Sabra Health Care REIT, Inc.
Form 10-Q
October 30, 2012
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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 September 30, 2012

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 October 24, 2012, there were 37,051,242 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. Examples of forward-looking statements include all statements regarding our expected future financial position, results of operations, cash flows, liquidity, financing plans, business strategy, the expected amounts and timing of dividends, projected expenses and capital expenditures, competitive position, growth opportunities and potential acquisitions, plans and objectives for future operations, the expected impact to us of the pending acquisition of Sun (as defined below) by Genesis HealthCare LLC (“Genesis”), 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, among others, the following:

- our dependence on Sun 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 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, 2011 (our “2011 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”) in the future, 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 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.

SUN HEALTHCARE GROUP, INC. INFORMATION

This 10-Q includes information regarding Sun Healthcare Group, Inc. (formerly known as SHG Services, Inc.; “Sun”), a Delaware corporation. 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 Sun provided in this 10-Q has been provided by 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. 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
(dollars in thousands, except per share data)

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Real estate investments, net of accumulated depreciation of $131,071 and $108,916 as of September 30, 2012 and December 31, 2011, respectively	$733,054	$658,377
Loans receivable, net	22,092	—
Cash and cash equivalents	30,477	42,250
Restricted cash	5,197	6,093
Deferred tax assets	25,540	25,540
Prepaid expenses, deferred financing costs and other assets	26,651	17,390
Total assets	$843,011	$749,650
Liabilities and stockholders' equity		
Mortgage notes payable	$157,513	$158,398
Senior unsecured notes payable	330,861	225,000
Accounts payable and accrued liabilities	17,778	14,139
Tax liability	25,540	25,540
Total liabilities	531,692	423,077
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock, $.01 par value; 10,000,000 shares authorized, zero shares issued and outstanding as of September 30, 2012 and December 31, 2011	—	—
Common stock, $.01 par value; 125,000,000 shares authorized, 37,051,242 and 36,891,712 shares issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	371	369
Additional paid-in capital	351,106	344,995
Cumulative distributions in excess of net income	(40,158)	(18,791)
Total stockholders' equity	311,319	326,573
Total liabilities and stockholders' equity	$843,011	$749,650

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Rental income	$25,420	$21,294	$73,903	$57,483
Interest income	618	176	979	393
Total revenues	26,038	21,470	74,882	57,876
Expenses:				
Depreciation and amortization	7,496	6,850	22,356	19,227
Interest	9,538	7,624	25,384	22,726
General and administrative	3,778	4,652	11,588	10,245
Total expenses	20,812	19,126	59,328	52,198
Net income	$5,226	$2,344	$15,554	$5,678
Net income per common share, basic	$0.14	$0.07	$0.42	$0.20
Net income per common share, diluted	$0.14	$0.07	$0.42	$0.20
Weighted-average number of common shares outstanding, basic	37,178,162	32,986,657	37,121,384	27,797,411
Weighted-average number of common shares outstanding, diluted	37,465,114	33,049,621	37,276,013	27,891,690

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)

	Common Stock		Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Total Stockholders' Equity
	Shares	Amounts			
Balance, December 31, 2010	25,061,072	$251	$ 177,275	$7	$ 177,533
Net income	—	—	—	5,678	5,678
Amortization of stock-based compensation	—	—	3,249	—	3,249
Stock issuance	11,807,176	118	163,224	—	163,342
Common dividends ($0.64 per share)	—	—	—	(19,878)	(19,878)
Balance, September 30, 2011	36,868,248	$369	$ 343,748	$(14,193)	$ 329,924

	Common Stock		Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Total Stockholders' Equity
	Shares	Amounts			
Balance, December 31, 2011	36,891,712	$369	$ 344,995	$(18,791)	$ 326,573
Net income	—	—	—	15,554	15,554
Amortization of stock-based compensation	—	—	5,969	—	5,969
Stock issuance	159,530	2	142	—	144
Common dividends ($0.99 per share)	—	—	—	(36,921)	(36,921)
Balance, September 30, 2012	37,051,242	$371	$ 351,106	$(40,158)	$ 311,319

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)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$15,554	$5,678
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,356	19,227
Non-cash interest income adjustments	18	—
Amortization of deferred financing costs	2,620	1,507
Stock-based compensation expense	5,749	3,249
Amortization of premium on notes payable	(12)	(11)
Amortization of premium on senior unsecured notes	(139)	—
Straight-line rental income adjustments	(2,857)	(720)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	116	556
Accounts payable and accrued liabilities	7,211	7,860
Restricted cash	(2,714)	(2,837)
Net cash provided by operating activities	47,902	34,509
Cash flows from investing activities:		
Acquisitions of real estate	(98,050)	(187,700)
Origination of loans receivable	(22,111)	—
Acquisition of note receivable	—	(5,348)
Additions to real estate	(1,039)	(86)
Net cash used in investing activities	(121,200)	(193,134)
Cash flows from financing activities:		
Proceeds from secured revolving credit facility	42,500	—
Proceeds from mortgage notes payable	35,829	—
Proceeds from issuance of senior unsecured notes	106,000	—
Payments on secured revolving credit facility	(42,500)	—
Principal payments on mortgage notes payable	(36,701)	(2,249)
Payments of deferred financing costs	(7,045)	(495)
Issuance of common stock	144	163,431
Dividends paid	(36,702)	(19,878)
Net cash provided by financing activities	61,525	140,809
Net decrease in cash and cash equivalents	(11,773)	(17,816)
Cash and cash equivalents, beginning of period	42,250	74,233
Cash and cash equivalents, end of period	$30,477	$56,417

Supplemental disclosure of cash flow information:		
Interest paid	$17,116	$17,024

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 is organized to qualify as a real estate investment trust (“REIT”) and has elected 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 September 30, 2012, Sabra’s investment portfolio included 105 properties leased to operators/tenants under triple-net lease agreements (consisting of (i) 93 skilled nursing/post-acute facilities, (ii) 11 senior housing facilities, and (iii) one acute care hospital). In addition, as of September 30, 2012, a wholly owned subsidiary of the Company was the lender for two mortgage loans and one mezzanine loan.

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 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 nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. For further information, refer to the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2011 included in the Company’s 2011 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 three and nine months ended September 30, 2012, the Company expensed \$0.4 million and \$1.2 million, respectively, of acquisition pursuit costs. During the three and nine months ended September 30, 2011, the Company expensed \$2.6 million and \$3.0 million, respectively, of acquisition pursuit costs. The Company's acquisition pursuit costs are included in general and administrative expense on the accompanying condensed consolidated statements of income.

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.

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Interest Income

The Company's loans receivable are recorded at amortized cost on the accompanying consolidated balance sheets. The amortized cost of a real estate loan receivable is the outstanding unpaid principal balance, net of unamortized costs and fees directly associated with the origination of the loan.

The Company reviews on a quarterly basis credit quality indicators such as payment status, changes affecting the underlying real estate collateral (for collateral dependent loans), changes affecting the operations of the facilities securing the loans, and national and regional economic factors. The Company's loans receivable are evaluated for impairment at each balance sheet date. The Company considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due under the contractual terms of the loan agreement resulting from the borrower's failure to repay contractual amounts due, the granting of a concession by the Company or the Company's expectation that it will receive assets with fair values less than the carrying value of the loan in satisfaction of the loan. If a loan is considered to be impaired, a reserve is established when the present value of payments expected to be received, observable market prices, the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) or amounts expected to be received in satisfaction of a loan are lower than the carrying value of that loan. As of September 30, 2012, all of the Company's loans are performing and none are considered to be impaired.

Interest income on the Company’s loans receivable is recognized on an accrual basis over the life of the investment using the interest method. Direct loan origination costs are amortized over the term of the loan as an adjustment to interest income. When concerns exist as to the ultimate collection of principal or interest due under a loan, the loan is placed on nonaccrual status and the Company will not recognize interest income until the cash is received, or the loan returns to accrual status. If the Company determines the collection of interest according to the contractual terms of the loan is probable, the Company will resume the accrual of interest.

3. RECENT ACQUISITIONS AND ORIGINATIONS

Real Estate Acquisitions

During the nine months ended September 30, 2012, the Company acquired six skilled nursing facilities and two senior housing facilities for a total purchase price of $98.1 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
$16,571	$ 79,324	$1,719	$436	$98,050

As of September 30, 2012, the purchase price allocations for acquisitions completed during the three months ended September 30, 2012 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 these acquisitions have weighted-average amortization periods as of the date of acquisition of 13 years and 23 years, respectively.

For the three and nine months ended September 30, 2012, the Company recognized $1.8 million and $3.0 million, respectively, of total revenues from these properties.

Loan Originations

On March 15, 2012, a wholly owned subsidiary of the Company entered into a $10.0 million mezzanine loan (the “Mezzanine Loan”). The Mezzanine Loan has a five year term, bears interest at a fixed rate of 11.0% per annum and is secured by the borrowers' equity interests in three skilled nursing facilities and one assisted living facility located in Texas. The Company has an option to purchase the three skilled nursing facilities and one assisted living facility before March 31, 2013 for up to an aggregate purchase price of $43.0 million and increasing 2.5% for each of the two years thereafter. Upon exercise of the purchase option, the Company would expect to enter into a new 15 year triple-net master lease having 2 five-year renewal options.

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On June 22, 2012, a wholly owned subsidiary of the Company entered into an $11.0 million mortgage loan agreement secured by a first trust deed on a 125-bed skilled nursing facility in Texas that was built in 2010 (the "Onion Creek Mortgage Loan") with affiliates of Meridian Equity Investors, L.P. as borrowers. The Onion Creek Mortgage Loan has a five year term, bears interest at a fixed rate of 8.5% per annum and cannot be prepaid during the first three years of the loan term. In addition, the Company has an option to purchase and the borrowers have an option to sell the facility securing the Onion Creek Mortgage Loan from July 1, 2013 through the time the loan is repaid for between $12.5 million and $14.5 million, depending on the annualized earnings before interest, taxes, depreciation, amortization and rent ("EBITDAR") of the facility for the three month period preceding the option exercise date; however, in no event can the borrowers require the Company to purchase the property if the three month annualized EBITDAR is below $1.7 million. The loan was funded with available cash and proceeds from the Amended Secured Revolving Credit Facility (as defined below).

On August 16, 2012, the Company, through certain subsidiaries, entered into a forward purchase program (the "Pipeline Agreement") to acquire newly constructed senior housing properties to be developed by First Phoenix Group, LLC ("First Phoenix"). The Pipeline Agreement provides for the acquisition of, as well as certain interim funding arrangements for, up to ten assisted living and memory care facilities to be identified by First Phoenix and approved by the Company before the end of 2014. Under the Pipeline Agreement, First Phoenix will identify and develop the properties, affiliates of the Company will purchase the properties once stabilized and a 50%/50% RIDEA-compliant joint venture partnership between affiliates of the Company and First Phoenix will operate the facilities, subject to certain terms and conditions. The Company will own 100% of the real estate and lease it to the joint venture partnership under a triple-net lease structure with an initial annual yield on cash rent of 8%. Pursuant to the Pipeline Agreement, the Company would be obligated to purchase a property only after satisfactory completion of customary due diligence and agreed upon closing conditions. First Phoenix currently operates one facility under the Stoney River Assisted Living brand located in Marshfield, Wisconsin which is expected to be acquired by the Company during 2012 and operated by the joint venture partnership.

Concurrently with its execution of the Pipeline Agreement, the Company entered into a $1.0 million pre-development loan agreement with First Phoenix to fund the acquisition of land and certain other costs associated with the first development project under the Pipeline Agreement, a 72-unit assisted living/memory care facility located in Ramsey, Minnesota. This loan will be funded over the course of the pre-development activities and bears interest at a fixed rate of 9.0% per annum. During the three months ended September 30, 2012, the Company funded $0.9 million under the pre-development loan agreement. Repayment of the loan is expected to occur in connection with the acquisition of the stabilized property by Sabra, or earlier in certain circumstances.

4. REAL ESTATE INVESTMENTS

The Company's investments in real estate consisted of the following (dollars in thousands):

As of September 30, 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	93	10,549	$712,386	$(118,949)	$593,437
Senior Housing	11	1,070	89,853	(9,494)	80,359
Acute Care Hospital	1	70	61,640	(2,539)	59,101
	105	11,689	863,879	(130,982)	732,897
Corporate Level			246	(89)	157
			$864,125	$(131,071)	$733,054

As of December 31, 2011

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	87	10,034	$658,222	$(99,570)	$558,652

Senior Housing	9	773	47,192	(8,140)	39,052
Acute Care Hospital	1	70	61,640	(1,154)	60,486
	97	10,877	767,054	(108,864)	658,190
Corporate Level			239	(52)	187
			$767,293	$(108,916)	$658,377

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	September 30, 2012 [1]	December 31, 2011
Building and improvements	$704,277	$626,877
Furniture and equipment	46,889	44,045
Land improvements	4,640	4,640
Land	108,319	91,731
	864,125	767,293
Accumulated depreciation	(131,071)	(108,916)
	$733,054	$658,377

[1] As of September 30, 2012, the purchase price allocations for acquisitions completed during the three months ended September 30, 2012 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.

Operating Leases

As of September 30, 2012, all of the Company’s real estate properties are leased under triple-net operating leases with expirations ranging from eight to 22 years. As of September 30, 2012, the leases have 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. As of September 30, 2012, 86 of the Company's 105 real estate properties were leased to subsidiaries of Sun Healthcare Group, Inc. (“Sun”).

The Company monitors the creditworthiness of its tenants by reviewing credit ratings (if available) and evaluating the ability of tenants to meet their lease obligations to the Company based on the tenants' financial performance, including the evaluation of any parent guarantees 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 EBITDAR to rent coverage and EBITDARM to rent coverage at the facility level and consolidated EBITDAR to total rent coverage at the parent guarantor level when such a guarantee exists (currently the Sun lease portfolio). EBITDARM is defined as EBITDAR before management fees. 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 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. For further discussion of the Company's tenant and revenue concentration, see “Note 11. Commitments and Contingencies—Concentration of Credit Risk.”

As of September 30, 2012, the future minimum rental income from the Company’s properties under non-cancelable operating leases is as follows (in thousands):

October 1, 2012 through December 31, 2012	$26,302
2013	105,210
2014	105,210
2015	105,210
2016	105,210
Thereafter	733,959
	$1,181,101

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5. DEBT

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

Interest Rate Type	Book Value as of September 30, 2012	Book Value as of December 31, 2011	Weighted Average Effective Interest Rate at September 30, 2012	Maturity Date
Fixed Rate	$99,251	$99,239	5.04 %	August 2015 - June 2047
Variable Rate[1]	58,262	59,159	5.00 %	August 2015
	$157,513	$158,398		

(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).

On June 28, 2012, the Company refinanced four of its existing United States Department of Housing and Urban Development (“HUD”) mortgage notes totaling $20.9 million. The Company maintained the original maturity dates, reduced the weighted average interest rate from 5.75% to 2.49% per annum and increased the aggregate outstanding principal amount of the mortgage notes by $1.1 million. On July 27, 2012, the Company refinanced one additional HUD mortgage note totaling $13.5 million. The Company maintained the original maturity date, reduced the interest rate from 5.90% to 2.49% per annum and increased the aggregate outstanding principal amount of the mortgage note by $0.4 million. In connection with the refinancings, the Company wrote off $0.5 million and $0.7 million in unamortized deferred financing costs related to the original mortgage notes during the three and nine months ended September 30, 2012, respectively.

On May 1, 2012, the Company amended the Amended, Restated and Consolidated Loan Agreement with General Electric Capital Corporation. The Company reduced the interest rate spread of the floating rate portion (totaling $58.3 million as of September 30, 2012) by 50 basis points and maintained the fixed rate portion (totaling $30.9 million as of September 30, 2012) at the original pricing of 6.82%. However, when the fixed rate portion converts to a floating rate loan on December 19, 2013, the reduced interest rate spread will apply. The Company also agreed to prepayment terms that do not allow for prepayment for the loan prior to May 1, 2014 unless the prepayment is either approved by the lender in its sole discretion or arises from a refinancing of one or more of the applicable facilities under a loan program insured or otherwise supported by HUD.

8.125% Senior Notes due 2018. On October 27, 2010, the Operating Partnership and Sabra Capital Corporation, wholly owned subsidiaries of the Company (the “Issuers”), issued $225.0 million aggregate principal amount of 8.125% senior, unsecured notes (the “Senior Notes”) 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 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”).

On July 26, 2012, the Issuers issued an additional $100.0 million aggregate principal amount of Senior Notes, which are treated as a single class with the existing Senior Notes. The notes were issued at 106.0% providing net proceeds of $103.0 million after underwriting costs and other offering expenses and a yield-to-maturity of 6.92%. The Company used a portion of the proceeds from this offering to repay the borrowings outstanding on the Amended Secured Revolving Credit Facility. On October 15, 2012, the Issuers commenced an exchange offer to exchange the $100.0 million aggregate principal amount of Senior Notes that were issued in July 2012 for substantially identical Senior Notes registered under the Securities Act of 1933, as amended. The exchange offer is scheduled to expire on November 14, 2012.

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 existing and, subject to certain exceptions, future material

subsidiaries; provided, however, that such guarantees are subject to release under certain customary circumstances. See “Note 9. Summarized Condensed Consolidating Information” for additional information concerning the circumstances pursuant to which the guarantors will be automatically and unconditionally released from their obligations under the guarantees.
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

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time, on or prior to November 1, 2013, the Issuers may redeem up to 35% of the principal amount of the Senior Notes, using the proceeds of specific kinds of equity offerings, at a redemption price of 108.125% of the principal amount to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. Assuming the Senior Notes are not redeemed, the Senior Notes mature on November 1, 2018.
The Indenture governing the Senior Notes contains restrictive covenants that, among other things, restrict the ability of Sabra, the Issuers and their restricted subsidiaries to: (i) incur or guarantee additional indebtedness; (ii) incur or guarantee secured indebtedness; (iii) pay dividends or distributions on, or redeem or repurchase, their capital stock; (iv) make certain investments or other restricted payments; (v) sell assets; (vi) create liens on their assets; (vii) enter into transactions with affiliates; (viii) merge or consolidate or sell all or substantially all of their assets; and (ix) create restrictions on the ability of Sabra's restricted subsidiaries to pay dividends or other amounts to Sabra. The Indenture governing the Senior Notes also provides for customary events of default, including, but not limited to, the failure to make payments of interest or premium, if any, on, or principal of, the Senior Notes, the failure to comply with certain covenants and agreements specified in the Indenture for a period of time after notice has been provided, the acceleration of other indebtedness resulting from the failure to pay principal on such other indebtedness prior to its maturity, and certain events of insolvency. If any event of default occurs, the principal of, premium, if any, and accrued interest on all the then outstanding Senior Notes may become due and payable immediately. As of September 30, 2012, the Company was in compliance with all applicable financial covenants under the Senior Notes.

Amended Secured Revolving Credit Facility. On November 3, 2010, the Operating Partnership and certain subsidiaries of the Operating Partnership (together with the Operating Partnership, the “Borrowers”) entered into a secured revolving credit facility with certain lenders as set forth in the related credit agreement and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (each as defined in such credit agreement). 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. On February 10, 2012, the Borrowers amended the secured revolving credit facility (the “Amended Secured Revolving Credit Facility”) to increase the borrowing capacity from $100.0 million to $200.0 million (up to $20.0 million of which may be utilized for letters of credit) and to include an accordion feature that allows the Borrowers to increase borrowing availability under the Amended Secured Revolving Credit Facility by up to an additional $150.0 million, subject to certain terms and conditions. On September 20, 2012, the Borrowers utilized the accordion feature to increase the borrowing capacity to $230.0 million. Borrowing availability under the Amended Secured Revolving Credit Facility is subject to a borrowing base calculation based on, among other factors, the lesser of (i) the mortgageability cash flow (as such term is defined in the credit agreement) or (ii) the appraised value, in each case of the properties securing the Amended Secured Revolving Credit Facility. Borrowing availability under the Amended Secured Revolving Credit Facility terminates, and all borrowings mature, on February 10, 2015, subject to a one-year extension option. As of September 30, 2012, there were no amounts outstanding under the Company’s Amended Secured Revolving Credit Facility and $201.6 million available for borrowing.
Borrowings under the Amended Secured Revolving Credit Facility bear interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Borrowers' option, either (a) LIBOR or (b) a base rate determined as the greater of (i) the federal funds rate plus 0.5%, (ii) the prime rate, and (iii) one-month LIBOR plus 1.0% (the “Base Rate”). The applicable percentage for borrowings will vary based on the Consolidated Leverage Ratio, as defined in the credit agreement, and will range from 3.00% to 4.00% per annum for LIBOR based borrowings and 2.00% to 3.00% per annum for borrowings at the Base Rate. As of September 30, 2012, the interest rate on the Amended Secured Revolving Credit Facility was 3.46%. In addition, the Borrowers are required to pay a facility fee to the lenders equal to between 0.35% and 0.50% per annum based on the amount of unused borrowings under the Amended Secured Revolving Credit Facility. During the three and nine months ended September 30, 2012, the Company incurred $0.1 million and $0.3 million, respectively, in interest expense on amounts outstanding on the Amended Secured Revolving Credit Facility. During the three and nine months ended September 30, 2012, the Company incurred $0.2 million and $0.7 million, respectively, of unused facility fees.

The Amended Secured Revolving Credit Facility contains customary covenants that include restrictions on the ability to make acquisitions and other investments, pay dividends, incur additional indebtedness, engage in non-healthcare related business activities, enter into transactions with affiliates and sell or otherwise transfer certain assets as well as customary events of default. The Amended Secured Revolving Credit Facility also requires 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 September 30, 2012, the Company was in compliance with all applicable financial covenants under the Amended Secured Revolving Credit Facility.

The Company incurred interest expense of $9.5 million and $25.4 million for the three and nine months ended September 30, 2012, respectively, and $7.6 million and $22.7 million for the three and nine months ended September 30, 2011, respectively. Interest expense includes deferred financing costs amortization of $1.2 million and $2.6 million for the three and

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nine months ended September 30, 2012, respectively, and $0.5 million and $1.5 million for the three and nine months ended September 30, 2011, respectively. Amortization of deferred financing costs for the nine months ended September 30, 2012 includes $0.7 million in write-offs related to the refinancing of certain mortgage notes. As of September 30, 2012 and December 31, 2011, the Company had $11.7 million and $4.0 million, respectively, of accrued interest included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets.

The following is a schedule of maturities for the Company's outstanding debt as of September 30, 2012 (in thousands):

	Mortgage Indebtedness [(1)]	Senior Notes [(2)]	Amended Secured Revolving Credit Facility	Total
October 1, 2012 through December 31, 2012	$936	$—	$ —	$936
2013	3,851	—	—	3,851
2014	4,058	—	—	4,058
2015	86,442	—	—	86,442
2016	2,065	—	—	2,065
Thereafter	59,673	325,000	—	384,673
	$157,025	$325,000	$ —	$482,025

(1) Outstanding principal balance for mortgage indebtedness does not include mortgage premium of $0.5 million as of September 30, 2012.

(2) Outstanding principal balance for Senior Notes does not include premium of $5.9 million as of September 30, 2012.

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:

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.

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 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 September 30, 2012 and December 31, 2011 whose carrying amounts do not approximate their fair value:

	September 30, 2012			December 31, 2011		
	Face Value (1)	Carrying Amount (2)	Fair Value	Face Value (1)	Carrying Amount (2)	Fair Value
Financial assets:						
Loans receivable	$21,897	$22,092	$22,796	$—	$—	$—
Financial liabilities:						
Senior Notes	325,000	330,861	354,250	225,000	225,000	227,813
Mortgage indebtedness	157,025	157,513	167,632	157,898	158,398	172,829

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

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(2) Carrying amount represents the book value of financial instruments as of the date specified. Carrying amount of financial liabilities includes net unamortized premiums and carrying amount of financial assets includes net unamortized origination costs.

The Company determined the fair value of financial instruments as of September 30, 2012 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	$22,796	$—	$—	$22,796
Financial liabilities:				
Senior Notes	354,250	—	354,250	—
Mortgage indebtedness	167,632	—	—	167,632

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.

7. EQUITY

Common Stock

The following table lists the cash dividends on common stock declared and paid by the Company during the nine months ended September 30, 2012:

Declaration Date	Record Date	Amount Per Share	Dividend Payable Date
February 29, 2012	March 15, 2012	$0.33	March 30, 2012
April 24, 2012	May 15, 2012	$0.33	May 31, 2012
August 1, 2012	August 15, 2012	$0.33	August 31, 2012

On October 29, 2012, the Company announced that its board of directors declared a quarterly cash dividend of $0.33 per share of common stock. The dividend will be paid on November 30, 2012 to stockholders of record as of the close of business on November 15, 2012.

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 included 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.

During the nine months ended September 30, 2012, the Company issued 117,890 shares of common stock as a result of restricted stock unit vestings and in connection with amounts payable under the Company's 2011 Bonus Plan pursuant to an election to receive the bonus payment in shares of the Company's common stock. During the nine months ended September 30, 2012, the Company issued 41,640 shares of common stock as a result of stock options exercised.

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8. EARNINGS PER COMMON SHARE

The following table illustrates the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2012 and 2011 (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator				
Net income	$5,226	$2,344	$15,554	$5,678
Denominator				
Basic weighted average common shares	37,178,162	32,986,657	37,121,384	27,797,411
Dilutive stock options and restricted stock units	286,952	62,964	154,629	94,279
Diluted weighted average common shares	37,465,114	33,049,621	37,276,013	27,891,690
Basic earnings per common share	$0.14	$0.07	$0.42	$0.20
Diluted earnings per common share	$0.14	$0.07	$0.42	$0.20

Certain of the Company’s 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 the three months ended September 30, 2012, there were no anti-dilutive restricted stock units and options to purchase approximately 6,000 shares were not included because they were anti-dilutive. During the nine months ended September 30, 2012, approximately 5,000 restricted stock units were not included because they were anti-dilutive and no in-the-money stock options were considered anti-dilutive. During the three months ended September 30, 2011, approximately 42,000 restricted stock units were not included because they were anti-dilutive and no in-the-money stock options were considered anti-dilutive. During the nine months ended September 30, 2011, there were no anti-dilutive restricted stock units and no in-the-money stock options were considered anti-dilutive.

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9.SUMMARIZED CONDENSED CONSOLIDATING INFORMATION

In connection with the offering of the Senior Notes by the Issuers in October 2010 and July 2012, 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 Indenture;
- The requirements for legal defeasance or covenant defeasance or to discharge the Indenture have been satisfied;
- A liquidation or dissolution, to the extent permitted under the Indenture, 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
September 30, 2012
(in thousands, except share and per share amounts)
(unaudited)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Assets						
Real estate investments, net of accumulated depreciation	$156	$—	$555,105	$177,793	$—	$733,054
Loans receivable, net	—	—	22,092	—	—	22,092
Cash and cash equivalents	27,791	—	—	2,686	—	30,477
Restricted cash	—	—	—	5,197	—	5,197
Deferred tax assets	25,540	—	—	—	—	25,540
Prepaid expenses, deferred financing costs and other assets	671	7,487	15,057	3,436	—	26,651
Intercompany	—	240,816	—	34,527	(275,343)	—
Investment in subsidiaries	341,804	435,430	25,119	—	(802,353)	—
Total assets	$395,962	$683,733	$617,373	$223,639	$(1,077,696)	$843,011
Liabilities and stockholders’ equity						
Mortgage notes payable	$—	$—	$—	$157,513	$—	$157,513
Senior unsecured notes payable	—	330,861	—	—	—	330,861
Accounts payable and accrued liabilities	4,483	11,068	1,524	703	—	17,778
Tax liability	25,540	—	—	—	—	25,540
Intercompany	54,620	—	220,723	—	(275,343)	—
Total liabilities	84,643	341,929	222,247	158,216	(275,343)	531,692
Stockholders’ equity:						
Preferred stock, $.01 par value; 10,000,000 shares authorized, zero shares issued and outstanding as of September 30, 2012	—	—	—	—	—	—
Common stock, $.01 par value; 125,000,000 shares authorized, 37,051,242 shares issued and outstanding as of September 30, 2012	371	—	—	—	—	371
Additional paid-in capital	351,106	291,163	319,390	52,642	(663,195)	351,106
Cumulative distributions in excess of net income	(40,158)	50,641	75,736	12,781	(139,158)	(40,158)

Total stockholders' equity	311,319	341,804	395,126	65,423	(802,353)	311,319
Total liabilities and stockholders' equity	$395,962	$683,733	$617,373	$223,639	$(1,077,696)	$843,011

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CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 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	$187	$—	$474,256	$183,934	$—	$658,377
Cash and cash equivalents	41,736	—	—	514	—	42,250
Restricted cash	—	—	—	6,093	—	6,093
Deferred tax assets	25,540	—	—	—	—	25,540
Prepaid expenses, deferred financing costs and other assets	874	5,079	8,544	2,893	—	17,390
Intercompany	—	145,018	—	25,237	(170,255)	—
Investment in subsidiaries	313,181	391,131	23,611	—	(727,923)	—
Total assets	$381,518	$541,228	$506,411	$218,671	$(898,178)	$749,650
Liabilities and stockholders’ equity						
Mortgage notes payable	$—	$—	$—	$158,398	$—	$158,398
Senior unsecured notes payable	—	225,000	—	—	—	225,000
Accounts payable and accrued liabilities	6,296	3,047	4,107	689	—	14,139
Tax liability	25,540	—	—	—	—	25,540
Intercompany	23,109	—	147,146	—	(170,255)	—
Total liabilities	54,945	228,047	151,253	159,087	(170,255)	423,077
Stockholders’ equity:						
Preferred stock, $.01 par value; 10,000,000 shares authorized, zero shares issued and outstanding as of December 31, 2011	—	—	—	—	—	—
Common stock, $.01 par value; 125,000,000 shares authorized, 36,891,712 shares issued and outstanding as of December 31, 2011	369	—	—	—	—	369
Additional paid-in capital	344,995	288,665	316,011	52,110	(656,786)	344,995
Cumulative distributions in excess of net income	(18,791)	24,516	39,147	7,474	(71,137)	(18,791)
Total stockholders’ equity	326,573	313,181	355,158	59,584	(727,923)	326,573

Total liabilities and stockholders' equity	$381,518	$541,228	$506,411	$218,671	$(898,178)	$749,650

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

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	$ —	$—	$18,972	$6,448	$—	$25,420
Interest income	7	—	611	—	—	618
Total revenues	7	—	19,583	6,448	—	26,038
Expenses:						
Depreciation and amortization	12	—	5,446	2,038	—	7,496
Interest	—	6,162	708	2,668	—	9,538
General and administrative	3,627	—	133	18	—	3,778
Total expenses	3,639	6,162	6,287	4,724	—	20,812
Income (loss) in subsidiary	8,858	15,020	(52)	—	(23,826)	—
Net income	$ 5,226	$8,858	$13,244	$1,724	$(23,826)	$5,226
Net income per common share, basic						$0.14
Net income per common share, diluted						$0.14
Weighted-average number of common shares outstanding, basic						37,178,162
Weighted-average number of common shares outstanding, diluted						37,465,114

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

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Revenues:						
Rental income	$ —	$—	$15,003	$6,291	$—	$21,294
Interest income	12	—	163	1	—	176
Total revenues	12	—	15,166	6,292	—	21,470
Expenses:						
Depreciation and amortization	13	—	4,763	2,074	—	6,850
Interest	—	4,755	336	2,533	—	7,624
General and administrative	2,104	—	2,522	26	—	4,652
Total expenses	2,117	4,755	7,621	4,633	—	19,126
Income in subsidiary	4,449	9,204	128	—	(13,781)	—
Net income	$ 2,344	$4,449	$7,673	$1,659	$(13,781)	$2,344
Net income per common share, basic						$0.07
Net income per common share, diluted						$0.07
Weighted-average number of common shares outstanding, basic						32,986,657
Weighted-average number of common shares outstanding, diluted						33,049,621

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CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the Nine Months Ended September 30, 2012
(in thousands, except share and per share amounts)
(unaudited)

Parent Company	Issuers	Combined Guarantor Subsidiaries