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				