
Acquisitions of real estate	—	—	—	—	—	—
Origination of note receivable	—	—	(12,873	) —	—	(12,873)
Preferred equity investment	—	—	(4,646	) —	—	(4,646)
Net proceeds from the sale of real estate	—	—	—	2,208	—	2,208
Distribution from Subsidiary	1,851	1,851	—	—	(3,702) —
Intercompany financing provided by investing activities	(107,901	) (107,886	) —	—	215,787	—
Net cash (used in) provided by investing activities	(106,050	) (106,035	) (17,519	) 2,208	212,085	(15,311)
Cash flows from financing activities:						
Payments on secured revolving credit facility	—	—	(92,500	) —	—	(92,500)
Principal payments on mortgage notes payable	—	—	—	(989	) —	(989)
Payments of deferred financing costs	—	(15	) (75	) 18	—	(72)
Issuance of preferred stock	138,983	—	—	—	—	138,983
Issuance of common stock	(2,534	) —	—	—	—	(2,534)
Dividends paid	(12,716	) —	—	—	—	(12,716)
Distribution to Parent	—	(1,851	) —	(1,851	) 3,702	—
Intercompany financing	—	107,901	110,094	(2,208	) (215,787) —
Net cash provided by (used in) financing activities	123,733	106,035	17,519	(5,030	) (212,085	) 30,172
Net increase (decrease) in cash and cash equivalents	37,786	—	—	(1,322) —	36,464
Cash and cash equivalents, beginning of period	15,075	—	—	2,026	—	17,101

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Cash and cash equivalents, end of period	\$ 52,861	\$—	\$—	\$704	\$—	\$53,565
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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Three Months Ended March 31, 2012

(in thousands)

(unaudited)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination	Consolidated
Net cash provided by operating activities	\$ 15,369	\$—	\$—	\$1,095	\$—	\$16,464
Cash flows from investing activities:						
Acquisitions of real estate	—	—	(29,850)	—	—	(29,850)
Origination of note receivable	—	—	(10,103)	—	—	(10,103)
Additions to real estate	—	—	(256)	—	—	(256)
Investment in Subsidiary	(728)	(728)	—	—	1,456	—
Distribution from Subsidiary	345	345	—	—	(690)	—
Intercompany financing	(42,505)	(42,505)	—	—	85,010	—
Net cash used in investing activities	(42,888)	(42,888)	(40,209)	—	85,776	(40,209)
Cash flows from financing activities:						
Principal payments on mortgage notes payable	—	—	—	(791)	—	(791)
Payments of deferred financing costs	—	—	(2,296)	(160)	—	(2,456)
Issuance of common stock	(370)	—	—	—	—	(370)
Dividends paid	(12,213)	—	—	—	—	(12,213)
Contribution from Parent	—	728	—	728	(1,456)	—
Distribution to Parent	—	(345)	—	(345)	690	—
Intercompany financing	—	42,505	42,505	—	(85,010)	—
Net cash (used in) provided by financing activities	(12,583)	42,888	40,209	(568)	(85,776)	(15,830)
Net (decrease) increase in cash and cash equivalents	(40,102)	—	—	527	—	(39,575)
Cash and cash equivalents, beginning of period	41,736	—	—	514	—	42,250
Cash and cash equivalents, end of period	\$ 1,634	\$—	\$—	\$1,041	\$—	\$2,675

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10.COMMITMENTS AND CONTINGENCIES

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state and local governments. The Company is not aware of any environmental liability that could have a material adverse effect on its financial condition or results of operations. However, changes in applicable environmental laws and regulations, the uses and conditions of properties in the vicinity of the Company's properties, the activities of its tenants and other environmental conditions of which the Company is unaware with respect to the properties could result in future environmental liabilities. Compliance with existing environmental laws is not expected to have a material adverse effect on the Company's financial condition and results of operations as of March 31, 2013.

Separation and REIT Conversion Merger

On May 24, 2010, Old Sun announced its intention to restructure its business by separating its real estate assets and its operating assets into two separate publicly traded companies, Sabra and SHG Services Inc. (which was then renamed "Sun Healthcare Group, Inc." or "Sun"). In order to effect the restructuring, Old Sun distributed to its stockholders on a pro rata basis all of the outstanding shares of common stock of Sun (this distribution is referred to as the "Separation"), together with an additional cash distribution. Immediately following the Separation, Old Sun merged with and into Sabra, with Sabra surviving the merger and Old Sun stockholders receiving shares of Sabra common stock in exchange for their shares of Old Sun common

stock (this merger is referred to as the "REIT Conversion Merger"). Effective November 15, 2010, the Separation and REIT Conversion Merger were completed and Sabra and Sun began operations as separate companies.

Following the Separation, Sun, through its subsidiaries, continued the business and operations of Old Sun and its subsidiaries. Sabra did not operate prior to the Separation. Immediately following the Separation, subsidiaries of Sabra owned substantially all of Old Sun's owned real property. The owned real property held by subsidiaries of Sabra following the Separation includes fixtures and certain personal property associated with the real property. The historical consolidated financial statements of Old Sun became the historical consolidated financial statements of Sun at the time of the Separation. At the time of the Separation, the balance sheet of Sabra included the owned real property and mortgage indebtedness to third parties on the real property as well as indebtedness incurred by Sabra prior to completion of the Separation. The statements of income and cash flows of Sabra consist solely of its operations after the Separation. The Separation was accounted for as a reverse spinoff. Accordingly, Sabra's assets and liabilities are recorded at the historical carrying values of Old Sun.

In connection with the Separation and REIT Conversion Merger, any liability arising from or relating to legal proceedings involving the Company's real estate investments has been assumed by the Company and the Company will indemnify Sun (and its subsidiaries, directors, officers, employees and agents and certain other related parties) against any losses arising from or relating to such legal proceedings. In addition, pursuant to a distribution agreement entered into among Old Sun, the Company and Sun in connection with the Separation and REIT Conversion Merger, Sun has agreed to indemnify the Company (and the Company's subsidiaries, directors, officers, employees and agents and certain other related parties) for any liability arising from or relating to legal proceedings involving Old Sun's healthcare business prior to the Separation, and, pursuant to the lease agreements between the Company and subsidiaries of Sun, the tenants agree to indemnify the Company for any liability arising from operations at the real property leased from the Company.

Immediately prior to the Separation, Old Sun was a party to various legal actions and administrative proceedings, including various claims arising in the ordinary course of its healthcare business, which are subject to the indemnities to be provided by Sun to the Company. While these actions and proceedings are not believed to be material, individually or in the aggregate, the ultimate outcome of these matters cannot be predicted. The resolution of any such legal proceedings, either individually or in the aggregate, could have a material adverse effect on Sun's business, financial position or results of operations, which, in turn, could have a material adverse effect on the Company's business, financial position or results of operations if Sun or its subsidiaries are unable to meet their indemnification

obligations.

For income tax purposes, the Company is the surviving taxpayer of the Separation. Accordingly, tax positions taken by Old Sun prior to the Separation remained the Company's obligations after the Separation. However, under an agreement with Sun relating to tax allocation matters, Sun is responsible for and will indemnify the Company against, among other things, federal, state and local taxes (including penalties and interest) related to periods prior to the Separation to the extent the deferred tax assets allocated to the Company as part of the Separation are not sufficient and/or cannot be utilized to satisfy these taxes. After the 2010 tax year, the Company and Sun have agreed, to the extent allowable by applicable law, to allocate all net operating loss attributes generated in prior years to Sun. In addition, Sun will generally have the right to control the conduct and disposition of any tax audits or other proceedings with regard to such periods, and will be entitled to any refund or credit for such periods.

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Effective December 1, 2012, Sun was acquired by Genesis HealthCare LLC (“Genesis”). As a result of its acquisition of Sun, Genesis became successor to the obligations of Sun described above.

Legal Matters

From time to time, the Company is party to legal proceedings that arise in the ordinary course of its business. Management is not aware of any legal proceedings where the likelihood of a loss contingency is reasonably possible and the amount or range of reasonably possible losses is material to the Company's results of operations, financial condition or cash flows.

11. SUBSEQUENT EVENTS

The Company evaluates subsequent events up until the date the condensed consolidated financial statements are issued.

Dividend Declaration

On May 1, 2013, the Company announced that its board of directors declared a quarterly cash dividend of \$0.34 per share of common stock. The dividend will be paid on May 31, 2013 to stockholders of record as of the close of business on May 15, 2013.

On May 1, 2013, the Company also announced that its board of directors declared the initial quarterly cash dividend of \$0.346354 per share of Series A Preferred Stock (reflecting a pro rata dividend from and including the original issue date to and including May 31, 2013). The dividend will be paid on May 31, 2013 to preferred stockholders of record as of the close of business on May 15, 2013.

Mortgage Debt Repayment

Subsequent to March 31, 2013, the Company repaid in full one mortgage note totaling \$7.3 million.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The discussion below contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those which are discussed in the "Risk Factors" section in Part I, Item 1A of our 2012 Annual Report on Form 10-K. Also see "Statement Regarding Forward-Looking Statements" preceding Part I.

The following discussion and analysis should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto.

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

Overview

Recent Transactions

Critical Accounting Policies

Results of Operations

Liquidity and Capital Resources

Concentration of Credit Risk

Skilled Nursing Facility Reimbursement Rates

Obligations and Commitments

Off-Balance Sheet Arrangements

Overview

We were incorporated on May 10, 2010 as a wholly owned subsidiary of Sun Healthcare Group, Inc. ("Old Sun"), a provider of nursing, rehabilitative and related specialty healthcare services principally to the senior population in the United States. Pursuant to a restructuring plan by Old Sun, Old Sun restructured its business by separating its real estate assets and its operating assets into two separate publicly traded companies, Sabra and SHG Services Inc. (which was then renamed "Sun Healthcare Group, Inc." or "Sun"). In order to effect the restructuring, Old Sun distributed to its stockholders on a pro rata basis all of the outstanding shares of common stock of Sun (this distribution is referred to as the "Separation"), together with an additional cash distribution. Immediately following the Separation, Old Sun merged with and into Sabra, with Sabra surviving the merger and Old Sun stockholders receiving shares of Sabra common stock in exchange for their shares of Old Sun common stock (this merger is referred to as the "REIT Conversion Merger"). The Separation and REIT Conversion Merger were completed on November 15, 2010, which we refer to as the Separation Date.

Following the restructuring of Old Sun's business and the completion of the Separation and REIT Conversion Merger, we began operating as a self-administered, self-managed REIT that, directly or indirectly, owns and invests in real estate serving the healthcare industry.

As of March 31, 2013, our investment portfolio consisted of 119 real estate properties held for investment (consisting of (i) 96 skilled nursing/post-acute facilities, (ii) 22 senior housing facilities, and (iii) one acute care hospital), three mortgage loan investments and two preferred equity investments. As of March 31, 2013, our real estate properties had a total of 12,382 licensed beds, or units, spread across 27 states. As of March 31, 2013, all of our real estate properties were leased under triple-net operating leases with expirations ranging from eight to 22 years.

We expect to continue to grow our portfolio primarily through the acquisition of senior housing and memory care facilities and with a secondary focus on acquiring skilled nursing facilities. We have and will continue to opportunistically originate financing secured directly or indirectly by healthcare facilities. We also expect to continue to work with operators to identify strategic development opportunities. These opportunities may involve replacing or renovating facilities in our portfolio that may have become less competitive and new development opportunities that present attractive risk-adjusted returns. In addition to pursuing acquisitions with triple-net leases, we expect to continue to pursue other forms of investment, including investments in senior housing through RIDEA-compliant structures, mezzanine and secured debt investments, and joint ventures for senior housing, memory care and skilled nursing assets.

As we acquire additional properties and expand our portfolio, we expect to further diversify by tenant, asset class and geography within the healthcare sector. We employ a disciplined, opportunistic approach in our healthcare real estate

investment strategy by investing in assets that provide attractive opportunities for dividend growth and appreciation of asset values, while maintaining balance sheet strength and liquidity, thereby creating long-term stockholder value. We elected to be treated as a REIT with the filing of our U.S. federal income tax return for the taxable year beginning January 1, 2011. We believe that we have been organized and have operated, and we intend to continue to operate, in a manner

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to qualify as a REIT. We operate through an umbrella partnership (commonly referred to as an UPREIT) structure in which substantially all of our properties and assets are held by the Operating Partnership, of which we are the sole general partner, or by subsidiaries of the Operating Partnership.

Recent Transactions

Mortgage Debt Repayment

Subsequent to March 31, 2013, the Company repaid in full one mortgage note totaling \$7.3 million with available cash. This repayment will result in annual interest savings of approximately \$0.7 million.

Preferred Equity Offering

On March 21, 2013, we completed an underwritten public offering of 5.8 million shares of 7.125% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock") at a price of \$25.00 per share, pursuant to an effective registration statement. The Company received net proceeds of \$138.4 million from the offering, after deducting underwriting discounts and other offering expenses. The 5.8 million shares of the Company's Series A Preferred Stock includes the underwriters' exercise in full of their option to purchase up to an additional 0.8 million shares of the Company's Series A Preferred Stock. We used a portion of the proceeds from the offering to repay \$92.5 million then outstanding under our Amended Secured Revolving Credit Facility. The remaining proceeds to us will be used to fund possible future acquisitions or for general corporate purposes.

At-The-Market Stock Offering Program ("ATM Program")

On March 18, 2013, we entered into a sales agreement (each, a "Sales Agreement") with each of Barclays Capital Inc., Cantor Fitzgerald & Co., Credit Agricole Securities (USA) Inc., RBC Capital Markets, LLC, RBS Securities Inc. and Wells Fargo Securities, LLC (individually, a "Sales Agent" and together, the "Sales Agents") to sell shares of our common stock having aggregate gross proceeds of up to \$100.0 million (the "ATM Shares") from time to time through the Sales Agents.

Pursuant to the terms of the Sales Agreements, the ATM Shares may be sold by any method permitted by law deemed to be an "at-the-market" offering, including, without limitation, sales made directly on the NASDAQ Global Select Market, on any other existing trading market for our common stock or to or through a market maker. In addition, with our prior consent, the Sales Agents may also sell the ATM Shares in privately negotiated transactions. We will pay each Sales Agent a commission equal to 2% of the gross proceeds from the sales of ATM Shares sold pursuant to the applicable Sales Agreement.

We are not obligated to sell and the Sales Agents are not obligated to buy or sell any ATM Shares under the Sales Agreements. No assurance can be given that we will sell any shares under the Sales Agreements, or, if we do, as to the price or amount of shares that we sell, or the dates when such sales will take place. As of March 31, 2013, no ATM Shares have been sold under the ATM Program.

Bee Cave Preferred Equity Investment

On March 5, 2013, we entered into an agreement to provide up to \$7.2 million of preferred equity funding to an affiliate of Meridian Realty Advisors, L.P. ("Meridian") for the construction of a 141-bed skilled nursing facility and a 52-unit memory care facility in Austin, Texas (collectively, the "Bee Cave Preferred Equity Investments"). We funded \$4.3 million at closing and an additional \$0.3 million during the three months ended March 31, 2013. In addition, we received an option to purchase the skilled nursing facility on or after the earlier to occur of the facility achieving and maintaining 90% occupancy for three consecutive months, or 36 months after receiving the certificate of occupancy for the facility. We also received an option to purchase the memory care facility that is not expected to be exercised as it is subordinate to a purchase option given to the manager of the memory care facility. In the event that we exercise the purchase option on the skilled nursing facility, we would expect to lease the facility to Meridian under a long-term, triple net lease. Our preferred equity investment with respect to the skilled nursing facility provides for an annual 15% preferred rate of return, which accrues on a quarterly compounding basis with payment of the preferred return deferred until the earlier of the closing under the purchase option, or 18 months after receiving a certificate of occupancy for the facility. Our preferred equity investment with respect to the memory care facility provides for an annual 15% preferred rate of return, which accrues on a quarterly compounding basis with payment of the preferred return deferred until the earlier of the closing under the purchase option (whether by the manager of the facility or by us), or 30

months after receiving a certificate of occupancy for the facility. In the event the applicable purchase option is not exercised, we have the right to require Meridian to redeem our investment, including the accrued preferred returns associated with such investment, within 180 days.

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Sun City West Mortgage Loan Origination

On January 31, 2013, we entered into a \$12.8 million mortgage loan agreement with an affiliate of New Dawn Holding Company ("New Dawn") secured by a first trust deed on a 48-unit memory care facility located in Sun City West, Arizona ("Sun City West Mortgage Loan"). The Sun City West Mortgage Loan has a five-year term, bears interest at a fixed rate of 9.0% per annum and cannot be prepaid during the first three years of the loan term. In addition, beginning April 2014, we have an option to purchase the facility securing the Sun City West Mortgage Loan for a price equal to the greater of (a) the annualized earnings before interest, taxes, depreciation, amortization and rent ("EBITDAR") of the facility for the trailing three months prior to option exercise, divided by an EBITDAR coverage ratio of 1.30 and further divided by an implied lease rate of 8.25% (subject to adjustment up to 9.00%), and (b) \$15.0 million. In the event that we exercise the purchase option, we would expect to enter into a long-term lease with affiliates of New Dawn with an initial cash yield consistent with the lease rate used to determine the option exercise price. The facility was built in 2012 and is operated by affiliates of New Dawn. The Sun City West Mortgage Loan was funded with available cash.

Critical Accounting Policies

Our condensed consolidated interim financial statements have been prepared in accordance with GAAP and in conjunction with the rules and regulations of the SEC. The preparation of our financial statements requires significant management judgments, assumptions and estimates about matters that are inherently uncertain. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses. A discussion of the accounting policies that management considers critical in that they involve significant management judgments, assumptions and estimates is included in our 2012 Annual Report on Form 10-K filed with the SEC. There have been no significant changes to our critical accounting policies during the three months ended March 31, 2013.

Results of Operations

As of March 31, 2013, our investment portfolio included 119 real estate properties held for investment, three investments in loans receivable and two preferred equity investments. As of March 31, 2012, our investment portfolio included 99 real estate properties and one loan receivable investment. In general, we expect that our income and expenses related to our portfolio will increase in future periods as a result of owning investments acquired in 2013 and 2012 for an entire period and the anticipated future acquisition of additional investments. The results of operations presented for the three months ended March 31, 2013 and 2012 are not directly comparable due to the increase in acquisitions made subsequent to January 1, 2012.

Comparison of results of operations for the three months ended March 31, 2013 versus the three months ended March 31, 2012 (dollars in thousands):

	Three Months Ended March 31,		Increase / (Decrease)	Percentage Difference	Increase (Decrease) due to Acquisitions and Originations (1)	Remaining Increase (Decrease) (2)
	2013	2012				
Revenues:						
Rental income	\$31,475	\$23,663	\$7,812	33	% \$5,349	\$2,463
Interest and other income	547	64	483	755	% 443	40
Expenses:						
Depreciation and amortization	8,246	7,303	943	13	% 1,339	(396)

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Interest	10,002	7,698	2,304	30	% —	2,304
General and administrative	4,717	4,321	396	9	% (309)	705
Other income	500	—	500	100	% —	500

⁽¹⁾ Represents the dollar amount increase (decrease) for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 as a result of investments made on or after January 1, 2012.

⁽²⁾ Represents the dollar amount increase (decrease) for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 that is not a direct result of investments made during the periods presented.

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Rental Income

During the three months ended March 31, 2013, we recognized \$31.5 million of rental income compared to \$23.7 million for the three months ended March 31, 2012. The \$7.8 million increase in rental income is due to an increase of \$5.3 million from properties acquired on or after January 1, 2012 and an increase of \$2.5 million primarily due to straight-line rental income adjustments recognized on Genesis properties that did not have fixed rent escalators until December 2012 and therefore did not have straight-line rental income adjustments during the three months ended March 31, 2012. Amounts due under the terms of all of our lease agreements are subject to contractual increases, and there is no contingent rental income that may be derived from our properties.

Interest and Other Income

During the three months ended March 31, 2013, we recognized \$0.5 million of interest income, which consisted primarily of interest income earned on our three loans receivable investments and two preferred equity investments. During the three months ended March 31, 2012, we recognized \$0.1 million of interest income, which consisted primarily of interest income earned on one loan receivable investment.

Depreciation and Amortization

During the three months ended March 31, 2013, we incurred \$8.2 million of depreciation and amortization expense compared to \$7.3 million for the three months ended March 31, 2012. The \$0.9 million net increase in depreciation and amortization was primarily due to an increase of \$1.3 million from properties acquired on or after January 1, 2012, partially offset by a decrease of \$0.4 million related to assets that have been fully depreciated.

Interest Expense

We incur interest expense comprised of costs of borrowings plus the amortization of deferred financing costs related to our indebtedness. During the three months ended March 31, 2013, we incurred \$10.0 million of interest expense compared to \$7.7 million for the three months ended March 31, 2012. The \$2.3 million net increase is primarily related to (i) a \$2.0 million increase in interest expense, amortization of deferred financing costs and premium related to the July 2012 issuance of the \$100.0 million aggregate principal amount of 8.125% Senior Notes, and (ii) a \$0.9 million increase in interest expense, unused facility fees and amortization of deferred financing costs related to the amounts outstanding (which we repaid during the three months ended March 31, 2013) and increase in capacity under our Amended Secured Revolving Credit Facility from \$100.0 million to \$230.0 million. These increases were offset by a decrease in interest expense of \$0.6 million primarily due to the decreased interest rates on the refinanced mortgage notes and the 50 basis point reduction in the interest rate spread on certain floating rate mortgage notes.

General and Administrative Expenses

General and administrative expenses include compensation-related expenses as well as professional services, office costs and other costs associated with acquisition pursuit activities. During the three months ended March 31, 2013, general and administrative expenses were \$4.7 million compared to \$4.3 million during the three months ended March 31, 2012. The \$0.4 million net increase is primarily related to a \$0.7 million increase in payroll expenses due in part to increased staffing and includes a \$0.3 million increase in stock-based compensation expense, offset by a \$0.3 million decrease in acquisition pursuit costs from \$0.5 million during the three months ended March 31, 2012 to \$0.2 million during the three months ended March 31, 2013. The increase in stock-based compensation expense, from \$2.2 million during the three months ended March 31, 2012 to \$2.5 million during the three months ended March 31, 2013, is primarily related to 2012 annual bonuses paid during the three months ended March 31, 2013. Management has elected to receive annual bonuses in stock rather than in cash and therefore changes in our stock price will result in changes to our bonus expense. The increase in stock-based compensation as a result of the annual bonuses to be received in stock is due to the increase in our stock price during the three months ended March 31, 2013 (an increase of \$7.29 per share) compared to the three months ended March 31, 2012 (an increase of \$4.35 per share). We expect acquisition pursuit costs to fluctuate from period to period depending on acquisition activity. We also expect stock-based compensation expense to fluctuate from period to period depending upon changes in our stock price and estimates associated with performance-based compensation.

Other Income

During the the three months ended March 31, 2013, we recognized \$0.5 million in other income as a result of adjusting our contingent consideration liability to fair value.

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Funds from Operations and Adjusted Funds from Operations

We believe that net income attributable to common stockholders as defined by GAAP is the most appropriate earnings measure. We also believe that funds from operations (“FFO”), as defined in accordance with the definition used by the National Association of Real Estate Investment Trusts (“NAREIT”), and adjusted funds from operations (“AFFO”) (and related per share amounts) are important non-GAAP supplemental measures of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets requires straight-line depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. However, since real estate values have historically risen or fallen with market and other conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative. Thus, NAREIT created FFO as a supplemental measure of operating performance for REITs that excludes historical cost depreciation and amortization, among other items, from net income attributable to common stockholders, as defined by GAAP. FFO is defined as net income attributable to common stockholders, computed in accordance with GAAP, excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization and impairment charges. AFFO is defined as FFO excluding non-cash revenues (including, but not limited to, straight-line rental income adjustments and non-cash interest income adjustments), non-cash expenses (including, but not limited to, stock-based compensation expense, amortization of deferred financing costs and amortization of debt discounts and premiums) and acquisition pursuit costs. We believe that the use of FFO and AFFO (and the related per share amounts), combined with the required GAAP presentations, improves the understanding of operating results of REITs among investors and makes comparisons of operating results among such companies more meaningful. We consider FFO and AFFO to be useful measures for reviewing comparative operating and financial performance because, by excluding gains or losses from real estate dispositions, impairment charges, and real estate depreciation and amortization, and for AFFO, by excluding non-cash revenues (including, but not limited to, straight-line rental income adjustments and non-cash interest income adjustments), non-cash expenses (including, but not limited to, stock-based compensation expense, amortization of deferred financing costs and amortization of debt discounts and premiums) and acquisition pursuit costs, FFO and AFFO can help investors compare our operating performance between periods or as compared to other companies. While FFO and AFFO are relevant and widely used measures of operating performance of REITs, they do not represent cash flows from operations or net income attributable to common stockholders as defined by GAAP and should not be considered an alternative to those measures in evaluating our liquidity or operating performance. FFO and AFFO also do not consider the costs associated with capital expenditures related to our real estate assets nor do they purport to be indicative of cash available to fund our future cash requirements. Further, our computation of FFO and AFFO may not be comparable to FFO and AFFO reported by other REITs that do not define FFO in accordance with the current NAREIT definition or that interpret the current NAREIT definition or define AFFO differently than we do.

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The following table reconciles our calculations of FFO and AFFO for the three months ended March 31, 2013 and 2012, to net income attributable to common stockholders, the most directly comparable GAAP financial measure, for the same periods (in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2013	2012
Net income attributable to common stockholders	\$9,253	\$4,405
Depreciation and amortization of real estate assets	8,246	7,303
FFO	17,499	11,708
Acquisition pursuit costs	197	491
Stock-based compensation expense	2,474	2,203
Straight-line rental income adjustments	(3,683	) (969
Amortization of deferred financing costs	766	566
Amortization of debt premiums	(199	) (4
Change in fair value of contingent consideration	(500) —
Non-cash interest income adjustments	5	1
AFFO	\$16,559	\$13,996
FFO per diluted common share	\$0.46	\$0.32
AFFO per diluted common share	\$0.43	\$0.38
Weighted average number of common shares outstanding, diluted:		
FFO	37,739,964	37,058,886
AFFO	38,134,659	37,284,423

Please see the accompanying condensed consolidated statement of cash flows for details of our cash operating, investing, and financing activities.

Liquidity and Capital Resources

As of March 31, 2013, we had approximately \$247.6 million in liquidity, consisting of unrestricted cash and cash equivalents of \$53.6 million and available borrowings under our Amended Secured Revolving Credit Facility of \$194.0 million. As further described above under “—Recent Transactions—Preferred Equity Offering,” we completed our preferred equity offering in March 2013, which provided net proceeds of \$138.4 million, after deducting underwriting discounts and other offering expenses. A portion of these proceeds was used to repay the \$92.5 million outstanding balance under our Amended Secured Revolving Credit Facility.

We believe that our available cash, operating cash flows and borrowings available to us under the Amended Secured Revolving Credit Facility provide sufficient funds for our operations, scheduled debt service payments with respect to the Senior Notes, amounts outstanding under the Amended Secured Revolving Credit Facility, mortgage indebtedness on our properties, and dividend requirements for the next twelve months. We have also filed with the SEC a shelf registration statement on Form S-3, which became effective on October 31, 2011, that will allow us to issue up to \$356.3 million in new securities. As further described above under “—Recent Transactions—At-The-Market Stock Offering Program (“ATM Program”),” we also entered into a \$100.0 million ATM Program in March 2013. As of March 31, 2013, no ATM Shares have been sold under the ATM Program.

We intend to invest in additional healthcare properties as suitable opportunities arise and adequate sources of financing are available. We expect that future investments in properties, including any improvements or renovations of current or newly-acquired properties, will depend on and will be financed, in whole or in part, by our existing cash,

borrowings available to us under our Amended Secured Revolving Credit Facility, future borrowings or the proceeds from issuances of common stock, preferred stock, debt or other securities. In addition, we expect to seek financing from U.S. government agencies, including through Fannie Mae and HUD, in appropriate circumstances in connection with acquisitions and refinancings of existing mortgage loans.

As of March 31, 2013, we had \$325.0 million of indebtedness with respect to our Senior Notes and aggregate mortgage indebtedness to third parties of approximately \$151.3 million on certain of our properties. In addition, as of March 31, 2013, we

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had no amounts outstanding under our Amended Secured Revolving Credit Facility with borrowing capacity of \$230.0 million and \$194.0 million available for borrowing.

Although we are subject to restrictions on our ability to incur indebtedness under the Indenture governing the Senior Notes and under the terms of the Amended Secured Revolving Credit Facility, we expect that we will be able to refinance existing indebtedness or incur additional indebtedness for acquisitions or other purposes, if needed. However, there can be no assurance that in the future we will be able to refinance our indebtedness, incur additional indebtedness or access additional sources of capital, such as by issuing common stock or other debt or equity securities, on terms that are acceptable to us or at all.

Cash Flows from Operating Activities

Net cash provided by operating activities was \$21.6 million and \$16.5 million for the three months ended March 31, 2013 and 2012, respectively. Operating cash flows were derived primarily from the rental payments received under the lease agreements with subsidiaries of Genesis and rental payments from our other tenants. Operating cash outflows were the result of interest payments on our outstanding debt and payment of general and administrative expenses. We expect our annualized cash flows provided by operating activities to increase as a result of completed and anticipated future real estate investments.

Cash Flows from Investing Activities

During the three months ended March 31, 2013, net cash used in investing activities was \$15.3 million and consisted of \$12.9 million used to originate one loan receivable and \$4.6 million used for two preferred equity investments, partially offset by \$2.2 million net proceeds from the sale of one real estate asset. During the three months ended March 31, 2012, net cash used in investing activities was \$40.2 million and consisted of \$29.9 million used in the acquisition of two skilled nursing facilities and \$10.1 million used to originate one loan receivable. We expect to continue using available liquidity in connection with anticipated future real estate investments and loan originations.

Cash Flows from Financing Activities

During the three months ended March 31, 2013, net cash provided by financing activities was \$30.2 million and consisted of \$139.0 million from the issuance of preferred stock, offset by the \$92.5 million repayment of the balance then outstanding under our Amended Secured Revolving Credit Facility, \$2.5 million in net payments related to the issuance of common stock pursuant to equity compensation arrangements as well as expenses with respect to the ATM Program, \$12.7 million of dividends paid to common stockholders, \$1.0 million of principal repayments of mortgage notes payable and \$0.1 million of payments for deferred financing costs. During the three months ended March 31, 2012, net cash used in financing activities was \$15.8 million and consisted of \$0.4 million from payments related to the issuance of common stock, \$12.2 million of dividends paid to common stockholders, \$0.8 million of principal repayments of mortgage notes payable and \$2.5 million of payments for deferred financing costs primarily related to the entry into the Amended Secured Revolving Credit Facility.

Loan Agreements

8.125% Senior Notes due 2018. On October 27, 2010, the Operating Partnership and Sabra Capital Corporation, wholly owned subsidiaries of the Company (the "Issuers") issued \$225.0 million aggregate principal amount of 8.125% senior unsecured notes (the "Senior Notes") resulting in gross proceeds of \$225.0 million and net proceeds of approximately \$219.9 million after deducting commissions and expenses.

On July 26, 2012, the Issuers issued an additional \$100.0 million aggregate principal amount of Senior Notes, which are treated as a single class with the existing Senior Notes. The notes were issued at 106.0% providing net proceeds of \$103.0 million after underwriting costs and other offering expenses and a yield-to-maturity of 6.92%. The Company used a portion of the proceeds from this offering to repay the borrowings outstanding under the Amended Secured Revolving Credit Facility. On November 14, 2012, the Issuers completed an exchange offer to exchange the \$100.0 million aggregate principal amount of Senior Notes that were issued in July 2012 for substantially identical Senior Notes registered under the Securities Act of 1933, as amended.

The obligations under the Senior Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by us and certain of our other existing and, subject to certain exceptions, future material subsidiaries; provided, however, that such guarantees are subject to release under certain customary circumstances. See Note 9,

“Summarized Condensed Consolidating Information,” in the Notes to Condensed Consolidated Financial Statements for additional information concerning the circumstances pursuant to which the guarantors will be automatically and unconditionally released from their obligations under the guarantees.

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The Senior Notes are redeemable at the option of the Issuers, in whole or in part, at any time, and from time to time, on or after November 1, 2014, at the redemption prices set forth in the indenture governing the Senior Notes (the “Indenture”), plus accrued and unpaid interest to the applicable redemption date. In addition, prior to November 1, 2014, the Issuers may redeem all or a portion of the Senior Notes at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed, plus a “make-whole” premium, plus accrued and unpaid interest to the applicable redemption date. At any time, or from time to time, on or prior to November 1, 2013, the Issuers may redeem up to 35% of the principal amount of the Senior Notes, using the proceeds of specific kinds of equity offerings, at a redemption price of 108.125% of the principal amount to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. Assuming the Senior Notes are not redeemed, the Senior Notes mature on November 1, 2018.

The Indenture governing the Senior Notes contains restrictive covenants that, among other things, restrict the ability of Sabra, the Issuers and their restricted subsidiaries to: (i) incur or guarantee additional indebtedness; (ii) incur or guarantee secured indebtedness; (iii) pay dividends or distributions on, or redeem or repurchase, their capital stock; (iv) make certain investments or other restricted payments; (v) sell assets; (vi) create liens on their assets; (vii) enter into transactions with affiliates; (viii) merge or consolidate or sell all or substantially all of their assets; and (ix) create restrictions on the ability of Sabra’s restricted subsidiaries to pay dividends or other amounts to Sabra. The Indenture governing the Senior Notes also provides for customary events of default, including, but not limited to, the failure to make payments of interest or premium, if any, on, or principal of, the Senior Notes, the failure to comply with certain covenants and agreements specified in the Indenture for a period of time after notice has been provided, the acceleration of other indebtedness resulting from the failure to pay principal on such other indebtedness prior to its maturity, and certain events of insolvency. If any event of default occurs, the principal of, premium, if any, and accrued interest on all the then outstanding Senior Notes may become due and payable immediately. As of March 31, 2013, we were in compliance with all applicable financial covenants under the Senior Notes.

Amended Secured Revolving Credit Facility. On November 3, 2010, the Operating Partnership and certain subsidiaries of the Operating Partnership (together with the Operating Partnership, the “Borrowers”) entered into a secured revolving credit facility with certain lenders as set forth in the related credit agreement and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (each as defined in such credit agreement). On February 10, 2012, the Borrowers amended the secured revolving credit facility (the “Amended Secured Revolving Credit Facility”) to increase the borrowing capacity from \$100.0 million to \$200.0 million (up to \$20.0 million of which may be utilized for letters of credit) and to include an accordion feature that allows the Borrowers to increase borrowing availability under the Amended Secured Revolving Credit Facility by up to an additional \$150.0 million, subject to certain terms and conditions. On September 20, 2012, the Borrowers utilized the accordion feature to increase the borrowing capacity to \$230.0 million. The Amended Secured Revolving Credit Facility is secured by, among other things, a first priority lien against certain of the properties owned by certain of our subsidiaries. The obligations of the Borrowers under the Amended Secured Revolving Credit Facility are guaranteed by us and certain of our subsidiaries. Borrowing availability under the Amended Secured Revolving Credit Facility is subject to a borrowing base calculation based on, among other factors, the lesser of (i) the mortgageability cash flow (as such term is defined in the credit agreement relating to the Amended Secured Revolving Credit Facility) or (ii) the appraised value, in each case of the properties securing the Amended Secured Revolving Credit Facility. Borrowing availability under the Amended Secured Revolving Credit Facility terminates, and all borrowings mature, on February 10, 2015, subject to a one-year extension option. As of March 31, 2013, there were no amounts outstanding under the Amended Secured Revolving Credit Facility and \$194.0 million available for borrowing.

Borrowings under the Amended Secured Revolving Credit Facility bear interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Borrowers’ option, either (a) LIBOR or (b) a base rate determined as the greater of (i) the federal funds rate plus 0.5%, (ii) the prime rate, and (iii) one-month LIBOR plus 1.0% (the “Base Rate”). The applicable percentage for borrowings will vary based on the Consolidated Leverage Ratio, as defined in the credit agreement, and will range from 3.00% to 4.00% per annum for LIBOR based borrowings and 2.00% to 3.00% per annum for borrowings at the Base Rate. As of March 31, 2013, the interest rate on the Amended Secured Revolving Credit Facility was 3.70%. In addition, the Borrowers are required to pay a facility fee to the

lenders equal to between 0.35% and 0.50% per annum based on the amount of unused borrowings under the Amended Secured Revolving Credit Facility. During the three months ended March 31, 2013, we incurred \$0.8 million in interest expense on amounts outstanding under the Amended Secured Revolving Credit Facility and \$0.2 million of unused facility fees.

The Amended Secured Revolving Credit Facility contains customary covenants that include restrictions on the ability to make acquisitions and other investments, pay dividends, incur additional indebtedness, engage in non-healthcare related business activities, enter into transactions with affiliates and sell or otherwise transfer certain assets as well as customary events of default. The Amended Secured Revolving Credit Facility also requires that we, through the Borrowers, comply with specified financial covenants, which include a maximum leverage ratio, a minimum fixed charge coverage ratio and a minimum tangible net worth requirement. As of March 31, 2013, we were in compliance with all applicable financial covenants under the Amended Secured Revolving Credit Facility.

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Mortgage Indebtedness

Of our 119 properties, 25 are subject to mortgage indebtedness to third parties that, as of March 31, 2013, totaled approximately \$151.3 million. As of March 31, 2013 and December 31, 2012, our mortgage notes payable consisted of the following (dollars in thousands):

Interest Rate Type	Book Value as of March 31, 2013	Book Value as of December 31, 2012	Weighted Average Effective Interest Rate at March 31, 2013	Maturity Date
Fixed Rate	\$93,710	\$94,373	4.43	% August 2015 - June 2047
Variable Rate ⁽¹⁾	57,623	57,949	5.00	% August 2015
	\$151,333	\$152,322	4.65	%

(1) Contractual interest rates under variable rate mortgages are equal to the 90-day LIBOR plus 4.0% (subject to a 1.0% LIBOR floor).

Capital Expenditures

For the three months ended March 31, 2012, our aggregate capital expenditures were \$9,000, which was primarily for corporate office needs. There were no capital expenditures for the three months ended March 31, 2013. There are no present plans for the improvement or development of any unimproved or undeveloped property; however, from time to time we may agree to fund improvements our tenants make at our facilities. Accordingly, we anticipate that our aggregate capital expenditure requirements for the next 12 months will not exceed \$3.0 million, and that such expenditures will principally be for improvements to our facilities and result in incremental rental income.

Dividends

We paid dividends of \$12.7 million on our common stock during the three months ended March 31, 2013. On May 1, 2013, our board of directors declared a quarterly cash dividend of \$0.34 per share of common stock. The dividend will be paid on May 31, 2013 to stockholders of record as of May 15, 2013. Also on May 1, 2013, our board of directors declared the initial quarterly cash dividend of \$0.346354 per share of Series A Preferred Stock (reflecting a pro rata dividend from and including the original issue date to and including May 31, 2013). The dividend will be paid on May 31, 2013 to preferred stockholders of record as of the close of business on May 15, 2013.

Concentration of Credit Risk

Concentrations of credit risks arise when a number of operators, tenants or obligors related to our investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to us, to be similarly affected by changes in economic conditions. We regularly monitor our portfolio to assess potential concentrations of risks.

Genesis

Effective December 1, 2012, Sun was acquired by Genesis, becoming a wholly owned subsidiary of Genesis. In connection with this transaction, we obtained a parent guaranty from Genesis to replace the then-existing Sun guaranty of the lease obligations of its subsidiaries that are tenants under our lease agreements. As of March 31, 2013, 83 of our 119 real estate properties held for investment were leased to subsidiaries of Genesis. During the three months ended March 31, 2013 and 2012, 64% and 76%, respectively, of our total revenues were derived from these leases. Prior to December 1, 2012, Sun was subject to the reporting requirements of the SEC and was required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. Genesis is not an SEC registrant and is not subject to SEC reporting requirements. As of March 31, 2013, Genesis and its subsidiaries, operated or managed 378 skilled nursing centers, 36 assisted or independent living centers and 8 mental health centers across 28 states. Genesis also provides rehabilitation therapy services to approximately 1,500 affiliated and non-affiliated centers in 44 states. Genesis's net revenues and adjusted normalized earnings before interest, taxes, depreciation, amortization and rent were \$1.2 billion and \$143.2 million, respectively, for the three months ended March 31, 2013, and \$0.7 billion and \$81.3 million, respectively, for the three

months ended March 31, 2012. As of March 31, 2013 and December 31, 2012, Genesis's long-term debt, net of cash, totaled \$455.5 million and \$407.8 million, respectively. As of March 31, 2013 and December 31, 2012, Genesis had liquidity of approximately \$107.6 million and \$132.8 million, respectively, consisting of unrestricted cash and cash equivalents and available borrowings under its revolving credit facility.

We have presented below unaudited summary financial information for Genesis as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012. As described above, Genesis has provided a parent guaranty of

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the lease obligations of its subsidiaries that are tenants under our lease agreements. The summary financial information presented below has been provided by Genesis, is unaudited and has not been independently verified by us. We have no reason to believe that such information is inaccurate in any material respect.

	Three Months Ended March 31, (unaudited) (in thousands)	
	2013	2012
Statements of Operations:		
Revenues	\$1,187,769	\$724,259
Operating expenses	1,079,889	651,344
Net income (loss)	(48,103	) (43,566)
	March 31, 2013	December 31, 2012
	(unaudited)	
	(in thousands)	
Balance Sheets:		
Cash and cash equivalents	\$57,102	\$50,218
Total current assets	926,537	876,012
Total current liabilities	630,311	640,255
Long-term debt, excluding current portion	497,961	446,302
Capital lease obligations, excluding current portion	1,027,617	1,024,340
Financing obligation	2,686,392	2,668,793

Other than our significant tenant concentrations, management believes our current portfolio is reasonably diversified across healthcare related real estate and geographical location and does not contain any other significant concentration of credit risks. Our portfolio of 119 real estate properties held for investment as of March 31, 2013 is diversified by location across 27 states. The properties in any one state did not account for more than 13% and 14%, respectively, of the Company's total rental revenue during the three months ended March 31, 2013 and 2012.

Skilled Nursing Facility Reimbursement Rates

Medicare reimburses skilled nursing facilities for Medicare Part A services under the Prospective Payment System ("PPS"), as implemented pursuant to the Balanced Budget Act of 1997 and modified pursuant to subsequent laws, most recently the Patient Protection and Affordable Care Act of 2010 (the "Affordable Care Act"). PPS regulations predetermine a payment amount per patient, per day, based on a market basket index calculated for all covered costs. The amount to be paid is determined by classifying each patient into one of 66 Resource Utilization Group ("RUG") categories that represent the level of services required to treat different conditions and levels of acuity.

The current system of 66 RUG categories, or Resource Utilization Group version IV ("RUG IV"), became effective as of October 1, 2010. RUG IV resulted from research performed by the Centers for Medicare & Medicaid Services ("CMS") and was part of CMS's continuing effort to increase the correlation of the cost of services to the condition of individual patients.

On July 27, 2012, CMS released final fiscal year 2013 Medicare rates for skilled nursing facilities providing a net increase of 1.8% over fiscal year 2012 payments (comprised of a market basket increase of 2.5% less the productivity adjustment of 0.7%). Subsequent to March 31, 2013, CMS released projections for fiscal year 2014 Medicare rates for skilled nursing facilities of a net increase of 1.4% over fiscal year 2013 payments (comprised of a market basket increase of 2.3% less 0.5% for a forecast error correction and less the productivity adjustment of 0.4%).

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Obligations and Commitments

The following table summarizes our contractual obligations and commitments in future years, including our Senior Notes and our mortgage indebtedness to third parties on certain of our properties that, as of March 31, 2013, totaled \$151.3 million. The following table is presented as of March 31, 2013 (in thousands):

	Total	April 1 through		Year Ended December 31,			
		December 31, 2013	2014	2015	2016	2017	After 2017
Mortgage indebtedness ⁽¹⁾	\$ 189,051	\$ 8,264	\$ 11,023	\$ 91,614	\$ 3,963	\$ 3,963	\$ 70,224
Senior Notes ⁽²⁾	483,436	26,406	26,406	26,406	26,406	26,406	351,406
Contingent consideration	800	800	—	—	—	—	—
Operating lease	254	68	95	91	—	—	—
Total	\$ 673,541	\$ 35,538	\$ 37,524	\$ 118,111	\$ 30,369	\$ 30,369	\$ 421,630

Mortgage indebtedness includes principal payments and interest payments through the maturity dates. Total

⁽¹⁾ interest on mortgage indebtedness, based on contractual rates, is \$37.7 million, of which \$6.9 million is attributable to variable interest rates determined using the weighted average method.

⁽²⁾ Senior Notes includes interest payments payable semi-annually each May 1st and November 1st at a fixed rate of 8.125%. The Senior Notes mature on November 1, 2018. Total interest on the Senior Notes is \$158.4 million.

Off-Balance Sheet Arrangements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure is interest rate risk with respect to our indebtedness. As of March 31, 2013, this indebtedness included \$325.0 million aggregate principal amount of Senior Notes outstanding and \$151.3 million of mortgage indebtedness to third parties on certain of the properties that our subsidiaries own. As of March 31, 2013, we had \$57.6 million of outstanding variable rate indebtedness. In addition, as of March 31, 2013, we had \$194.0 million available for borrowing under our Amended Secured Revolving Credit Facility. From time to time, we may borrow under the Amended Secured Revolving Credit Facility to finance future investments in properties, including any improvements or renovations of current or newly acquired properties, or for other purposes. Because borrowings under the Amended Secured Revolving Credit Facility bear interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at our option, either (a) LIBOR or (b) a base rate determined as the greater of (i) the federal funds rate plus 0.5%, (ii) the prime rate, and (iii) one-month LIBOR plus 1.0%, the interest rate we will be required to pay on any such borrowings will depend on then applicable rates and may vary. An increase in interest rates could make the financing of any acquisition by us more costly. Rising interest rates could also limit our ability to refinance our debt when it matures or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. Assuming a 100 basis point increase in the interest rate related to our variable rate debt, and assuming no change in our outstanding debt balance as of March 31, 2013, interest expense would increase \$0.1 million for the twelve months following March 31, 2013. As of March 31, 2013, the index underlying our variable rate mortgages was below 100 basis points and is not expected to go below zero and after giving consideration to interest rate floors imbedded in our variable rate debt agreements, interest expense would not be expected to be impacted by a decline in current interest rates.

We expect to manage our exposure to interest rate risk by maintaining a mix of fixed and variable rates for our indebtedness. We also may manage, or hedge, interest rate risks related to our borrowings by means of interest rate swap agreements, although we are not currently a party to any swap agreements.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of, the evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2013 to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and

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reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None of the Company or any of its subsidiaries is a party to, and none of their respective property is the subject of, any material legal proceeding, although we are from time to time party to legal proceedings that arise in the ordinary course of our business.

ITEM 1A. RISK FACTORS

There have been no material changes in our assessment of our risk factors from those set forth in our 2012 Annual Report on Form 10-K.

ITEM 6. EXHIBITS

Ex.	Description
1.1	Underwriting Agreement, dated March 14, 2013, by and among the Company and Jefferies LLC, Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 1.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on March 15, 2013).
1.2	Form of Sales Agreement, dated March 18, 2013, between the Company and each of Barclays Capital Inc., Cantor Fitzgerald & Co., Credit Agricole Securities (USA) Inc., RBC Capital Markets, LLC, RBS Securities Inc. and Wells Fargo Securities, LLC (incorporated by reference to Exhibit 1.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on March 18, 2013).
2.1	Agreement and Plan of Merger, dated as of September 23, 2010, by and between Sun Healthcare Group, Inc. and Sabra Health Care REIT, Inc. (incorporated by reference to Annex A to the proxy statement/prospectus included in Amendment No. 4 to the Registration Statement on Form S-4 (File No. 333-167040) filed by Sabra Health Care REIT, Inc. on September 28, 2010).
2.2	Distribution Agreement, dated November 4, 2010, by and among Sun Healthcare Group, Inc., Sabra Health Care REIT, Inc. and SHG Services, Inc. (which has been renamed Sun Healthcare Group, Inc.) (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on November 5, 2010).†
2.3	Purchase and Sale Agreement and Joint Escrow Instructions, dated July 8, 2011, by and between Peninsula Healthcare Services, LLC; Broadmeadow Investment LLC; Capitol Nursing & Rehabilitation Center, L.L.C.; and Pike Creek Healthcare Services LLC, and Sabra Health Care REIT, Inc. (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on July 11, 2011).
3.1	Articles of Amendment and Restatement of Sabra Health Care REIT, Inc., dated October 20, 2010, filed with the State Department of Assessments and Taxation of the State of Maryland on October 21, 2010 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on October 26, 2010).
3.1.1	Articles Supplementary designating Sabra Health Care REIT, Inc.'s 7.125% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on March 21, 2013).

3.2 Amended and Restated Bylaws of Sabra Health Care REIT, Inc. (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on October 26, 2010).

4.1* Fifth Supplemental Indenture, dated January 11, 2013, among Sabra Health Care Limited Partnership, Sabra Capital Corporation, Sabra Health Care REIT, Inc., the other subsidiaries of Sabra Health Care REIT, Inc. named therein, the other Guarantors (as defined in the Indenture referred to therein) and Wells Fargo Bank.

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4.2	Form of Specimen Certificate for Sabra Health Care REIT, Inc.'s 7.125% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on March 21, 2013).
10.1	First Amendment to the Limited Partnership Agreement by Sabra Health Care REIT, Inc. and Sabra Health Care, LLC, dated March 21, 2013 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Sabra Health Care REIT, Inc. on March 21, 2013).
12.1*	Statement Re: Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

† Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrants hereby agree to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SABRA HEALTH CARE REIT, INC.

Date: May 6, 2013

By: /S/ RICHARD K. MATROS
Richard K. Matros
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

Date: May 6, 2013

By: /S/ HAROLD W. ANDREWS, JR.
Harold W. Andrews, Jr.
Executive Vice President,
Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)