Sabra Health Care REIT, Inc.
Form 10-Q
August 05, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

Commission file number 001-34950

SABRA HEALTH CARE REIT, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	27-2560479
(State of Incorporation)	(I.R.S. Employer Identification No.)

18500 Von Karman Avenue, Suite 550
Irvine, CA 92612
(888) 393-8248
(Address, zip code and telephone number of Registrant)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of August 2, 2013, there were 37,333,943 shares of the Registrant’s $0.01 par value Common Stock outstanding.

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SABRA HEALTH CARE REIT, INC. AND SUBSIDIARIES
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References throughout this document to “Sabra,” “we,” “our,” “ours” and “us” refer to Sabra Health Care REIT, Inc. and its direct and indirect consolidated subsidiaries and not any other person.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q (this “10-Q”) contain “forward-looking” information as that term is defined by the Private Securities Litigation Reform Act of 1995. Any statements that do not relate to historical or current facts or matters are forward-looking statements. Examples of forward-looking statements include all statements regarding our expected future financial position, results of operations, cash flows, liquidity, financing plans, business strategy, budgets, the expected amounts and timing of dividends and other distributions, projected expenses and capital expenditures, competitive position, growth opportunities, potential acquisitions, plans and objectives for future operations, and compliance with and changes in governmental regulations. You can identify some of the forward-looking statements by the use of forward-looking words such as “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend,” “should,” “may” and other similar expressions, although not all forward-looking statements contain these identifying words.

Our actual results may differ materially from those projected or contemplated by our forward-looking statements as a result of various factors, including the following:

- our dependence on Genesis HealthCare LLC, the parent of Sun Healthcare Group, Inc., until we are able to further diversify our portfolio;
- our dependence on the operating success of our tenants;
- changes in general economic conditions and volatility in financial and credit markets;
- the dependence of our tenants on reimbursement from governmental and other third-party payors;
- the significant amount of and our ability to service our indebtedness;
- covenants in our debt agreements that may restrict our ability to make acquisitions, incur additional indebtedness and refinance indebtedness on favorable terms;
- increases in market interest rates;
- our ability to raise capital through equity financings;
- the relatively illiquid nature of real estate investments;
- competitive conditions in our industry;
- the loss of key management personnel or other employees;
- the impact of litigation and rising insurance costs on the business of our tenants;
- uninsured or underinsured losses affecting our properties and the possibility of environmental compliance costs and liabilities;
- our ability to maintain our status as a real estate investment trust (“REIT”); and
- compliance with REIT requirements and certain tax matters related to our status as a REIT.

We urge you to carefully consider these risks and review the additional disclosures we make concerning risks and other factors that may materially affect the outcome of our forward-looking statements and our future business and operating results, including those made in Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2012 (our “2012 Annual Report on Form 10-K”), as such risk factors may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission (the “SEC”), including subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. We caution you that any forward-looking statements made in this 10-Q are not guarantees of future performance, events or results, and you should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. We do not intend, and we undertake no obligation, to update any forward-looking information to reflect events or circumstances after the date of this 10-Q or to reflect the occurrence of unanticipated events, unless required by law to do so.

GENESIS HEALTHCARE LLC INFORMATION

This 10-Q includes information regarding Genesis HealthCare LLC (“Genesis”). Genesis is not subject to SEC reporting requirements. The information related to Genesis provided in this 10-Q has been provided by Genesis and we have not independently verified this information. We have no reason to believe that such information is inaccurate in any material respect. We are providing this data for informational purposes only.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
SABRA HEALTH CARE REIT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Real estate investments, net of accumulated depreciation of $145,674 and $129,479 as of June 30, 2013 and December 31, 2012, respectively	$817,228	$827,135
Loans receivable and other investments, net	43,069	12,017
Cash and cash equivalents	92,770	17,101
Restricted cash	5,737	4,589
Deferred tax assets	24,212	24,212
Assets held for sale, net	—	2,215
Prepaid expenses, deferred financing costs and other assets	39,083	29,613
Total assets	$1,022,099	$916,882
Liabilities and stockholders' equity		
Mortgage notes	$143,129	$152,322
Secured revolving credit facility	—	92,500
Senior unsecured notes	414,672	330,666
Accounts payable and accrued liabilities	14,519	11,694
Tax liability	24,212	24,212
Total liabilities	596,532	611,394
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock, $.01 par value; 10,000,000 shares authorized, 5,750,000 and zero shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	58	—
Common stock, $.01 par value; 125,000,000 shares authorized, 37,333,943 and 37,099,209 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	373	371
Additional paid-in capital	493,479	353,861
Cumulative distributions in excess of net income	(68,343)	(48,744)
Total stockholders' equity	425,567	305,488
Total liabilities and stockholders' equity	$1,022,099	$916,882

See accompanying notes to condensed consolidated financial statements.

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SABRA HEALTH CARE REIT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME
(dollars in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Rental income	$31,518	$24,820	$62,993	$48,483
Interest and other income	757	297	1,304	361
Total revenues	32,275	25,117	64,297	48,844
Expenses:				
Depreciation and amortization	8,222	7,557	16,468	14,860
Interest	10,143	7,898	20,145	15,596
General and administrative	3,422	3,489	8,139	7,810
Total expenses	21,787	18,944	44,752	38,266
Other income (expense):				
Loss on extinguishment of debt	(9,750)	(250)	(9,750)	(250)
Other income (expense)	(1,400)	—	(900)	—
Total other income (expense)	(11,150)	(250)	(10,650)	(250)
Net (loss) income	(662)	5,923	8,895	10,328
Preferred stock dividends	(2,523)	—	(2,827)	—
Net (loss) income attributable to common stockholders	$(3,185)	$5,923	$6,068	$10,328
Net (loss) income attributable to common stockholders, per:				
Basic common share	$(0.09)	$0.16	$0.16	$0.28
Diluted common share	$(0.09)	$0.16	$0.16	$0.28
Weighted-average number of common shares outstanding, basic	37,357,112	37,147,942	37,321,813	37,092,683
Weighted-average number of common shares outstanding, diluted	37,357,112	37,191,687	37,789,804	37,119,005

See accompanying notes to condensed consolidated financial statements.

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SABRA HEALTH CARE REIT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands, except per share data)
(unaudited)

	Preferred Stock		Common Stock				
	Shares	Amount	Shares	Amounts	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Total Stockholders' Equity
Balance, December 31, 2011	—	$—	36,891,712	$ 369	$ 344,995	$ (18,791)	$ 326,573
Net income	—	—	—	—	—	10,328	10,328
Amortization of stock-based compensation	—	—	—	—	4,135	—	4,135
Common stock issuance	—	—	159,530	2	142	—	144
Common dividends ($0.66 per share)	—	—	—	—	—	(24,755)	(24,755)
Balance, June 30, 2012	—	$—	37,051,242	$ 371	$ 349,272	$ (33,218)	$ 316,425

	Preferred Stock		Common Stock				
	Shares	Amount	Shares	Amounts	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Total Stockholders' Equity
Balance, December 31, 2012	—	$—	37,099,209	$ 371	$ 353,861	$ (48,744)	$ 305,488
Net income	—	—	—	—	—	8,895	8,895
Amortization of stock-based compensation	—	—	—	—	4,182	—	4,182
Preferred stock issuance	5,750,000	58	—	—	138,288	—	138,346
Common stock issuance	—	—	234,734	2	(2,852)	—	(2,850)
Preferred dividends	—	—	—	—	—	(2,827)	(2,827)
Common dividends ($0.68 per share)	—	—	—	—	—	(25,667)	(25,667)
Balance, June 30, 2013	5,750,000	$58	37,333,943	$ 373	$ 493,479	$ (68,343)	$ 425,567

See accompanying notes to condensed consolidated financial statements.

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SABRA HEALTH CARE REIT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	$8,895	$10,328
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,468	14,860
Non-cash interest income adjustments	12	9
Amortization of deferred financing costs	1,589	1,197
Stock-based compensation expense	3,933	3,842
Amortization of premium	(401)	(8)
Loss on extinguishment of debt	508	250
Straight-line rental income adjustments	(7,300)	(1,690)
Change in fair value of contingent consideration	900	—
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(1,563)	(779)
Accounts payable and accrued liabilities	1,877	(1,914)
Restricted cash	(1,932)	(2,008)
Net cash provided by operating activities	22,986	24,087
Cash flows from investing activities:		
Acquisitions of real estate	(6,175)	(55,550)
Origination of loans receivable	(25,244)	(21,176)
Preferred equity investment	(5,144)	—
Additions to real estate	(226)	(730)
Net proceeds from the sale of real estate	2,208	—
Net cash used in investing activities	(34,581)	(77,456)
Cash flows from financing activities:		
Proceeds from issuance of senior unsecured notes	200,000	—
Principal payments on senior unsecured notes	(113,750)	—
Proceeds from secured revolving credit facility	—	42,500
Payments on secured revolving credit facility	(92,500)	—
Proceeds from mortgage notes	—	21,947
Principal payments on mortgage notes	(9,193)	(22,464)
Payments of deferred financing costs	(5,378)	(3,435)
Issuance of preferred stock	138,345	—
Issuance of common stock	(2,851)	144
Dividends paid on common and preferred stock	(27,409)	(24,463)
Net cash provided by financing activities	87,264	14,229
Net increase (decrease) in cash and cash equivalents	75,669	(39,140)

Cash and cash equivalents, beginning of period	17,101	42,250
Cash and cash equivalents, end of period	$92,770	$3,110
Supplemental disclosure of cash flow information:		
Interest paid	$19,839	$14,677

See accompanying notes to condensed consolidated financial statements.

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SABRA HEALTH CARE REIT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BUSINESS

Overview

Sabra Health Care REIT, Inc. ("Sabra" or the "Company") was incorporated on May 10, 2010 as a wholly owned subsidiary of Sun Healthcare Group, Inc. ("Old Sun") and commenced operations on November 15, 2010. Sabra elected to be treated as a real estate investment trust ("REIT") with the filing of its U.S. federal income tax return for the taxable year beginning January 1, 2011. Sabra believes that it has been organized and operated, and it intends to continue to operate, in a manner to qualify as a REIT. Sabra's primary business consists of acquiring, financing and owning real estate property to be leased to third party tenants in the healthcare sector. Sabra owns substantially all of its assets and properties and conducts its operations through Sabra Health Care Limited Partnership, a Delaware limited partnership (the "Operating Partnership"), of which Sabra is the sole general partner, or by subsidiaries of the Operating Partnership.
As of June 30, 2013, Sabra's portfolio included 120 real estate properties held for investment and leased to operators/tenants under triple-net lease agreements (consisting of (i) 96 skilled nursing/post-acute facilities, (ii) 23 senior housing facilities, and (iii) one acute care hospital), three mortgage loan investments, two preferred equity investments and one mezzanine loan investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of Sabra and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP").
GAAP requires the Company to identify entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of variable interest entities ("VIEs"). A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity's activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. If the Company were determined to be the primary beneficiary of the VIE, the Company would consolidate investments in the VIE. The Company may change its original assessment of a VIE due to events such as modifications of contractual arrangements that affect the characteristics or adequacy of the entity's equity investments at risk and the disposal of all or a portion of an interest held by the primary beneficiary.
The Company identifies the primary beneficiary of a VIE as the enterprise that has both: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could be significant to the entity. The Company performs this analysis on an ongoing basis. At June 30, 2013, the Company did not have any consolidated VIEs.
As it relates to investments in joint ventures, based on the type of rights held by the limited partner(s), GAAP may preclude consolidation by the sole general partner in certain circumstances in which the general partner would otherwise consolidate the joint venture. The Company assesses limited partners' rights and their impact on the presumption of control of the limited partnership by the sole general partner when an investor becomes the sole general partner, and the Company reassesses if: there is a change to the terms or in the exercisability of the rights of the limited partners; the sole general partner increases or decreases its ownership of limited partnership interests; or there is an increase or decrease in the number of outstanding limited partnership interests. The Company also applies this guidance to managing member interests in limited liability companies.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information as contained within the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”), including the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for financial statements. In the

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opinion of management, the financial statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair statement of the results for such periods. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. For further information, refer to the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2012 included in the Company’s 2012 Annual Report on Form 10-K filed with the SEC.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

Reclassifications

Certain amounts in the Company’s consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods. As a result, certain reclassifications were made to the consolidated statements of income, consolidated statements of cash flows and footnote disclosures for all periods presented.

3. RECENT REAL ESTATE ACQUISITIONS

During the six months ended June 30, 2013, the Company acquired one senior housing facility for a total purchase price of $6.2 million. The purchase price was allocated as follows (in thousands):

Land	Building and Improvements	Intangibles Tenant Origination and Absorption Costs	Tenant Relationship	Total Purchase Price
$566	$ 5,496	$93	$20	$6,175

As of June 30, 2013, the purchase price allocations for acquisitions completed during the six months ended June 30, 2013 are preliminary pending the receipt of information necessary to complete the valuation of certain tangible and intangible assets and liabilities and therefore are subject to change.

The tenant origination and absorption costs intangible assets and tenant relationship intangible assets acquired in connection with this acquisition have weighted-average amortization periods as of the date of acquisition of 15 years and 25 years, respectively.

For each of the three and six months ended June 30, 2013, the Company recognized rental income of $5,000 from this property.

4. REAL ESTATE PROPERTIES HELD FOR INVESTMENT

The Company’s real estate properties held for investment consisted of the following (dollars in thousands):

As of June 30, 2013

Property Type	Number of Properties	Number of Beds/Units	Total Real Estate at Cost	Accumulated Depreciation	Total Real Estate Investments, Net
Skilled Nursing/Post-Acute	96	10,826	$746,736	$(129,486)	$617,250
Senior Housing	23	1,518	154,272	(12,136)	142,136
Acute Care Hospital	1	70	61,640	(3,924)	57,716
	120	12,414	962,648	(145,546)	817,102
Corporate Level			254	(128)	126
			$962,902	$(145,674)	$817,228

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As of December 31, 2012

Property Type	Number of Properties	Number of Beds/Units	Total Real Estate at Cost	Accumulated Depreciation	Total Real Estate Investments, Net
Skilled Nursing/Post-Acute	96	10,826	$746,510	$(116,426)	$630,084
Senior Housing	22	1,486	148,210	(9,949)	138,261
Acute Care Hospital	1	70	61,640	(3,001)	58,639
	119	12,382	956,360	(129,376)	826,984
Corporate Level			254	(103)	151
			$956,614	$(129,479)	$827,135

	June 30, 2013	December 31, 2012
Building and improvements	$787,809	$782,221
Furniture and equipment	43,944	43,810
Land improvements	4,535	4,535
Land	126,614	126,048
	962,902	956,614
Accumulated depreciation	(145,674)	(129,479)
	$817,228	$827,135

Stoney River Marshfield Earn Out

On December 18, 2012, the Company acquired a 60-bed assisted living facility, located in Marshfield, Wisconsin ("Stoney River Marshfield"), for $8.2 million through a triple-net sale-leaseback transaction with First Phoenix Group, LLC ("First Phoenix"). At the time of purchase, the facility was not completely stabilized and as such the Company and First Phoenix agreed to an earn out arrangement whereby the Company would pay First Phoenix additional consideration at a specific date in the future contingent on the performance of the facility. The Company estimated the contingent consideration liability at $1.3 million at the time of purchase. As of June 30, 2013, based on the performance of the facility the contingent consideration liability is estimated at $2.2 million. During the three and six months ended June 30, 2013, the Company recorded adjustments to the contingent consideration of $1.4 million and $0.9 million, respectively, and included these amounts in other income (expense) on the accompanying condensed consolidated statements of (loss) income.

Operating Leases

As of June 30, 2013, all of the Company’s real estate properties were leased under triple-net operating leases with expirations ranging from eight to 21 years. As of June 30, 2013, the leases had a weighted-average remaining term of 11 years. The leases include provisions to extend the lease terms and other negotiated terms and conditions. The Company, through its subsidiaries, retains substantially all of the risks and benefits of ownership of the real estate assets leased to the tenants. In addition, the Company may receive additional security under these operating leases in the form of security deposits from the lessee or guarantees from the parent of the lessee or other related parties. Security deposits received in cash related to tenant leases are included in accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets and totaled $2.0 million and $1.1 million as of June 30, 2013 and December 31, 2012, respectively. As of June 30, 2013, 81 of the Company's 120 real estate properties held for investment were leased to subsidiaries of Genesis.

The Company monitors the creditworthiness of its tenants by reviewing credit ratings (if available) and evaluating the ability of the tenants to meet their lease obligations to the Company based on the tenants’ financial performance, including the evaluation of any parent guarantees (or the guarantees of other related parties) of tenant lease obligations. Because formal credit ratings may not be available for most of the Company’s tenants, the primary basis for the Company’s evaluation of the credit quality of its tenants (and more specifically the tenants’ ability to pay their rent obligations to the Company) is the tenants’ lease coverage ratios. These coverage ratios include earnings before interest, taxes, depreciation, amortization and rent (“EBITDAR”) to rent coverage and earnings before interest, taxes, depreciation, amortization, rent and management fees (“EBITDARM”) to rent coverage at the facility level and consolidated EBITDAR to total fixed charge coverage at the parent guarantor level when such a guarantee exists (currently the Genesis lease portfolio). The Company obtains various financial and operational information from its tenants each month and reviews this information in conjunction with the above-described coverage metrics to determine trends and the operational and financial impact of the environment in the industry (including the impact of government reimbursement) and the management of the tenant’s operations. These metrics help the Company

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identify potential areas of concern relative to its tenants' credit quality and ultimately the tenants' ability to generate sufficient liquidity to meet its obligations, including its obligation to continue to pay the rent due to the Company.
As of June 30, 2013, the future minimum rental payments from the Company's properties under non-cancelable operating leases was as follows (in thousands):

July 1, 2013 through December 31, 2013	$56,559
2014	115,444
2015	118,200
2016	120,956
2017	123,939
Thereafter	829,483
	$1,364,581

5. LOANS RECEIVABLE AND OTHER INVESTMENTS
Loans Receivable
As of June 30, 2013, the Company's loans receivable consisted of the following (dollars in thousands):

Loan Type	Number of Loans	Facility Type	Principal Balance as of June 30, 2013	Book Value as of June 30, 2013	Weighted Average Contractual Interest Rate		Weighted Average Annualized Effective Interest Rate		Maturity Date
Mortgage	3	Skilled Nursing / Assisted Living	$25,156	$25,272	8.8	%	8.7	%	Various
Mezzanine	1	Skilled Nursing	12,350	12,421	12.0	%	11.6	%	12/27/14
	4		$37,506	$37,693	9.9	%	9.7	%	

Recent Loan Originations
On June 28, 2013, the Company originated a $12.4 million mezzanine loan (the "Chai Mezzanine Loan") with an affiliate of Chai Facilities Acquisition Company, LLC (the "Borrower"), the indirect owner of twelve skilled nursing facilities having 1,689 licensed beds in seven states (the "Chai Portfolio"). The Chai Mezzanine Loan has an 18-month term with an option to extend the maturity an additional six months and bears interest at a fixed rate of 12.0% per annum. The Chai Mezzanine Loan is secured by the Borrower's equity interests in the entities that own the Chai Portfolio. In addition, the Company has an option to purchase up to $50.0 million of properties within the Chai Portfolio. The option, which commences three months after the origination date and ends on the maturity date of the Chai Mezzanine Loan, can be exercised on any facility within the portfolio as long as the EBITDAR margin for such facility has reached 15% for at least one month. The purchase price for each facility will be determined by taking the annualized EBITDAR of the facility for the trailing three months prior to option exercise, divided by an EBITDAR coverage ratio of 1.50 and further divided by 9.5%. Should the Company exercise its option to purchase any properties in the Chai Portfolio, the Company would expect to enter into a new 15 year master lease with two five-year renewal options with annual rent increases equal to the greater of the change in the Consumer Price Index and 3.0%. The Chai Mezzanine Loan was funded with available cash.
On January 31, 2013, the Company 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 3 years of the loan term. In addition, beginning April 2014, the Company has an option to purchase the facility securing the Sun City West Mortgage Loan for a price equal to the greater of (a) the annualized 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 the Company exercises the purchase option, the Company would expect to enter into a long-term lease with affiliates of New Dawn. 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.

Other Investments

On March 5, 2013, the Company 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

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memory care facility in Austin, Texas (collectively, the “Bee Cave Preferred Equity Investments”). The Company funded $4.3 million at closing and an additional $0.8 million during the six months ended June 30, 2013. In addition, the Company 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. The Company 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 the Company were to exercise the purchase option on the skilled nursing facility, the Company would expect to lease the facility to Meridian under a long-term, triple net lease. The Company's 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. The Company's 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 the Company), or 30 months after receiving a certificate of occupancy for the facility. In the event the applicable purchase option is not exercised, the Company has the right to require Meridian to redeem the Company's investment, including the accrued preferred returns associated with such investment, within 180 days.

6. DEBT

Mortgage Indebtedness. The Company’s mortgage notes payable consisted of the following (dollars in thousands):

Interest Rate Type	Book Value as of June 30, 2013	Book Value as of December 31, 2012	Weighted Average Effective Interest Rate at June 30, 2013		Maturity Date
Fixed Rate	$85,818	$94,373	4.01	%	August 2015 - June 2047
Variable Rate[1]	57,311	57,949	5.00	%	August 2015
	$143,129	$152,322	4.40	%	

(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).

5.375% Notes Due 2023. On May 23, 2013, the Operating Partnership and Sabra Capital Corporation, wholly owned subsidiaries of the Company (the “Issuers”), completed an underwritten public offering of $200.0 million aggregate principal amount of 5.375% senior unsecured notes (the “2023 Notes”). The 2023 Notes were sold at par, resulting in gross proceeds of $200.0 million and net proceeds of approximately $194.9 million after deducting commissions and expenses. The 2023 Notes accrue interest at a rate of 5.375% per annum payable semiannually on June 1 and December 1 of each year.

The 2023 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 June 1, 2018, at the redemption prices set forth in the indenture governing the 2023 Notes (the “2023 Notes Indenture”), plus accrued and unpaid interest to the applicable redemption date. In addition, prior to June 1, 2018, the Issuers may redeem all or a portion of the 2023 Notes at a redemption price equal to 100% of the principal amount of the 2023 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 June 1, 2016, the Issuers may redeem up to 35% of the principal amount of the 2023 Notes, using the proceeds of specific kinds of equity offerings, at a redemption price of 105.375% of the principal amount to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. Assuming the 2023 Notes are not redeemed, the 2023 Notes mature on June 1, 2023.

8.125% Notes Due 2018. On October 27, 2010, the Issuers issued $225.0 million aggregate principal amount of 8.125% senior unsecured notes (the “2018 Notes”) resulting in gross proceeds of $225.0 million and net proceeds of approximately $219.9 million after deducting commissions and expenses. The 2018 Notes accrue interest at a rate of 8.125% per annum payable semiannually on May 1 and November 1 of each year.

On July 26, 2012, the Issuers issued an additional $100.0 million aggregate principal amount of 2018 Notes, which are treated as a single class with the existing 2018 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 Prior Revolving Credit Facility (defined below). On November 14, 2012, the Issuers completed an exchange offer to exchange the $100.0 million aggregate principal amount of 2018 Notes that were issued in July 2012 for substantially identical 2018 Notes registered under the Securities Act of 1933, as amended.

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On June 24, 2013, pursuant to the terms of the indenture governing the 2018 Notes (the "2018 Notes Indenture"), the Issuers redeemed $113.8 million in aggregate principal amount of the outstanding 2018 Notes, representing 35% of the aggregate principal amount of the 2018 Notes outstanding. The 2018 Notes were redeemed at a redemption price of 108.125% of the principal amount redeemed, plus accrued and unpaid interest up to the redemption date. The redemption resulted in a $9.8 million loss on extinguishment of debt, including $9.3 million in payments made to noteholders for early redemption and $0.5 million of write-offs associated with unamortized deferred financing costs and issuance premium.

The 2018 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 2018 Notes 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 2018 Notes at a redemption price equal to 100% of the principal amount of the 2018 Notes redeemed, plus a "make-whole" premium, plus accrued and unpaid interest to the applicable redemption date. Assuming the 2018 Notes are not redeemed, the 2018 Notes mature on November 1, 2018.

The obligations under the 2018 Notes and 2023 Notes (collectively, the "Senior Notes") are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by Sabra and certain of Sabra's 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 10. Summarized Condensed Consolidating Information" for additional information concerning the circumstances pursuant to which the guarantors will be automatically and unconditionally released from their obligations under the guarantees.

The 2018 Notes Indenture and 2023 Notes Indenture (collectively, the "Senior Notes Indentures") contain 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 Senior Notes Indentures also provide 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 Senior Notes Indentures 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 June 30, 2013, the Company was in compliance with all applicable financial covenants under the Senior Notes Indentures.

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 (as amended, the "Prior 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 allowed the Borrowers to increase borrowing availability under the Prior 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 Prior Revolving Credit Facility was secured by, among other things, a first priority lien against certain of the properties owned by certain of the Company's subsidiaries. Borrowing availability under the Prior Revolving Credit Facility was 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 Prior Revolving Credit Facility) or (ii) the appraised value, in each case of the properties securing the Prior Revolving Credit Facility. As of June 30, 2013, there were no amounts outstanding under the Company's Prior Revolving Credit Facility and $194.0 million was available for borrowing.

Borrowings under the Prior Revolving Credit Facility bore 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 varied based on the Consolidated Leverage Ratio, as defined in the Prior Revolving Credit Facility, and ranged 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 June 30, 2013, the interest rate on the Prior Revolving Credit Facility was 3.69%. In addition, the Borrowers were 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 Prior Revolving Credit Facility. During the six months ended June 30, 2013, the Company incurred $0.8 million in interest expense on amounts outstanding under the Prior Revolving Credit Facility. The Company did not incur any interest expense during the three months ended June 30, 2013. During the three and six months ended June 30, 2013, the Company incurred $0.3 million and $0.5 million, respectively, of unused facility fees.

On July 29, 2013, the Operating Partnership entered into an amended and restated secured revolving credit facility (the “Revolving Credit Facility”). The Revolving Credit Facility provides for a borrowing capacity of $375.0 million and includes an accordion feature that allows the Operating Partnership to increase the borrowing availability by up to $225.0 million, subject to terms and conditions. While the Prior Revolving Credit Facility was secured by mortgages on certain of the Company's real estate assets, the Revolving Credit Facility is secured by pledges of equity by the Company's wholly-owned subsidiaries that own certain of the Company's real estate assets.

Borrowing availability under the Revolving Credit Facility is subject to a borrowing base calculation based on, among other factors, the mortgageability cash flow (as such term is defined in the Revolving Credit Facility). As of July 29, 2013, $286.5 million was available for borrowing under the Revolving Credit Facility. The Revolving Credit Facility has a maturity date of July 29, 2016, and includes a one year extension option.

Borrowings under the Revolving Credit Facility bear interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Operating Partnership's 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% (referred to as the “Base Rate”). The applicable percentage for borrowings will vary based on the Consolidated Leverage Ratio, as defined in the Revolving Credit Facility, and will range from 2.50% to 3.50% per annum for LIBOR based borrowings and 1.50% to 2.50% per annum for borrowings at the Base Rate. In addition, the Operating Partnership is 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 Revolving Credit Facility.

The obligations of the Operating Partnership under the Revolving Credit Facility are, and the obligations of the Borrowers under the Prior Revolving Credit Facility were, guaranteed by Sabra and certain subsidiaries of Sabra.

The Revolving Credit Facility contains, and the Prior Revolving Credit Facility contained, customary covenants that include restrictions or limitations 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 Revolving Credit Facility also requires Sabra, through the Operating Partnership--and the Prior Revolving Credit Facility required Sabra, through the Borrowers--to 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 June 30, 2013, the Company was in compliance with all applicable financial covenants under the Prior Revolving Credit Facility.

During the three and six months ended June 30, 2013, the Company incurred interest expense of $10.1 million and $20.1 million, respectively, and $7.9 million and $15.6 million for the three and six months ended June 30, 2012, respectively. Interest expense includes deferred financing costs amortization of $0.8 million and $1.6 million for the three and six months ended June 30, 2013, respectively, and $0.6 million and $1.2 million for the three and six months ended June 30, 2012, respectively. As of June 30, 2013 and December 31, 2012, the Company had $4.5 million and $5.4 million, respectively, of accrued interest included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets.

During the three and six months ended June 30, 2013, the Company recognized $9.8 million of debt extinguishment loss due to the redemption premium and write-offs of unamortized deferred financing costs and issuance premium associated with the redemption of $113.8 million in aggregate principal amount of the outstanding 2018 Notes. During the three and six months ended June 30, 2012, the Company recognized $0.3 million of debt extinguishment loss due to the write-offs of unamortized deferred financing costs associated with mortgage debt refinancing.

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The following is a schedule of maturities for the Company's outstanding debt as of June 30, 2013 (in thousands):

	Mortgage Indebtedness	Senior Notes [1]	Total
July 1, 2013 through December 31, 2013	$1,800	$—	$1,800
2014	3,739	—	3,739
2015	86,075	—	86,075
2016	1,647	—	1,647
2017	1,688	—	1,688
Thereafter	48,180	411,250	459,430
	$143,129	$411,250	$554,379

[1] Outstanding principal balance for the senior notes does not include premium of $3.4 million as of June 30, 2013.

7.FAIR VALUE DISCLOSURES

The fair value for certain financial instruments is derived using a combination of market quotes, pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company's financial instruments.

Financial instruments for which actively quoted prices or pricing parameters are available and whose markets contain orderly transactions will generally have a higher degree of price transparency than financial instruments whose markets are inactive or consist of non-orderly trades. The Company evaluates several factors when determining if a market is inactive or when market transactions are not orderly. The carrying values of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities are reasonable estimates of fair value because of the short-term maturities of these instruments. Fair values for other financial instruments are derived as follows:

Loans receivable: These instruments are presented in the accompanying condensed consolidated balance sheets at their amortized cost and not at fair value. The fair value of the loans receivable were estimated using an internal valuation model that considered the expected cash flows for the loans receivable, the underlying collateral value and other credit enhancements.

Preferred equity investments: These instruments are presented in the accompanying condensed consolidated balance sheets at their cost and not at fair value. The fair value of the preferred equity investments were estimated using an internal valuation model that considered the expected future cash flows for the preferred equity investment, the underlying collateral value and other credit enhancements.

Senior Notes: The fair values of the Senior Notes were determined using third-party market quotes derived from orderly trades.

Mortgage indebtedness: The fair values of the Company's mortgage notes payable were estimated using a discounted cash flow analysis based on management's estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio, type of collateral and other credit enhancements.

The following are the carrying amounts and fair values of the Company's financial instruments as of June 30, 2013 and December 31, 2012 whose carrying amounts do not approximate their fair value (in thousands):

	June 30, 2013			December 31, 2012		
	Face Value [1]	Carrying Amount [2]	Fair Value	Face Value [1]	Carrying Amount [2]	Fair Value
Financial assets:						
Loans receivable	$37,506	$37,693	$37,843	$11,965	$12,017	$12,826
Preferred equity investments	5,293	5,376	5,285	—	—	—
Financial liabilities:						

Senior Notes	411,250	414,672	422,038	325,000	330,666	345,313
Mortgage indebtedness	143,129	143,129	139,599	152,322	152,322	152,559
Secured Revolving Credit Facility	—	—	—	92,500	92,500	92,500

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(1) Face value for loans receivable, Senior Notes, mortgage indebtedness and the Secured Revolving Credit Facility represents amounts contractually due under the terms of the respective agreements. Face value for preferred equity investments represents amounts paid, plus preferred returns earned less distributions received.
(2) Carrying amounts represent the book value of financial instruments and include unamortized premiums (discounts). Also included in the carrying amounts for loans receivable and preferred equity investments are capitalized origination and transaction costs.
The Company determined the fair value of financial instruments as of June 30, 2013 whose carrying amounts do not approximate their fair value with valuation methods utilizing the following types of inputs (in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Loans receivable	$ 37,843	$—	$—	$ 37,843
Preferred equity investments	5,285	—	—	5,285
Financial liabilities:				
Senior Notes	422,038	—	422,038	—
Mortgage indebtedness	139,599	—	—	139,599

Disclosure of the fair value of financial instruments is based on pertinent information available to the Company at the applicable dates and requires a significant amount of judgment. Despite increased capital market and credit market activity, transaction volume for certain financial instruments remains relatively low. This has made the estimation of fair values difficult and, therefore, both the actual results and the Company’s estimate of fair value at a future date could be materially different.
During the six months ended June 30, 2013, the Company recorded the following amounts measured at fair value (in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Basis:				
Contingent consideration	$ 2,200	$—	$—	$ 2,200

8. EQUITY
Preferred Stock

On March 21, 2013, the Company 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 $138.3 million from the offering, after deducting underwriting discounts and other offering expenses.
The holders of the Company’s Series A Preferred Stock rank senior to the Company’s common stock with respect to dividend rights and rights upon the Company’s liquidation, dissolution or winding up of its affairs. Holders of shares of the Series A Preferred Stock will generally have no voting rights. However, if dividends on the Series A Preferred Stock are in arrears for six or more quarterly periods, whether or not consecutive, holders of shares of the Series A Preferred Stock will be entitled to vote for the election of two additional directors to serve on the Company’s board of directors until all accrued dividends for past dividend periods with respect to the Series A Preferred Stock have been paid or declared and a sum sufficient for the payment thereof set apart for payment. The holders of Series A Preferred Stock also have voting rights with respect to the Company in certain other circumstances. At June 30, 2013, there

were no dividends in arrears.

Generally, the Company is not permitted to redeem the Series A Preferred Stock prior to March 21, 2018, except in limited circumstances to preserve its status as a REIT and pursuant to the special optional redemption provision described below. On or after March 21, 2018, the Company may, at its option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus any accrued and unpaid dividends on such Series A Preferred Stock up to, but not including, the redemption date. In addition, upon the occurrence of a specified change of control (as described in the Articles Supplementary governing the Series A Preferred Stock), the Company may, at its option, redeem the Series A Preferred Stock, in whole or in part, within 120 days after the first date on which such change of control occurred, by paying $25.00 per share, plus any accrued and unpaid dividends to, but not including, the date of redemption. If the Company exercises any of its redemption rights relating to the Series A Preferred Stock, the holders of Series A Preferred Stock will not have the conversion right described below. The Series A Preferred Stock has no stated maturity and is not subject to mandatory redemption or any sinking fund.

Upon the occurrence of a specified change of control, each holder of Series A Preferred Stock will have the right (unless, prior to the change of control conversion date specified in the Articles Supplementary governing the Series A Preferred Stock, the Company has provided or provides notice of its election to redeem the Series A Preferred Stock) to convert some or all of the shares of Series A Preferred Stock held by such holder into a number of shares of the Company’s common stock per share of Series A Preferred Stock to be converted equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the $25.00 liquidation preference plus the amount of any accrued and unpaid dividends to, but not including, the change of control conversion date (unless the change of control conversion date is after a record date for a Series A Preferred Stock dividend payment and prior to the corresponding Series A Preferred Stock dividend payment date, in which case no additional amount for any accrued and unpaid dividend that will be paid on such dividend payment date will be included in this sum) by (ii) the common stock price (as defined in the Articles Supplementary); and
- 1.7864 (the share cap), subject to certain adjustments;

subject, in each case, to provisions for the receipt of alternative consideration as described in the Articles Supplementary governing the Series A Preferred Stock.

Upon issuance of the Series A Preferred Stock, the Company classified the liquidation value as preferred equity on its condensed consolidated balance sheets with any issuance costs recorded as a reduction to paid-in capital.

Common Stock

The following table lists the cash dividends on common stock declared and paid by the Company during the six months ended June 30, 2013:

Declaration Date	Record Date	Amount Per Share	Dividend Payable Date
January 7, 2013	February 15, 2013	$0.34	February 28, 2013
May 1, 2013	May 15, 2013	0.34	May 31, 2013

During the six months ended June 30, 2013, the Company issued 200,799 shares of common stock as a result of restricted stock unit vestings and in connection with amounts payable under the Company's 2012 Bonus Plan pursuant to an election by certain participants to receive the bonus payment in shares of the Company's common stock. During the six months ended June 30, 2013, the Company issued 33,935 shares of common stock as a result of stock options exercised.

At-The-Market Common Stock Offering Program (“ATM Program”)

On March 18, 2013, the Company 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 its 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 the Company's common stock or to or through a market maker. In addition, with the Company's prior consent, the Sales Agents may also sell the ATM Shares in privately negotiated transactions. The Company 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.

As of June 30, 2013, no ATM Shares have been sold under the ATM Program.

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9. EARNINGS PER COMMON SHARE

The following table illustrates the computation of basic and diluted earnings per share for the three and six months ended June 30, 2013 and 2012 (in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator				
Net (loss) income attributable to common stockholders	$(3,185)	$5,923	$6,068	$10,328
Denominator				
Basic weighted average common shares	37,357,112	37,147,942	37,321,813	37,092,683
Dilutive stock options and restricted stock units	—	43,745	467,991	26,322
Diluted weighted average common shares	37,357,112	37,191,687	37,789,804	37,119,005
Net (loss) income attributable to common stockholders, per:				
Basic common share	$(0.09)	$0.16	$0.16	$0.28
Diluted common share	$(0.09)	$0.16	$0.16	$0.28

Certain of our outstanding restricted stock units are considered participating securities because dividend payments are not forfeited even if the underlying award does not vest. Accordingly, the Company uses the two-class method when computing basic and diluted earnings per share. During the three months ended June 30, 2013, all restricted stock units and stock options were not included because they were anti-dilutive. During the six months ended June 30, 2013, approximately 5,000 restricted stock units were not included because they were anti-dilutive. During the three and six months ended June 30, 2012, approximately 10,000 and 15,000 restricted stock units, respectively, were not included because they were anti-dilutive. During the three and six months ended June 30, 2012, approximately 108,000 and 126,000 stock options, respectively, were not included because they were anti-dilutive. No stock options were considered anti-dilutive during the six months ended June 30, 2013.

10. SUMMARIZED CONDENSED CONSOLIDATING INFORMATION

In connection with the offerings of the Senior Notes by the Issuers in October 2010, July 2012 and May 2013, the Company and certain 100% owned subsidiaries of the Company (the "Guarantors") have, jointly and severally, fully and unconditionally guaranteed the Senior Notes, subject to release under certain customary circumstances as described below. These guarantees are subordinated to all existing and future senior debt and senior guarantees of the Guarantors and are unsecured. The Company conducts all of its business through and derives virtually all of its income from its subsidiaries. Therefore, the Company's ability to make required payments with respect to its indebtedness (including the Senior Notes) and other obligations depends on the financial results and condition of its subsidiaries and its ability to receive funds from its subsidiaries.

A Guarantor will be automatically and unconditionally released from its obligations under the guarantees with respect to the Senior Notes in the event of:

- Any sale of the subsidiary Guarantor or of all or substantially all of its assets;
- A merger or consolidation of a subsidiary Guarantor with an issuer of the Senior Notes or another Guarantor, provided that the surviving entity remains a Guarantor;
- A subsidiary Guarantor is declared "unrestricted" for covenant purposes under the Senior Notes Indentures;
- The requirements for legal defeasance or covenant defeasance or to discharge the Senior Notes Indentures have been satisfied;
- A liquidation or dissolution, to the extent permitted under the Senior Notes Indentures, of a subsidiary Guarantor; and

- The release or discharge of the guaranty that resulted in the creation of the subsidiary guaranty, except a discharge or release by or as a result of payment under such guaranty.

Pursuant to Rule 3-10 of Regulation S-X, the following summarized consolidating information is provided for the Company (the “Parent Company”), the Issuers, the Guarantors, and the Company’s non-Guarantor subsidiaries with respect to

the Senior Notes. This summarized financial information has been prepared from the books and records maintained by the Company, the Issuers, the Guarantors and the non-Guarantor subsidiaries. The summarized financial information may not necessarily be indicative of the results of operations or financial position had the Issuers, the Guarantors or non-Guarantor subsidiaries operated as independent entities. Sabra’s investments in its consolidated subsidiaries are presented based upon Sabra's proportionate share of each subsidiary's net assets. The Guarantor subsidiaries’ investments in the non-Guarantor subsidiaries and non-Guarantor subsidiaries’ investments in Guarantor subsidiaries are presented under the equity method of accounting. Intercompany activities between subsidiaries and the Parent Company are presented within operating activities on the condensed consolidating statement of cash flows.
Condensed consolidating financial statements for the Company and its subsidiaries, including the Parent Company only, the Issuers, the combined Guarantor subsidiaries and the combined non-Guarantor subsidiaries, are as follows:

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CONDENSED CONSOLIDATING BALANCE SHEET
June 30, 2013
(dollars in thousands, except per share amounts)
(unaudited)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Assets						
Real estate investments, net of accumulated depreciation	$126	$—	$649,820	$ 167,282	$—	$817,228
Loans receivable and other investments, net	—	—	43,069	—	—	43,069
Cash and cash equivalents	91,208	—	—	1,562	—	92,770
Restricted cash	—	—	471	5,266	—	5,737
Deferred tax assets	24,212	—	—	—	—	24,212
Prepaid expenses, deferred financing costs and other assets	776	9,460	24,428	4,419	—	39,083
Intercompany	—	284,676	—	36,871	(321,547)	—
Investment in subsidiaries	367,799	492,335	25,346	—	(885,480)	—
Total assets	$484,121	$786,471	$743,134	$ 215,400	$(1,207,027)	$1,022,099
Liabilities and stockholders' equity						
Mortgage notes	$—	$—	$—	$ 143,129	$—	$143,129
Senior unsecured notes	—	414,672	—	—	—	414,672
Accounts payable and accrued liabilities	4,560	4,000	5,158	801	—	14,519
Tax liability	24,212	—	—	—	—	24,212
Intercompany	29,782	—	291,765	—	(321,547)	—
Total liabilities	58,554	418,672	296,923	143,930	(321,547)	596,532
Stockholders' equity:						
Preferred stock, $.01 par value; 10,000,000 shares authorized, 5,750,000 shares issued and outstanding as of June 30, 2013	58	—	—	—	—	58
Common stock, $.01 par value; 125,000,000 shares authorized, 37,333,943 shares issued and outstanding as of June 30, 2013	373	—	—	—	—	373
Additional paid-in capital	493,479	292,579	324,329	51,225	(668,133)	493,479
Cumulative distributions in excess of net income	(68,343)	75,220	121,882	20,245	(217,347)	(68,343)
Total stockholders' equity	425,567	367,799	446,211	71,470	(885,480)	425,567
	$484,121	$786,471	$743,134	$ 215,400	$(1,207,027)	$1,022,099

Total liabilities and stockholders’ equity

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CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2012
(dollars in thousands, except per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Assets						
Real estate investments, net of accumulated depreciation	$151	$—	$655,881	$171,103	$—	$827,135
Loans receivable, net	—	—	12,017	—		12,017
Cash and cash equivalents	15,075	—	—	2,026	—	17,101
Restricted cash	—	—	92	4,497	—	4,589
Deferred tax assets	24,212	—	—	—	—	24,212
Assets held for sale, net	—	—	—	2,215	—	2,215
Prepaid expenses, deferred financing costs and other assets	1,315	7,339	18,133	2,826	—	29,613
Intercompany	—	227,396	—	37,466	(264,862)	—
Investment in subsidiaries	351,632	451,975	23,142	—	(826,749)	—
Total assets	$392,385	$686,710	$709,265	$220,133	$(1,091,611)	$916,882
Liabilities and stockholders’ equity						
Mortgage notes	$—	$—	$—	$152,322	$—	$152,322
Secured revolving credit facility	—	—	92,500	—		92,500
Senior unsecured notes	—	330,666	—	—	—	330,666
Accounts payable and accrued liabilities	3,281	4,412	3,348	653	—	11,694
Tax liability	24,212	—	—	—	—	24,212
Intercompany	59,404	—	205,458	—	(264,862)	—
Total liabilities	86,897	335,078	301,306	152,975	(264,862)	611,394
Stockholders’ equity:						
Preferred stock, $.01 par value; 10,000,000 shares authorized, zero shares issued and outstanding as of December 31, 2012	—	—	—	—	—	—
Common stock, $.01 par value; 125,000,000 shares authorized, 37,099,209 shares issued and outstanding as of December 31, 2012	371	—	—	—	—	371
Additional paid-in capital	353,861	292,939	321,666	53,952	(668,557)	353,861
	(48,744)	58,693	86,293	13,206	(158,192)	(48,744)

Cumulative distributions in excess of net income						
Total stockholders’ equity	305,488	351,632	407,959	67,158	(826,749)	305,488
Total liabilities and stockholders’ equity	$392,385	$686,710	$709,265	$220,133	$(1,091,611)	$916,882

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CONDENSED CONSOLIDATING STATEMENT OF (LOSS) INCOME
For the Three Months Ended June 30, 2013
(dollars in thousands, except per share amounts)
(unaudited)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	$ —	$—	$24,219	$7,299	$—	$31,518
Interest and other income	16	—	741	—	—	757
Total revenues	16	—	24,960	7,299	—	32,275
Expenses:						
Depreciation and amortization	13	—	6,302	1,907	—	8,222
Interest	—	7,722	639	1,782	—	10,143
General and administrative	3,091	2	299	30	—	3,422
Total expenses	3,104	7,724	7,240	3,719	—	21,787
Other income (expense):						
Loss on extinguishment of debt	—	(9,750)	—	—	—	(9,750)
Other income (expense)	—	—	(1,400)	—	—	(1,400)
Total other income (expense)	—	(9,750)	(1,400)	—	—	(11,150)
Income in subsidiary	2,426	19,900	930	—	(23,256)	—
Net (loss) income	(662)	2,426	17,250	3,580	(23,256)	(662)
Preferred dividends	(2,523)	—	—	—	—	(2,523)
Net (loss) income attributable to common stockholders	$ (3,185)	$2,426	$17,250	$3,580	$(23,256)	$(3,185)
Net (loss) income attributable to common stockholders, per:						
Basic common share						$(0.09)
Diluted common share						$(0.09)
Weighted-average number of common shares outstanding, basic						37,357,112
Weighted-average number of common shares						37,357,112

outstanding, diluted

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CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Three Months Ended June 30, 2012
(dollars in thousands, except per share amounts)
(unaudited)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	$ —	$—	$18,372	$6,448	$—	$24,820
Interest and other income	1	—	296	—	—	297
Total revenues	1	—	18,668	6,448	—	25,117
Expenses:						
Depreciation and amortization	12	—	5,492	2,053	—	7,557
Interest	—	4,757	715	2,426	—	7,898
General and administrative	3,083	1	376	29	—	3,489
Total expenses	3,095	4,758	6,583	4,508	—	18,944
Other income (expense):						
Loss on extinguishment of debt	—	—	—	(250)	—	(250)
Total other income (expense)	—	—	—	(250)	—	(250)
Income (loss) in subsidiary	9,017	13,775	(55)	—	(22,737)	—
Net income attributable to common stockholders	$ 5,923	$9,017	$12,030	$1,690	$(22,737)	$5,923
Net income attributable to common stockholders, per:						
Basic common share						$0.16
Diluted common share						$0.16
Weighted-average number of common shares outstanding, basic						37,147,942
Weighted-average number of common shares outstanding, diluted						37,191,687

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CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Six Months Ended June 30, 2013
(dollars in thousands, except per share amounts)
(unaudited)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	$ —	$—	$48,353	$14,640	$—	$62,993
Interest and other income	69	—	1,235	—	—	1,304
Total revenues	69	—	49,588	14,640	—	64,297
Expenses:						
Depreciation and amortization	25	—	12,617	3,826	—	16,468
Interest	—	14,438	1,979	3,728	—	20,145
General and administrative	7,675	4	412	48	—	8,139
Total expenses	7,700	14,442	15,008	7,602	—	44,752
Other income (expense):						
Loss on extinguishment of debt	—	(9,750)	—	—		