Sabra Health Care REIT, Inc.
Form 10-Q
August 03, 2011
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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, 2011
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 ¨

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 ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (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 x

As of August 1, 2011, there were 36,868,248 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 (the “Act”) and the federal securities laws. 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 the expected future financial position, results of operations, cash flows, liquidity, financing plans, business strategy, budgets, the expected amounts and timing of dividends and distributions, the outcome and costs of litigation, projected expenses and capital expenditures, competitive position, growth opportunities and potential acquisitions including the acquisition of the SNF Portfolio described elsewhere in this 10-Q, plans and objectives of management 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 simil expressions, although not all forward-looking statements contain these identifying words.

Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from those projected or contemplated in the forward-looking statements. You are urged to carefully review the disclosures we make concerning risks and other factors that may affect our business and operating results, including those referred to in Part I, Item 1A of our Annual Report on Form 10-K for the period ended December 31, 2010 (our “2010 Annual Report on Form 10-K”), those included in Part II, Item 1A of this 10-Q, and any of those made in our other reports filed with the Securities and Exchange Commission (the “SEC”). The forward-looking statements are qualified in their entirety by these cautionary statements, which are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the “safe harbor” provisions of the Act. We caution you that any forward-looking statements we make in this 10-Q are not guarantees of future performance and you should not place undue reliance on these forward-looking statements, which are based on currently available information and speak only as of the date of this document. There may be additional risks of which we are presently unaware or that we currently deem immaterial. We do not intend, and undertake no obligation, to update our forward-looking statements to reflect future events or circumstances.

NEW SUN INFORMATION

This 10-Q includes information regarding Sun Healthcare Group, Inc. (formerly known as SHG Services, Inc.; “New Sun”), a Delaware corporation. New Sun is subject to the reporting requirements of the SEC and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to New Sun provided in this 10-Q has been provided by New Sun or derived from its public filings. 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. New Sun’s filings with the SEC can be found at www.sec.gov.

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PART I. FINANCIAL INFORMATION

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

	June 30, 2011 (unaudited)	December 31, 2010
Assets		
Real estate investments, net of accumulated depreciation of $101,067 and $88,701 as of June 30, 2011 and December 31, 2010, respectively	$542,590	$482,297
Cash and cash equivalents	3,454	74,233
Restricted cash	5,524	4,716
Deferred tax assets	26,300	26,300
Prepaid expenses, deferred financing costs and other assets	17,934	12,013
Total assets	$595,802	$599,559
Liabilities and stockholders' equity		
Mortgage notes payable	$159,935	$161,440
Senior unsecured notes payable	225,000	225,000
Accounts payable and accrued liabilities	8,725	9,286
Tax liability	26,300	26,300
Total liabilities	419,960	422,026
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $.01 par value; 10,000,000 shares authorized, zero shares issued and outstanding as of June 30, 2011 and December 31, 2010	—	—
Common stock, $.01 par value; 125,000,000 shares authorized, 25,138,248 and 25,061,072 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively	251	251
Additional paid-in capital	180,300	177,275
Cumulative distributions in excess of net income	(4,709)	7
Total stockholders' equity	175,842	177,533
Total liabilities and stockholders' equity	$595,802	$599,559

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Revenues:		
Rental income	$18,628	$36,190
Interest income	177	217
Total revenues	18,805	36,407
Expenses:		
Depreciation and amortization	6,290	12,377
Interest	7,505	15,103
General and administrative	2,923	5,592
Total expenses	16,718	33,072
Net income	$2,087	$3,335
Net income per common share, basic	$0.08	$0.13
Net income per common share, diluted	$0.08	$0.13
Weighted-average number of common shares outstanding, basic	25,154,284	25,140,781
Weighted-average number of common shares outstanding, diluted	25,226,179	25,210,575
Dividends per common share	$0.32	$0.32

See accompanying notes to condensed consolidated financial statements.

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SABRA HEALTH CARE REIT, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)
(unaudited)

	Common Stock				
	Shares	Amounts	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Total Stockholders' Equity
Balance, December 31, 2010	25,061,072	$251	$ 177,275	$7	$ 177,533
Net income	—	—	—	3,335	3,335
Amortization of stock based compensation	—	—	2,478	—	2,478
Stock issuance	77,176	—	547	—	547
Common dividends ($0.32 per share)	—	—	—	(8,051)	(8,051)
Balance, June 30, 2011	25,138,248	$251	$ 180,300	$(4,709)	$ 175,842

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2011
Cash flows from operating activities:	
Net income	$3,335
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	12,377
Amortization of deferred financing costs	995
Stock-based compensation expense	2,478
Amortization of premium on notes payable	(8)
Straight-line rental income adjustments	(128)
Changes in operating assets and liabilities:	
Prepaid expenses and other assets	219
Accounts payable and accrued liabilities	485
Restricted cash	(1,825)
Net cash provided by operating activities	17,928
Cash flows from investing activities:	
Acquisitions of real estate	(74,000)
Acquisition of note receivable	(5,348)
Additions to real estate	(86)
Net cash used in investing activities	(79,434)
Cash flows from financing activities:	
Principal payments on mortgage notes payable	(1,499)
Payments of deferred financing costs	(270)
Issuance of common stock	547
Dividends paid	(8,051)
Net cash used in financing activities	(9,273)
Net decrease in cash and cash equivalents	(70,779)
Cash and cash equivalents, beginning of period	74,233
Cash and cash equivalents, end of period	$3,454
Supplemental disclosure of cash flow information:	
Interest paid	$14,476

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 upon completion of the Separation and REIT Conversion Merger (discussed below) on November 15, 2010 (the "Separation Date"). Sabra is organized to qualify as a real estate investment trust ("REIT") and intends to elect to be treated as a REIT for U.S. federal income tax purposes commencing with its taxable year beginning on January 1, 2011. 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, 2011, Sabra's investment portfolio included 88 properties (consisting of (i) 68 skilled nursing facilities, (ii) ten combined skilled nursing, assisted living and independent living facilities, (iii) five assisted living facilities, (iv) two mental health facilities, (v) one independent living facility, (vi) one continuing care retirement community, and (vii) one acute care hospital). In addition, as of June 30, 2011, the Company owned a mortgage note secured by a combined assisted living, independent living and memory care facility located in Ann Arbor, Michigan.

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 has been renamed "Sun Healthcare Group, Inc." or "New 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 New 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 New Sun began operations as separate companies.

Following the Separation, New 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 New 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.

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 are eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("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 opinion of management, the financial statements for the unaudited interim period presented include all adjustments, which are of a normal and recurring nature, necessary for a fair statement of the results for such period. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the Company’s consolidated financial statements and notes thereto for the period ended December 31, 2010 included in the Company’s 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.

Real Estate Acquisition Valuation

The Company accounts for the acquisition of income-producing real estate or real estate that will be used for the production of income as a business combination. All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values. Acquisition pursuit costs are expensed as incurred and restructuring costs that do not meet the definition of a liability at the acquisition date are expensed in periods subsequent to the acquisition date. During the six months ended June 30, 2011, the Company completed two business combinations—the acquisition of one acute care hospital and the acquisition of one skilled nursing facility—and expensed $0.3 million of acquisition pursuit costs.

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities require the Company to make significant assumptions to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property will be held for investment. The use of inappropriate assumptions would result in an incorrect valuation of the Company's acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of the Company's net income.

Recently Issued Accounting Standards Updates

On May 12, 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU No. 2011-04"). ASU No. 2011-04 updated accounting guidance does not require additional fair value measurements, but rather, requires additional disclosures while providing further explanation for measuring fair value and converging with international accounting standards. The amendments are effective for public entities for interim and annual periods beginning after December 15, 2011, and should be applied prospectively. As this ASU amends only the disclosure requirements, the adoption of ASU No. 2011-04 is not expected to have a significant impact on the Company's financial statements.

3. RECENT ACQUISITIONS OF REAL ESTATE

During the three months ended June 30, 2011, the Company acquired the following properties (in thousands):

Property	Type	City	State	Acquisition Date	Land	Building and Improvements	Intangibles Tenant Origination and Absorption Costs	Tenant Relationship	Total Purchase Price
Texas Regional Medical Center at Sunnyvale	Acute Care Hospital	Sunnyvale	TX	May 3, 2011	$3,760	$ 57,870	$970	$ 100	$62,700
Oak Brook Health Care Center	Skilled Nursing Facility	Whitehouse	TX	June 30, 2011	2,030	8,990	180	100	11,300
					$5,790	$ 66,860	$1,150	$ 200	$74,000

As of June 30, 2011, the purchase price allocations for both properties 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 intangible assets and liabilities acquired in connection with these acquisitions have weighted-average amortization periods as of the date of acquisition as follows (in years):

	Tenant Origination and Absorption Costs	Tenant Relationship
Texas Regional Medical Center at Sunnyvale	25.0	35.0
Oak Brook Health Care Center	15.0	25.0

For the three months ended June 30, 2011, the Company recognized $1.1 million of total revenues from these properties.

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4. REAL ESTATE INVESTMENTS

The Company's investments in real estate consisted of the following (dollars in thousands):
As of June 30, 2011

Property Type	Number of Properties	Number of Beds	Total Real Estate at Cost	Accumulated Depreciation	Total Real Estate Investments, Net
Skilled Nursing	68	7,621	$459,994	$(77,256)	$382,738
Multi-License Designation	10	1,389	81,245	(16,073)	65,172
Assisted Living	5	367	24,094	(4,534)	19,560
Mental Health	2	82	998	(414)	584
Independent Living	1	49	8,022	(997)	7,025
Continuing Care Retirement Community	1	215	7,435	(1,544)	5,891
Acute Care Hospital	1	70	61,630	(220)	61,410
	88	9,793	643,418	(101,038)	542,380
Corporate Level			239	(29)	210
			$643,657	$(101,067)	$542,590

As of December 31, 2010

Property Type	Number of Properties	Number of Beds	Total Real Estate at Cost	Accumulated Depreciation	Total Real Estate Investments, Net
Skilled Nursing	67	7,501	$448,974	$(67,457)	$381,517
Multi-License Designation	10	1,389	81,245	(14,597)	66,648
Assisted Living	5	367	24,094	(4,053)	20,041
Mental Health	2	82	998	(370)	628
Independent Living	1	49	8,022	(875)	7,147
Continuing Care Retirement Community	1	215	7,435	(1,349)	6,086
	86	9,603	570,768	(88,701)	482,067
Corporate Level			230	—	230
			$570,998	$(88,701)	$482,297

	June 30, 2011	December 31, 2010
Building and improvements	$523,266	$460,097
Furniture and equipment	39,925	36,225
Land improvements	4,703	4,703
Land	75,763	69,973
	643,657	570,998
Accumulated depreciation	(101,067)	(88,701)
	$542,590	$482,297

Operating Leases

All of the Company's real estate properties are leased under triple-net operating leases with expirations ranging from 10 to 24 years. As of June 30, 2011, the leases have a weighted-average remaining term of 12 years. The leases include provisions to extend the lease terms and may include other terms and conditions as negotiated. 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. As of June 30, 2011, 86 of the Company's 88 real estate properties were leased to

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subsidiaries of New Sun. For further discussion of the Company's tenant and revenue concentration, see "Note 10. Commitments and Contingencies— Concentration of Credit Risk."

As of June 30, 2011, the future minimum rental income from the Company's properties under non-cancelable operating leases is as follows (in thousands):

July 1, 2011 through December 31, 2011	$39,061
2012	78,122
2013	78,122
2014	78,122
2015	78,122
Thereafter	571,334
	$922,883

5. DEBT

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

Interest Rate Type	Principal Outstanding as of June 30, 2011 (2)	Principal Outstanding as of December 31, 2010 (2)	Weighted Average Interest Rate at June 30, 2011		Maturity Date
Fixed Rate	$99,686	$100,610	6.30	%	August 2015 - June 2047
Variable Rate(1)	59,740	60,315	5.50	%	August 2015
	$159,426	$160,925			

(1) Contractual interest rates under variable rate mortgages are equal to the 90-day LIBOR plus 4.5% (subject to a 1.0% LIBOR floor).

(2) Outstanding principal balance for mortgage indebtedness does not include mortgage premium of $0.5 million as of June 30, 2011 and December 31, 2010.

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 senior, unsecured notes (the "Senior Notes") in a private placement. The Senior Notes were sold at par, resulting in gross proceeds of $225.0 million and net proceeds of approximately $219.9 million after deducting commissions and expenses. On December 6, 2010, substantially all of the net proceeds were used by New Sun to redeem the $200.0 million in aggregate principal amount outstanding of Old Sun's 9.125% senior subordinated notes due 2015, including accrued and unpaid interest and the applicable redemption premium. In March 2011, the Issuers completed an exchange offer to exchange the Senior Notes for substantially identical 8.125% senior unsecured notes registered under the Securities Act of 1933, as amended (also referred to herein as the "Senior Notes").

The obligations under 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 subsidiaries. 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

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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 and its 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 June 30, 2011, the Company was in compliance with all applicable financial covenants under the Senior Notes.

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). The secured revolving credit facility is secured by, among other things, a first priority lien against certain of the properties owned by certain of the Company’s subsidiaries. The obligations of the Borrowers under the secured revolving credit facility are guaranteed by the Company and certain of its subsidiaries. This credit facility provides for up to a $100.0 million secured revolving credit facility (up to $15.0 million of which may be utilized for letters of credit) and includes an accordion feature that allows the Borrowers to increase the borrowing availability under the secured revolving credit facility by up to an additional $100.0 million, subject to certain terms and conditions. Borrowing availability under the 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 Company’s secured revolving credit facility) or (ii) the appraised value, in each case of the properties securing the secured revolving credit facility. Approximately $87.6 million was available for borrowing under the Company’s secured revolving credit facility as of June 30, 2011. Borrowing availability under the Company’s secured revolving credit facility terminates, and all borrowings mature, on November 3, 2013, subject to a one-year extension option. As of June 30, 2011, there were no amounts outstanding on the Company’s secured revolving credit facility.

Borrowings under the Company’s 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) the greater of 1.75% or LIBOR or (b) a base rate determined as the greater of (i) the federal funds rate plus one-half of 1.0%, (ii) the prime rate, and (iii) one-month LIBOR plus 1.0% (the “Base Rate”). The applicable percentage for borrowings under the secured revolving credit facility is 3.00% per annum for borrowings at the Base Rate and 4.00% per annum for borrowings at the LIBOR. In addition, the Borrowers are required to pay a facility fee of 0.50% per annum to the lenders in respect of unused borrowings under the secured revolving credit facility.

The 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 secured revolving credit facility also requires the Company, 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, 2011, the Company was in compliance with all applicable financial covenants under the secured revolving credit facility.

During the three and six months ended June 30, 2011, the Company incurred interest expense of $7.5 million and $15.1 million, respectively. Included in interest expense for the three and six months ended June 30, 2011 was $0.5 million and $1.0 million, respectively, of deferred financing costs amortization. As of June 30, 2011 and December 31, 2010, the Company had $3.8 million and $4.2 million, respectively, of accrued interest included in accounts payable and accrued liabilities on the accompanying consolidated balance sheets.

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The following is a schedule of maturities for the Company's outstanding debt as of June 30, 2011 (in thousands):

	Mortgage Indebtedness [(1)]	Senior Notes	Secured Revolving Credit Facility	Total
July 1, 2011 through December 31, 2011	$1,544	$—	$ —	$1,544
2012	3,236	—	—	3,236
2013	3,460	—	—	3,460
2014	3,682	—	—	3,682
2015	85,935	—	—	85,935
Thereafter	61,569	225,000	—	286,569
	$159,426	$225,000	$ —	$384,426

(1) Outstanding principal balance for mortgage indebtedness does not include mortgage premium of $0.5 million as of June 30, 2011.

6.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:

Mortgage note: This instrument is presented in the accompanying consolidated balance sheets at its amortized cost and not at fair value. The fair values of the mortgage note were estimated using an internal valuation model that considered the expected cash flows for the note, the underlying collateral value and other credit enhancements.

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

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

The following are the carrying amounts and fair values of the Company's financial instruments as of June 30, 2011 and December 31, 2010 whose carrying amounts do not approximate their fair value:

	June 30, 2011			December 31, 2010		
	Face Value [(1)]	Carrying Amount [(2)]	Fair Value	Face Value [(1)]	Carrying Amount [(2)]	Fair Value
Financial assets:						
Mortgage note	$9,308	$5,348	$7,400	$—	$—	$—
Financial liabilities:						
Senior unsecured notes	225,000	225,000	224,438	225,000	225,000	232,313
Mortgage indebtedness	159,426	159,935	173,010	160,925	161,440	175,772

(1) Face value represents amount contractually due under the terms of the respective agreements.

(2) Carrying amounts represent the book value of financial instruments and include unamortized premiums (discounts).

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 value at a future date could be materially different.

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During the six months ended June 30, 2011, the Company measured the following assets at fair value (in thousands):

	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Nonrecurring Basis:				
Investments in real estate (1)	$74,000	$—	$—	$74,000

(1) Amount reflects acquisition date fair value of real estate acquired in 2011.

7. 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, 2011 (in thousands, except share and per share amounts):

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Numerator		
Net income	$2,087	$3,335
Denominator		
Basic weighted average common shares	25,154,284	25,140,781
Dilutive stock options and restricted stock units	71,895	69,794
Diluted weighted average common shares	25,226,179	25,210,575
Basic earnings per common share	$0.08	$0.13
Diluted earnings per common share	$0.08	$0.13

Restricted stock and certain of the Company’s performance restricted stock units are considered participating securities which require the use of the two-class method when computing basic and diluted earnings per share. During both the three and six months ended June 30, 2011, approximately 0.3 million restricted stock units and options to purchase approximately 0.4 million shares were not included because they were anti-dilutive.

8. SUMMARIZED CONDENSED CONSOLIDATING INFORMATION

In connection with the offering of the Senior Notes by the Issuers in October 2010, the Company and certain 100% owned subsidiaries of the Company (the “Guarantors”) have, jointly and severally, fully and unconditionally guaranteed the Senior Notes. 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.

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, 2011
(in thousands, except share and per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Assets						
Real estate investments, net of accumulated depreciation	$210	$—	$354,293	$188,087	$—	$542,590
Cash and cash equivalents	3,326	—	—	128	—	3,454
Restricted cash	—	—	—	5,524	—	5,524
Deferred tax assets	26,300	—	—	—	—	26,300
Prepaid expenses, deferred financing costs and other assets	769	5,425	8,704	3,036	—	17,934
Intercompany	37,258	—	—	20,785	(58,043)	—
Investment in subsidiaries	139,005	371,378	23,316	—	(533,699)	—
Total assets	$206,868	$376,803	$386,313	$217,560	$(591,742)	$595,802
Liabilities and stockholders' equity						
Mortgage notes payable	$—	$—	$—	$159,935	$—	$159,935
Senior unsecured notes payable	—	225,000	—	—	—	225,000
Accounts payable and accrued liabilities	4,726	3,048	112	839	—	8,725
Tax liability	26,300	—	—	—	—	26,300
Intercompany	—	9,750	48,292	—	(58,042)	—
Total liabilities	31,026	237,798	48,404	160,774	(58,042)	419,960
Stockholders' equity:						
Preferred stock, $.01 par value; 10,000,000 shares authorized, zero shares issued and outstanding as of June 30, 2011	—	—	—	—	—	—
Common stock, $.01 par value; 125,000,000 shares authorized, 25,138,248 shares issued and outstanding as of June 30, 2011	251	—	—	—	—	251
Additional paid-in capital	180,300	128,585	319,215	52,763	(500,563)	180,300
Retained earnings	(4,709)	10,420	18,694	4,023	(33,137)	(4,709)
Total stockholders' equity	175,842	139,005	337,909	56,786	(533,700)	175,842
Total liabilities and stockholders' equity	$206,868	$376,803	$386,313	$217,560	$(591,742)	$595,802

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CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2010
(in thousands, except share and per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Assets						
Real estate investments, net of accumulated depreciation	$230	$—	$289,748	$192,319	$—	$482,297
Cash and cash equivalents	70,841	—	—	3,392	—	74,233
Restricted cash	—	—	—	4,716	—	4,716
Deferred tax assets	26,300	—	—	—	—	26,300
Prepaid expenses, deferred financing costs and other assets	662	5,471	2,261	3,619	—	12,013
Intercompany	—	—	5,635	6,953	(12,588)	—
Investment in subsidiaries	124,061	347,030	22,903	—	(493,994)	—
Total assets	$222,094	$352,501	$320,547	$210,999	$(506,582)	$599,559
Liabilities and stockholders' equity						
Mortgage notes payable	$—	$—	$—	$161,440	$—	$161,440
Senior unsecured notes payable	—	225,000	—	—	—	225,000
Accounts payable and accrued liabilities	5,673	3,440	81	92	—	9,286
Tax liability	26,300	—	—	—	—	26,300
Intercompany	12,588	—	—	—	(12,588)	—
Total liabilities	44,561	228,440	81	161,532	(12,588)	422,026
Stockholders' equity:						
Preferred stock, $.01 par value; 10,000,000 shares authorized, zero shares issued and outstanding as of December 31, 2010	—	—	—	—	—	—
Common stock, $.01 par value; 125,000,000 shares authorized, 25,061,072 shares issued and outstanding as of December 31, 2010	251	—	—	—	—	251
Additional paid-in capital	177,275	122,281	316,786	48,670	(487,737)	177,275
Retained earnings	7	1,780	3,680	797	(6,257)	7
Total stockholders' equity	177,533	124,061	320,466	49,467	(493,994)	177,533
Total liabilities and stockholders' equity	$222,094	$352,501	$320,547	$210,999	$(506,582)	$599,559

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CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Three Months Ended June 30, 2011
(in thousands, except share and per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	$ —	$—	$12,337	$6,291	$—	$18,628
Interest income	13	—	162	2	—	177
Total revenues	13	—	12,499	6,293	—	18,805
Expenses:						
Depreciation and amortization	12	—	4,173	2,105	—	6,290
Interest	—	4,653	324	2,528	—	7,505
General and administrative	2,686	—	208	29	—	2,923
Income in subsidiary	(4,772)	(9,425)	(105)	—	14,302	—
Total expenses	(2,074)	(4,772)	4,600	4,662	14,302	16,718
Net income	$ 2,087	$4,772	$7,899	$1,631	$(14,302)	$2,087
Net income per common share, basic						$0.08
Net income per common share, diluted						$0.08
Weighted-average number of common shares outstanding, basic						25,154,284
Weighted-average number of common shares outstanding, diluted						25,226,179

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CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Six Months Ended June 30, 2011
(in thousands, except share and per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	$ —	$—	$23,608	$12,582	$—	$36,190
Interest income	41	—	175	1	—	217
Total revenues	41	—	23,783	12,583	—	36,407
Expenses:						
Depreciation and amortization	29	—	8,111	4,237	—	12,377
Interest	—	9,403	646	5,054	—	15,103
General and administrative	5,315	—	211	66	—	5,592
Income in subsidiary	(8,638)	(18,041)	(199)	—	26,878	—
Total expenses	(3,294)	(8,638)	8,769	9,357	26,878	33,072
Net income	$ 3,335	$8,638	$15,014	$3,226	$(26,878)	$3,335
Net income per common share, basic						$0.13
Net income per common share, diluted						$0.13
Weighted-average number of common shares outstanding, basic						25,140,781
Weighted-average number of common shares outstanding, diluted						25,210,575

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Six Months Ended June 30, 2011
(in thousands, except share and per share amounts)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Net cash provided by operating activities	$ 16,386	$—	$—	$1,542	$—	$17,928
Cash flows from investing activities:						
Acquisitions of real estate	—	—	(74,000)	—	—	(74,000)
Acquisition of note receivable	(5,348)	—	—	—	—	(5,348)
Additions to real estate	(86)	—	—	—	—	(86)
Net cash used in investing activities	(5,434)	—	(74,000)	—	—	(79,434)
Cash flows from financing activities:						
Principal payments on mortgage notes payable	—	—	—	(1,499)	—	(1,499)
Payments of deferred financing costs	—	(270)	—	—	—	(270)
Issuance of common stock	547	—	—	—	—	547
Dividends paid	(8,051)	—	—	—	—	(8,051)
Distribution to Parent	—	—	—	(3,307)	3,307	—
Distribution from Subsidiary	3,307	—	—	—	(3,307)	—
Intercompany financing	(74,270)	270	74,000	—	—	—
Net cash provided by (used in) financing activities	(78,467)	—	74,000	(4,806)	—	(9,273)
Net increase in cash and cash equivalents	(67,515)	—	—	(3,264)	—	(70,779)
Cash and cash equivalents, beginning of period	70,841	—	—	3,392	—	74,233
Cash and cash equivalents, end of period	$ 3,326	$—	$—	$128	$—	$3,454

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9. PRO FORMA FINANCIAL INFORMATION

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company for the three and six months ended June 30, 2011. The Company acquired two properties—Texas Regional Medical Center and Oak Brook Health Care Center—during the three months ended June 30, 2011 and a mortgage note—the Hillside Terrace Mortgage Note—during the three months ended March 31, 2011. The following unaudited pro forma information for the three and six months ended June 30, 2011 has been prepared to give effect to the acquisitions as if they had occurred on January 1, 2011. This pro forma information does not purport to represent what the actual results of operations of the Company would have been had these acquisitions occurred on this date, nor does it purport to predict the results of operations for future periods (in thousands, except share and per share amounts).

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Revenues	$19,531	$39,063
Depreciation and amortization	$6,578	$13,191
Net income	$2,852	$5,734
Net income per common share, basic	$0.11	$0.23
Net income per common share, diluted	$0.11	$0.23
Weighted-average number of common shares outstanding, basic	25,154,284	25,140,781
Weighted-average number of common shares outstanding, diluted	25,226,179	25,210,575

10. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

Concentrations of credit risks arise when a number of operators, tenants or obligors related to the Company’s 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 the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of risks.

New Sun

As of June 30, 2011, 86 of the Company’s 88 real estate properties were leased to subsidiaries of New Sun. During the three and six months ended June 30, 2011, 94% and 97%, respectively, of the Company’s rental revenues were derived from these leases. New Sun is a publicly traded company and is subject to the informational filing requirements of the Securities Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and Form 10-Q with the SEC. As of June 30, 2011, New Sun, through its subsidiaries, operated 199 inpatient centers spread across 25 states. New Sun’s net revenues and adjusted earnings before interest, depreciation, amortization, integration costs and rent were $487.7 million and $67.4 million, respectively, for the three months ended June 30, 2011 and $971.6 million and $131.3 million, respectively, for the six months ended June 30, 2011. As of June 30, 2011, New Sun’s outstanding debt, net of cash, totaled $62.1 million.

Texas Regional Medical Center

On May 3, 2011, the Company closed the purchase of Texas Regional Medical Center at Sunnyvale, a 70-bed acute care hospital located in Sunnyvale, Texas (“Texas Regional Medical Center”). Texas Regional Medical Center is leased pursuant to a long-term, triple-net lease to Texas Regional Medical Center, Ltd. (the “Tenant”), a partnership that includes approximately 75 physicians who practice at the hospital. As of June 30, 2011, the Company's investment in Texas Regional Medical Center totaled 11% of the Company's assets and during the three and six months ended June 30, 2011, 6% and 3%, respectively, of the Company's revenues were derived from the Texas Regional Medical Center lease. The Company expects to derive 8% of its annualized rental revenues as of June 30, 2011 from the Texas Regional Medical Center lease. The Company believes that the financial condition and results of operations of the

Tenant are more relevant to the Company's investors than the financial statements of Texas Regional Medical Center and enable investors to evaluate the credit-worthiness of the Tenant. As a result, the Company has presented below unaudited summary financial information of the Tenant as of and for the three and six months ended June 30, 2011. The summary financial information presented below has been provided by the Tenant and has not been independently verified by the Company. The Company has no reason to believe that such information is inaccurate in any material respect.

	Three Months Ended June 30, 2011 (in thousands)	Six Months Ended June 30, 2011
Statements of Operations		
Revenues	$21,257	$38,667
Operating expenses	$17,161	$31,730
Net income	$629	$61

	As of June 30, 2011 (in thousands)	As of December 31, 2010
Balance Sheets		
Cash and cash equivilents	$2,117	$833
Total current assets	$19,141	$15,604
Total current liabilities	$19,287	$18,348
Total debt (includes capital lease obligations of $50,349 and $54,166 as of June 30, 2011 and December 31, 2010, respectively)	$67,208	$70,564

Other than the Company’s tenant concentrations, management believes the Company's current portfolio is reasonably diversified across healthcare related real estate and geographical location and does not contain any other significant concentration of credit risks. The Company’s portfolio of 88 real estate properties is diversified by location across 20 states. The properties in any one state did not account for more than 18% of the Company’s rental revenue during both the three and six months ended June 30, 2011.

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 June 30, 2011.

Indemnification Agreement

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 New 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 New Sun in connection with the Separation and REIT Conversion Merger, New 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, the tenants agree to indemnify the Company for any liability arising from operation at the real property leased from 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 New 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 New 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 New Sun or its subsidiaries are unable to meet their

indemnification obligations.
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 of which the outcome is reasonably possible to have a material adverse effect on its results of operations, financial condition or cash flows.

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11. SUBSEQUENT EVENTS

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

Cadia Portfolio Acquisition

On August 1, 2011, the Company closed the purchase of four skilled nursing facilities—Broadmeadow Healthcare, Capitol Healthcare, Pike Creek Healthcare and Renaissance Healthcare (the “Cadia Portfolio”). The four skilled nursing facilities are located in Delaware, range in age from 2 to 15 years and have a combined total of 500 beds. In connection with the acquisition, the Company, through an indirect wholly owned subsidiary, entered into a new 15-year triple-net master lease agreement (the “Lease”) with the sellers.

The purchase price for the Cadia Portfolio was $97.5 million, funded with available cash and a portion of the proceeds from the Company's August 2011 equity offering, as described below.

Equity Offering

On August 1, 2011, the Company completed an underwritten public offering of 11.7 million newly issued shares of its common stock pursuant to a registration statement filed with the SEC, which became effective on July 26, 2011. The Company received net proceeds, before expenses, of $163.9 million from the offering, after giving effect to the issuance and sale of all 11.7 million shares of common stock which includes 1.5 million shares sold to the underwriters upon exercise of their option to purchase additional shares to cover over-allotments, at a price to the public of $14.75 per share. The Company used a portion of the proceeds from the offering to fund the purchase price for the SNF Portfolio. The remaining proceeds to the Company will be used to fund possible future acquisitions or for general corporate purposes.

Dividend Declaration

On August 2, 2011, the Company’s board of directors declared a quarterly cash dividend of $0.32 per share of common stock. The dividend will be paid on September 2, 2011 to stockholders of record as of August 15, 2011.

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

We commenced operations upon completion of the Separation and REIT Conversion Merger described below on November 15, 2010 (the "Separation Date"). Accordingly, the discussion and analysis of our results of operations covers only the three and six months ended June 30, 2011. We have presented below an unaudited pro forma consolidated income statement for the three and six months ended June 30, 2010 as if the Separation and REIT Conversion Merger had occurred on January 1, 2010. Until we have actual comparative data, we will continue to present, for comparison purposes, in our Quarterly Reports on Form 10-Q, unaudited pro forma financial data concerning our results of operations as if the Separation and REIT Conversion Merger had occurred prior to the period presented.

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 2010 Annual Report on 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
- Unaudited Pro Forma Financial Data
- Results of Operations
- Liquidity and Capital Resources
- Change in 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 has been renamed "Sun Healthcare Group, Inc." or "New 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 New 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 became a self-administered, self-managed real estate investment trust ("REIT") that, directly or indirectly, owns and invests in real estate serving the healthcare industry.

As of June 30, 2011, our investment portfolio included 88 real estate properties (consisting of (i) 68 skilled nursing facilities, (ii) ten combined skilled nursing, assisted living and independent living facilities, (iii) five assisted living facilities, (iv) two mental health facilities, (v) one independent living facility, (vi) one continuing care retirement community, and (vii) one acute care hospital) and a mortgage note secured by a combined assisted living, independent living and memory care facility with 82 available beds located in Ann Arbor, Michigan. As of June 30, 2011, our real estate properties had a total of 9,793 licensed beds, or units, spread across 20 states. As of June 30, 2011, all of our real estate properties are leased under triple-net operating leases with expirations ranging from 10 to 24 years. In addition, subsequent to June 30, 2011, we closed the purchase of four skilled nursing facilities located in Delaware for $97.5 million. See "—Recent Transactions."

We expect to continue to grow our portfolio primarily through the acquisition of healthcare facilities, including skilled nursing facilities, senior housing facilities (which may include assisted living, independent living and continuing care retirement community facilities) and hospitals. As we acquire additional properties and expand our portfolio, we expect to further diversify by geography, asset class and tenant within the healthcare sector. For example, we expect to pursue the acquisition of medical office buildings and life science facilities (commercial facilities that are primarily focused on life

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sciences research, development or commercialization, including properties that house biomedical and medical device companies). We plan to be opportunistic in our healthcare real estate investment strategy by investing in assets that provide the best opportunity for dividend growth and appreciation of asset values, while maintaining balance sheet strength and liquidity thereby creating long-term stockholder value.

We are organized to qualify as a REIT and we intend to elect to be treated as a REIT for U.S. federal income tax purposes commencing with our taxable year beginning on January 1, 2011. 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 Sabra Health Care Limited Partnership, a Delaware limited partnership (the "Operating Partnership"), of which we are the sole general partner, or by subsidiaries of the Operating Partnership.

Recent Transactions

Equity Offering

On August 1, 2011, we completed an underwritten public offering of 11.7 million newly issued shares of our common stock pursuant to a registration statement filed with the Securities and Exchange Commission ("SEC"), which became effective on July 26, 2011. We received net proceeds, before expenses, of $163.9 million from the offering, after giving effect to the issuance and sale of all 11.7 million shares of common stock, which includes 1.5 million shares sold to the underwriters upon exercise of their option to purchase additional shares to cover over-allotments, at a price to the public of $14.75 per share. We used a portion of the proceeds from the offering to fund the purchase price for the Cadia Portfolio. The remaining proceeds to us will be used to fund possible future acquisitions or for general corporate purposes.

Cadia Portfolio Acquisition

On August 1, 2011, we closed the purchase of four skilled nursing facilities—Broadmeadow Healthcare, Capitol Healthcare, Pike Creek Healthcare and Renaissance Healthcare (the “Cadia Portfolio”). The four skilled nursing facilities are located in Delaware, range in age from 2 to 15 years and have a combined total of 500 beds. In connection with the acquisition, we, through an indirect wholly owned subsidiary, entered into a new 15-year triple-net master lease agreement (the “Lease”) with the sellers. The Lease provides for annual rent escalations of 3.0%, resulting in annual lease revenues determined in accordance with U.S. generally accepted accounting principles ("GAAP") of $10.6 million, and two five-year renewal options. The purchase price of $97.5 million was funded with available cash and a portion of the proceeds to us from the equity offering discussed above and will provide an initial yield on cash rent of 8.75%.

Acquisition of Oak Brook Health Care Center

On June 30, 2011, we closed the purchase of Oak Brook Health Care Center, a 120-bed skilled nursing facility in Whitehouse, Texas. In connection with the acquisition, we entered into a new 15-year triple-net lease agreement with the current operator. The lease provides for annual rent escalations of 2.5%, resulting in GAAP annual lease revenues of $1.3 million, and three 10-year renewal options . The purchase price of $11.3 million was funded from our available cash and will provide an initial yield on cash rent of 9.5%.

Acquisition of Texas Regional Medical Center at Sunnyvale

On May 3, 2011, we closed the purchase of Texas Regional Medical Center at Sunnyvale, a 70-bed acute care hospital located in Sunnyvale, Texas. The facility opened to the public in September 2009 and is leased pursuant to a triple-net lease to Texas Regional Medical Center Ltd., a partnership that includes approximately 75 physicians who practice at the hospital. In connection with the acquisition, we assumed the landlord position in the existing triple-net lease that expires in September 2034. The lease provides for a 6% rent escalator every five years beginning in September 2014, resulting in GAAP annual lease revenues of $6.6 million, and two five-year renewal options with annual rent of 106% of the previous year’s rent. The purchase price of $62.7 million was funded from our available cash and will provide an initial yield on cash rent of 9.25%.

Critical Accounting Policies

Our 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 2010 Annual Report on Form 10-K filed with the SEC. There have been no significant changes to our policies during 2011, other than "Real Estate Acquisition Valuation" noted below.

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