Sabra Health Care REIT, Inc.
Form 10-Q
November 04, 2014
Table of Contents

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, 2014

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	x	Accelerated filer	o
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 31, 2014, there were 54,527,984 shares of the Registrant’s $0.01 par value Common Stock outstanding.

Table of Contents

SABRA HEALTH CARE REIT, INC. AND SUBSIDIARIES
Index

		Page Numbers
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements:	
	Condensed Consolidated Balance Sheets	3
	Condensed Consolidated Statements of Income	4
	Condensed Consolidated Statements of Equity	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	43
Item 4.	Controls and Procedures	43
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	44
Item 1a.	Risk Factors	44
Item 6.	Exhibits	44
Signatures		47

Table of Contents

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 investments, 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, among others, the following:

- our dependence on Genesis HealthCare LLC (“Genesis”) until we are able to further diversify our portfolio;
- our dependence on the operating success of our tenants;
- 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 investments, incur additional indebtedness and refinance indebtedness on favorable terms;
- increases in market interest rates;
- our ability to raise capital through equity and debt 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, 2013 (our “2013 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.

TENANT INFORMATION

This 10-Q includes information regarding certain of our tenants, none of which are subject to SEC reporting requirements. The information related to our tenants provided in this 10-Q have been provided by such tenants 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.

2

Table of Contents

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, 2014 (unaudited)	December 31, 2013
Assets		
Real estate investments, net of accumulated depreciation of $179,301 and $151,078 as of September 30, 2014 and December 31, 2013, respectively	$1,568,268	$915,418
Loans receivable and other investments, net	250,674	185,293
Cash and cash equivalents	25,479	4,308
Restricted cash	6,537	5,352
Deferred tax assets	24,212	24,212
Prepaid expenses, deferred financing costs and other assets	142,196	63,252
Total assets	$2,017,366	$1,197,835
Liabilities		
Mortgage notes	$124,714	$141,328
Revolving credit facility	614,000	135,500
Senior unsecured notes	550,000	414,402
Accounts payable and accrued liabilities	40,719	22,229
Tax liability	24,212	24,212
Total liabilities	1,353,645	737,671
Commitments and contingencies (Note 12)		
Equity		
Preferred stock, $.01 par value; 10,000,000 shares authorized, 5,750,000 shares issued and outstanding as of September 30, 2014 and December 31, 2013	58	58
Common stock, $.01 par value; 125,000,000 shares authorized, 47,627,984 and 38,788,745 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	476	388
Additional paid-in capital	771,844	534,639
Cumulative distributions in excess of net income	(108,628)	(74,921)
Total Sabra Health Care REIT, Inc. stockholders' equity	663,750	460,164
Noncontrolling interests	(29)	—
Total equity	663,721	460,164
Total liabilities and equity	$2,017,366	$1,197,835

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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,	
	2014	2013	2014	2013
Revenues:				
Rental income	$38,165	$31,699	$111,743	$94,692
Interest and other income	5,819	1,227	16,064	2,531
Total revenues	43,984	32,926	127,807	97,223
Expenses:				
Depreciation and amortization	9,762	8,258	28,867	24,726
Interest	10,540	9,739	32,668	29,884
General and administrative	6,226	3,057	20,005	11,196
Total expenses	26,528	21,054	81,540	65,806
Other income (expense):				
Loss on extinguishment of debt	(158)	(351)	(22,454)	(10,101)
Other income (expense)	(100)	300	860	(600)
Total other income (expense)	(258)	(51)	(21,594)	(10,701)
Net income	17,198	11,821	24,673	20,716
Net loss attributable to noncontrolling interests	6	—	29	—
Net income attributable to Sabra Health Care REIT, Inc.	17,204	11,821	24,702	20,716
Preferred stock dividends	(2,561)	(2,579)	(7,682)	(5,406)
Net income attributable to common stockholders	$14,643	$9,242	$17,020	$15,310
Net income attributable to common stockholders, per:				
Basic common share	$0.31	$0.25	$0.39	$0.41
Diluted common share	$0.31	$0.24	$0.39	$0.41
Weighted-average number of common shares outstanding, basic	47,359,949	37,358,334	43,358,620	37,334,120
Weighted-average number of common shares outstanding, diluted	47,877,202	37,828,573	43,840,550	37,777,458

See accompanying notes to condensed consolidated financial statements.

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

	Preferred Stock		Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2012	—	$ —	37,099,209	$ 371	$ 353,861	$ (48,744)	$ 305,488	$ —	$ 305,488
Net income	—	—	—	—	—	20,716	20,716	—	20,716
Amortization of stock-based compensation	—	—	—	—	5,693	—	5,693	—	5,693
Preferred stock issuance	5,750,000	58	—	—	138,199	—	138,257	—	138,257
Common stock issuance	—	—	234,734	2	(2,951)	—	(2,949)	—	(2,949)
Preferred dividends	—	—	—	—	—	(5,406)	(5,406)	—	(5,406)
Common dividends ($1.02 per share)	—	—	—	—	—	(38,609)	(38,609)	—	(38,609)
Balance, September 30, 2013	5,750,000	$ 58	37,333,943	$ 373	$ 494,802	$ (72,043)	$ 423,190	$ —	$ 423,190

	Preferred Stock		Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Cumulative Distributions in Excess of Net Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2013	5,750,000	$ 58	38,788,745	$ 388	$ 534,639	$ (74,921)	$ 460,164	$ —	$ 460,164
Net income	—	—	—	—	—	24,702	24,702	(29)	24,673
Amortization of stock-based compensation	—	—	—	—	7,092	—	7,092	—	7,092
Common stock issuance	—	—	8,839,239	88	230,113	—	230,201	—	230,201
Preferred dividends	—	—	—	—	—	(7,682)	(7,682)	—	(7,682)
Common dividends ($1.12 per share)	—	—	—	—	—	(50,727)	(50,727)	—	(50,727)
Balance, September 30, 2014	5,750,000	$ 58	47,627,984	$ 476	$ 771,844	$ (108,628)	$ 663,750	$ (29)	$ 663,721

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$24,673	$20,716
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,867	24,726
Non-cash interest income adjustments	217	29
Amortization of deferred financing costs	2,812	2,395
Stock-based compensation expense	6,337	5,209
Amortization of premium	(33)	(535)
Loss on extinguishment of debt	1,576	858
Straight-line rental income adjustments	(13,074)	(10,836)
Write-off of straight-line rental income	2,994	—
Change in fair value of contingent consideration	(860)	600
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(2,529)	(1,494)
Accounts payable and accrued liabilities	22,607	10,413
Restricted cash	(2,348)	(2,870)
Net cash provided by operating activities	71,239	49,211
Cash flows from investing activities:		
Acquisitions of real estate	(721,879)	(6,175)
Origination and fundings of loans receivable	(59,256)	(26,393)
Preferred equity investment	(11,300)	(6,624)
Additions to real estate	(1,151)	(388)
Repayment of loans receivable	287	—
Net proceeds from the sale of real estate	—	2,208
Net cash used in investing activities	(793,299)	(37,372)
Cash flows from financing activities:		
Proceeds from issuance of senior unsecured notes	350,000	200,000
Principal payments on senior unsecured notes	(211,250)	(113,750)
Proceeds from revolving credit facility	699,000	—
Payments on revolving credit facility	(220,500)	(92,500)
Proceeds from mortgage notes	57,703	—
Principal payments on mortgage notes	(88,419)	(10,081)
Payments of deferred financing costs	(15,474)	(8,598)
Issuance of preferred stock	—	138,257
Issuance of common stock	229,825	(2,950)
Dividends paid on common and preferred stock	(57,654)	(42,677)
Net cash provided by financing activities	743,231	67,701

Net increase in cash and cash equivalents	21,171	79,540
Cash and cash equivalents, beginning of period	4,308	17,101
Cash and cash equivalents, end of period	$25,479	$96,641
Supplemental disclosure of cash flow information:		
Interest paid	$26,705	$21,937
Supplemental disclosure of non-cash transaction:		
Assumption of mortgage indebtedness	$14,102	$—
Repayment of preferred equity investments	$6,949	$—

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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. The Company’s investment portfolio is primarily comprised of skilled nursing/transitional care facilities, senior housing facilities, acute care hospitals, debt investments and preferred equity investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of Sabra, its wholly owned subsidiaries and a consolidated variable interest entity (“VIEs”). 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 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.

As of September 30, 2014, the Company determined it was the primary beneficiary of one senior housing facility and has consolidated the operations of the facility in the accompanying condensed consolidated financial statements. As of September 30, 2014, the operations of the facility were not material to the Company’s results of operations, financial condition or cash flows.

As it relates to investments in loans, in addition to the Company's assessment of VIEs and whether the Company is the primary beneficiary of those VIEs, the Company evaluates the loan terms and other pertinent facts to determine if the loan investment should be accounted for as a loan or as a real estate joint venture. If an investment has the characteristics of a real estate joint venture, including if the Company participates in the majority of the borrower's expected residual profit, the Company would account for the investment as an investment in a real estate joint venture and not as a loan investment. Expected residual profit is defined as the amount of profit, whether called interest or another name, such as an equity kicker, above a reasonable amount of interest and fees expected to be earned by a

lender. At September 30, 2014, none of the Company's investments in loans are accounted for as real estate joint ventures.
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

Table of Contents

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 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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. For further information, refer to the Company's consolidated financial statements and notes thereto for the year ended December 31, 2013 included in the Company's 2013 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.

Recently Issued Accounting Standards Update

In April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU No. 2014-08"), which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The standard no longer precludes presentation as a discontinued operation if (i) there are operations and cash flows of the component that have not been eliminated from the reporting entity's ongoing operations, or (ii) there is significant continuing involvement with a component after its disposal. ASU No. 2014-08 is effective for public entities for interim and annual periods beginning after December 15, 2014, and will be applied prospectively. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance specifically notes that lease contracts with customers are a scope exception. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2016, and early adoption is not permitted. The Company is currently in the process of evaluating the impact the adoption of ASU 2014-09 will have on the Company's financial position or results of operations.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the annual period ended December 31, 2016 and for annual periods and interim periods

thereafter with early adoption permitted. The adoption of ASU 2014-15 is not expected to materially impact the Company's consolidated financial statements.

Table of Contents

3.RECENT REAL ESTATE ACQUISITIONS

During the nine months ended September 30, 2014, the Company acquired six skilled nursing/transitional care facilities and 27 senior housing facilities for consideration totaling $690.8 million. The consideration was allocated as follows (in thousands):

Land	Building and Improvements	Intangibles Tenant Origination and Absorption Costs	Tenant Relationship	Total Consideration
$54,387	$ 625,536	$7,924	$2,991	$ 690,838

As of September 30, 2014, the purchase price allocations for the acquisitions completed during the three months ended September 30, 2014 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 14 years and 24 years, respectively.

For the three and nine months ended September 30, 2014, the Company recognized $3.9 million and $8.3 million, respectively, of total revenues and $1.0 million and $3.3 million, respectively, of net income attributable to common stockholders from these properties.

Holiday Portfolio

On September 25, 2014, the Company acquired a portfolio of 21 independent living facilities (the “Holiday Portfolio”), located in 15 states, from affiliates of Holiday Acquisition Holdings Corp. (“Holiday”) for a total cash purchase price of $550.0 million. Concurrently with the acquisition, certain wholly owned subsidiaries of the Company entered into a triple-net master lease agreement with certain wholly-owned subsidiaries of Holiday AL Holdings LP (collectively, “Holiday Tenant”), an affiliate of Holiday. The master lease has an initial term of 15 years with two five-year renewal options and provides for base rent in the first year of approximately $30.3 million, with annual rent increases of 4.0% in years two and three and the greater of 3.5% or the change in the Consumer Price Index during the remainder of the lease term. The master lease is expected to generate annual lease revenues determined in accordance with GAAP, of $39.3 million. The closing of the acquisition of one facility was deferred until October 7, 2014 and Holiday Tenant agreed to pay the full rental amount due under the lease notwithstanding the delay in the closing of the acquisition of this facility.

Acquisition Earn-Out

On February 14, 2014, the Company acquired four skilled nursing facilities and two senior housing facilities (the “Nye Portfolio”) for $90.0 million. The Company may pay an earn-out based on incremental portfolio value created through the improvement of current operations as well as through expansion and conversion projects associated with these facilities. The earn-out amount will be determined based on portfolio performance following the third anniversary of the master lease. To determine the value of the contingent consideration, the Company used significant inputs not observable in the market to estimate the earn-out, made assumptions regarding the probability of the portfolio achieving the incremental value and then applied an appropriate discount rate. The Company estimated a contingent consideration liability of $3.2 million at the time of purchase. As of September 30, 2014, based on the potential future performance of the Nye Portfolio, the contingent consideration liability is estimated at $3.4 million and is included in accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheet. During the three and nine months ended September 30, 2014, the Company recorded an adjustment to the contingent consideration liability of $0.1 million and $0.2 million, respectively, and included this amount in Other (expense) income on the accompanying condensed consolidated statements of income.

Table of Contents

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 September 30, 2014

Property Type	Number of Properties	Number of Beds/Units	Total Real Estate at Cost	Accumulated Depreciation	Total Real Estate Investments, Net
Skilled Nursing/Transitional Care	102	11,460	$825,378	$(151,842)	$673,536
Senior Housing	50	4,818	746,130	(17,395)	728,735
Acute Care Hospitals	2	124	175,807	(9,873)	165,934
	154	16,402	1,747,315	(179,110)	1,568,205
Corporate Level			254	(191)	63
			$1,747,569	$(179,301)	$1,568,268

As of December 31, 2013

Property Type	Number of Properties	Number of Beds/Units	Total Real Estate at Cost	Accumulated Depreciation	Total Real Estate Investments, Net
Skilled Nursing/Transitional Care	96	10,826	$737,188	$(132,068)	$605,120
Senior Housing	23	1,518	153,247	(13,337)	139,910
Acute Care Hospitals	2	124	175,807	(5,520)	170,287
	121	12,468	1,066,242	(150,925)	915,317
Corporate Level			254	(153)	101
			$1,066,496	$(151,078)	$915,418

	September 30, 2014	December 31, 2013
Building and improvements	$1,476,202	$879,926
Furniture and equipment	80,977	50,567
Land improvements	4,392	4,392
Land	185,998	131,611
	1,747,569	1,066,496
Accumulated depreciation	(179,301)	(151,078)
	$1,568,268	$915,418

Operating Leases

As of September 30, 2014, all of the Company’s real estate properties were leased under triple-net operating leases with expirations ranging from six to 18 years. As of September 30, 2014, the leases had a weighted-average remaining term of 11 years. The leases include provisions to extend the lease terms and other negotiated terms and conditions. The Company, through its subsidiaries, retains substantially all of the risks and benefits of ownership of the real estate assets leased to the tenants. In addition, the Company may receive additional security under these operating leases in the form of letters of credit and security deposits from the lessee or guarantees from the parent of the lessee or other related parties. Security deposits received in cash related to tenant leases are included in accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets and totaled $15.6 million and $1.6 million as of September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014, 81 of the Company's 154 real estate properties held for investment were leased to subsidiaries of Genesis.

The Company monitors the creditworthiness of its tenants by reviewing credit ratings (if available) and evaluating the ability of the tenants to meet their lease obligations to the Company based on the tenants’ financial performance, including the evaluation of any parent guarantees (or the guarantees of other related parties) of tenant lease obligations. Because formal credit ratings may not be available for most of the Company’s tenants, the primary basis for the Company’s evaluation of the credit quality of its tenants (and more specifically the tenants’ ability to pay their rent obligations to the Company) is the tenants’ lease coverage ratios. These coverage ratios include earnings before interest, taxes, depreciation, amortization and rent (“EBITDAR”) to rent coverage and earnings before interest, taxes,

depreciation, amortization, rent and management fees

10

Table of Contents

(“EBITDARM”) to rent coverage at the facility level and consolidated EBITDAR to total fixed charge coverage at the parent guarantor level when such a guarantee exists. 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.

As of September 30, 2014, the future minimum rental payments from the Company’s properties under non-cancelable operating leases were as follows (in thousands):

October 1, 2014 through December 31, 2014	$41,907
2015	171,645
2016	175,883
2017	180,825
2018	185,817
Thereafter	1,410,600
	$2,166,677

5.LOANS RECEIVABLE AND OTHER INVESTMENTS

As of September 30, 2014, the Company’s loans receivable and other investments consisted of the following (dollars in thousands):

Investment	Quantity	Facility Type	Principal Balance as of September 30, 2014	Book Value as of September 30, 2014	Weighted Average Contractual Rate		Weighted Average Annualized Effective Rate		Maturity Date
Loans Receivable:									
Mortgage	4	Skilled Nursing / Senior Housing / Acute Care Hospital	$150,112	$150,515	8.2	%	8.1	%	10/31/16 - 1/31/18
Construction	3	Acute Care Hospital / Memory Care	62,541	62,845	7.5	%	7.3	%	9/30/16 - 10/31/18
Mezzanine	2	Skilled Nursing / Senior Housing	21,730	21,797	11.3	%	11.1	%	12/27/14 - 08/31/17
Pre-development	5	Senior Housing	3,572	3,696	9.0	%	8.2	%	8/16/15 - 09/09/17
	14		237,955	238,853	8.3	%	8.2	%	
Other Investments:									
Preferred Equity	4	Senior Housing	11,631	11,821	11.9	%	11.9	%	NA
Total	18		$249,586	$250,674	8.5	%	8.4	%	

Meridian Mezzanine Loan

On August 15, 2014, the Company originated a $15.5 million mezzanine loan (the “Meridian Mezzanine Loan”) with affiliates of Meridian ALZ Investors, LLC (“Meridian”) in connection with the Company’s previously announced pipeline agreement with Meridian. The proceeds of the mezzanine loan were used to repay the Company's existing preferred equity investment in an affiliate of Meridian totaling $8.3 million (including accrued and unpaid preferred returns), resulting in a net investment by the Company of $7.2 million. The Meridian Mezzanine Loan has a three-year term and bears interest at a fixed rate of 11.0% per annum. It is secured by Meridian's equity interest in two memory care facilities and a skilled nursing facility.

Chai Acquisition Option Exercise

On March 5, 2014, the Company exercised its option to purchase two skilled nursing facilities indirectly securing a related mezzanine loan for $24.5 million.

At the closing of the acquisition, $5.8 million of the sales proceeds were used to repay a portion of the mezzanine loan, resulting in the Company funding an additional $18.7 million for the acquisition and leaving $6.5 million outstanding under the

Table of Contents

mezzanine loan. The Company continues to have an option to purchase up to an additional $25.5 million of the remaining ten properties securing the mezzanine loan.

6. DEBT

Mortgage Indebtedness

The Company's mortgage notes payable consisted of the following (dollars in thousands):

Interest Rate Type	Book Value as of September 30, 2014	Book Value as of December 31, 2013	Weighted Average Effective Interest Rate at September 30, 2014		Maturity Date
Fixed Rate	$124,714	$54,688	3.96	%	May 2031 - August 2051
Variable Rate	—	86,640	NA		NA
	$124,714	$141,328	3.96	%	

Mortgage Debt Refinancing. On January 21, 2014, the Company refinanced $44.8 million of existing variable rate mortgage indebtedness due August 2015 with mortgages guaranteed by the United States Department of Housing and Urban Development ("HUD") at an interest rate of 4.25% with maturities between 2039 and 2044. In addition, on April 8, 2014, the Company refinanced of $11.6 million of variable rate mortgage indebtedness that was previously repaid with funds from its Revolving Credit Facility (defined below). This new $11.6 million mortgage loan is guaranteed by HUD, has an interest rate of 4.10% and matures in 2044. In connection with these refinancings, the Company wrote off $0.5 million in unamortized deferred financing costs during the nine months ended September 30, 2014 and included this amount in loss on extinguishment of debt on the accompanying condensed consolidated statements of income.

Mortgage Debt Repayment. On May 1, 2014, the Company repaid $29.8 million of existing variable rate mortgage indebtedness, having an interest rate of 5.0% per annum, with proceeds from its Revolving Credit Facility. In connection with this repayment, the Company wrote off $0.1 million in unamortized deferred financing costs during the nine months ended September 30, 2014 and included this amount in loss on extinguishment of debt on the accompanying condensed consolidated statements of income.

Senior Unsecured Notes

5.5% Notes due 2021. On January 23, 2014, the Operating Partnership and Sabra Capital Corporation, wholly owned subsidiaries of the Company (the "Issuers"), completed an underwritten public offering of $350.0 million aggregate principal amount of 5.5% senior unsecured notes (the "2021 Notes"). The 2021 Notes were sold at par, resulting in gross proceeds of $350.0 million and net proceeds of approximately $340.8 million after deducting underwriting discounts and other offering expenses. The 2021 Notes accrue interest at a rate of 5.5% per annum payable semiannually on February 1 and August 1 of each year.

On October 10, 2014, the Issuers issued an additional $150.0 million aggregate principal amount of 2021 Notes, which are treated as a single class with, and have the same terms as, the existing 2021 Notes. The notes were issued at 99.5% providing net proceeds of approximately $145.8 million (not including pre-issuance accrued interest), after deducting underwriting discounts and other offering expenses and a yield-to-maturity of 5.593%. The Company used the proceeds from this offering to repay borrowings outstanding under the Revolving Credit Facility.

The 2021 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 February 1, 2017, at the redemption prices set forth in the supplemental indenture governing the 2021 Notes (the "2021 Notes Indenture"), plus accrued and unpaid interest to the applicable redemption date. In addition, prior to February 1, 2017, the Issuers may redeem all or a portion of the 2021 Notes at a redemption price equal to 100% of the principal amount of the 2021 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 February 1, 2017, the Issuers may redeem up to 35% of the principal amount of the 2021 Notes, using the proceeds of specific kinds of equity offerings, at a redemption price of 105.5% of the principal amount to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. Assuming the 2021 Notes are not redeemed, the 2021 Notes mature on February 1, 2021.

5.375% Notes Due 2023. On May 23, 2013, the Issuers completed an underwritten public offering of $200.0 million aggregate principal amount of 5.375% senior unsecured notes (the “2023 Notes”). The 2023 Notes were sold at par, resulting in gross proceeds of $200.0 million and net proceeds of approximately $194.6 million after deducting underwriting discounts and

Table of Contents

other offering expenses. The 2023 Notes accrue interest at a rate of 5.375% per annum payable semiannually on June 1 and December 1 of each year.

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

8.125% Notes due 2018. On October 27, 2010 and July 26, 2012, the Issuers issued $225.0 million and $100.0 million aggregate principal amount of 8.125% senior unsecured notes (the "2018 Notes"), respectively. Pursuant to exchange offers completed on March 14, 2011 and November 14, 2012, the Issuers exchanged the 2018 Notes that were issued in October 2010 and July 2012 for substantially identical 2018 Notes registered under the Securities Act of 1933, as amended. The 2018 Notes accrued interest at a rate of 8.125% per annum payable semiannually on May 1 and November 1 of each year.

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

On January 8, 2014, the Company commenced a cash tender offer with respect to any and all of the outstanding $211.3 million of the 2018 Notes. Pursuant to the tender offer, the Company retired $210.9 million of the 2018 Notes at a premium of 109.837%, plus accrued and unpaid interest, on January 23, 2014. Pursuant to the terms of the 2018 Notes Indenture, the remaining $0.4 million of the 2018 Notes were called and were retired on February 11, 2014 at a redemption price of 109.485% plus accrued and unpaid interest. The tender offer and redemption resulted in $21.6 million of tender offer and redemption related costs and write-offs for the nine months ended September 30, 2014, including $20.8 million in payments made to noteholders for early redemption and $0.8 million of write-offs associated with unamortized deferred financing and premium costs. These amounts are included in loss on extinguishment of debt on the accompanying condensed consolidated statements of income.

The obligations under the 2021 Notes and 2023 Notes (collectively, the "Senior Notes") are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by Sabra and certain of Sabra's other existing and, subject to certain exceptions, future material subsidiaries; provided, however, that such guarantees are subject to release under certain customary circumstances. See Note 10, "Summarized Condensed Consolidating Information" for additional information concerning the circumstances pursuant to which the guarantors will be automatically and unconditionally released from their obligations under the guarantees.

The indentures governing the Senior Notes (the "Senior Notes Indentures") contain restrictive covenants that, among other things, restrict the ability of Sabra, the Issuers and their restricted subsidiaries to: (i) incur or guarantee additional indebtedness; (ii) incur or guarantee secured indebtedness; (iii) pay dividends or distributions on, or redeem or repurchase, their capital stock; (iv) make certain investments or other restricted payments; (v) sell assets; (vi) create liens on their assets; (vii) enter into transactions with affiliates; (viii) merge or consolidate or sell all or substantially all of their assets; and (ix) create restrictions on the ability of Sabra's restricted subsidiaries to pay dividends or other amounts to Sabra. Such limitations on distributions also include a limitation on the extent of allowable cumulative distributions made not to exceed the greater of (a) the sum of (x) 95% of cumulative Adjusted Funds from Operations and (y) the net proceeds from the issuance of common and preferred equity and (b) the minimum amount of distributions required for the Company to maintain its REIT status. The Senior Notes Indentures also provide for

customary events of default, including, but not limited to, the failure to make payments of interest or premium, if any, on, or principal of, the Senior Notes, the failure to comply with certain covenants and agreements specified in the Senior Notes Indentures for a period of time after notice has been provided, the acceleration of other indebtedness resulting from the failure to pay principal on such other indebtedness prior to its maturity, and certain events of insolvency. If any event of default occurs, the principal of, premium, if any, and accrued interest on all the then-outstanding Senior Notes may become due and payable immediately. The Company was in compliance with all applicable financial covenants under the Senior Notes Indentures related to the Senior Notes outstanding as of September 30, 2014.

Table of Contents

Revolving Credit Facility

On September 10, 2014, the Operating Partnership entered into a second amended and restated unsecured revolving credit facility (the "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 Revolving Credit Facility amends and restates the amended and restated secured revolving credit facility (the "Prior Revolving Credit Facility") that the Operating Partnership and certain subsidiaries of the Operating Partnership entered into on July 29, 2013 and amended on October 15, 2013.

The Revolving Credit Facility provides for a borrowing capacity of $650.0 million and provides an accordion feature allowing for an additional $100.0 million of capacity, subject to terms and conditions, resulting in a maximum borrowing capacity of $750.0 million. The Operating Partnership also has an option to convert up to $200.0 million of the Revolving Credit Facility to a term loan subject to terms and conditions. On October 10, 2014, the Operating Partnership converted $200.0 million of the outstanding borrowings under the Revolving Credit Facility to a term loan. Concurrent with the term loan conversion, the Company entered into a five-year interest rate cap contract that caps LIBOR at 2.0%.

While the Prior Revolving Credit Facility was secured by pledges of equity by the Company's wholly-owned subsidiaries that own certain of the Company's real estate assets, the Revolving Credit Facility is unsecured. The Revolving Credit Facility, including amounts that are converted into a term loan, has a maturity date of September 10, 2018, and includes a one year extension option. As of September 30, 2014, there was $614.0 million outstanding under the Company's Revolving Credit Facility.

In connection with the Revolving Credit Facility, the Company wrote off $0.2 million of unamortized deferred financing costs during the nine months ended September 30, 2014. These amounts are included in loss on extinguishment of debt on the accompanying condensed consolidated statements of income.

Borrowings under the Revolving Credit Facility bear interest on the outstanding principal amount at a rate equal to an applicable percentage plus, at the Operating Partnership's option, either (a) LIBOR or (b) a base rate determined as the greater of (i) the federal funds rate plus 0.5%, (ii) the prime rate, and (iii) one-month LIBOR plus 1.0% (referred to as the "Base Rate"). The applicable percentage for borrowings will vary based on the Consolidated Leverage Ratio, as defined in the Revolving Credit Facility, and will range from 2.00% to 2.60% per annum for LIBOR based borrowings and 1.00% to 1.60% per annum for borrowings at the Base Rate. As of September 30, 2014, the interest rate on the Revolving Credit Facility was 2.46%. In addition, the Operating Partnership is required to pay an unused fee to the lenders equal to 0.25% or 0.35% per annum based on the amount of unused borrowings under the Revolving Credit Facility. During the three and nine months ended September 30, 2014, the Company incurred $0.3 million and $2.3 million, respectively, in interest expense on amounts outstanding under the Revolving Credit Facility. During the three and nine months ended September 30, 2014, the Company incurred $0.5 million and $1.1 million, respectively, of unused facility fees.

In the event that Sabra achieves at least two investment grade ratings from S&P, Moody's and/or Fitch, the Operating Partnership can elect to reduce the applicable percentage for LIBOR or Base Rate borrowings. If the Operating Partnership makes this election, the applicable percentage for borrowings will vary based on the Debt Ratings at each Pricing Level, as defined in the credit agreement, and will range from 0.90% to 1.70% per annum for LIBOR based borrowings and 0.00% to 0.70% per annum for borrowings at the Base Rate. In addition, should the Operating Partnership elect this option, the unused fee will no longer apply and a facility fee ranging between 0.125% and 0.300% per annum will take effect based on the borrowing capacity regardless of amounts outstanding under the Revolving Credit Facility.

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

The Revolving Credit Facility contains customary covenants that include restrictions or limitations on the ability to make acquisitions and other investments, make distributions, incur additional indebtedness, engage in non-healthcare related business activities, enter into transactions with affiliates and sell or otherwise transfer certain assets as well as customary events of default. The Revolving Credit Facility also requires Sabra, through the Operating Partnership, 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, 2014, the Company was in compliance with all applicable financial covenants under the Revolving Credit Facility.

Interest Expense

The Company incurred interest expense of $10.5 million and $32.7 million during the three and nine months ended September 30, 2014, respectively, and $9.7 million and $29.9 million during the three and nine months ended September 30,

Table of Contents

2013, respectively. Interest expense includes deferred financing costs amortization of $0.9 million and $2.8 million for the three and nine months ended September 30, 2014, respectively, and $0.8 million and $2.4 million for the three and nine months ended September 30, 2013, respectively. As of September 30, 2014 and December 31, 2013, the Company had $7.9 million and $4.7 million, respectively, of accrued interest included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets.

Maturities

The following is a schedule of maturities for the Company's outstanding debt as of September 30, 2014 (in thousands):

	Mortgage Indebtedness	Senior Notes	Revolving Credit Facility (1) (2)	Total
October 1, 2014 through December 31, 2014	$691	$—	$—	$691
2015	2,823	—	—	2,823
2016	2,917	—	—	2,917
2017	3,013	—	—	3,013
2018	3,114	—	614,000	617,114
Thereafter	112,156	550,000	—	662,156
	$124,714	$550,000	$614,000	$1,288,714

(1) Subject to a one-year extension option.

(2) On October 10, 2014, the Operating Partnership converted $200.0 million of the outstanding borrowings under the Revolving Credit Facility to a term loan.

7.FAIR VALUE DISCLOSURES

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

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

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

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

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

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

Table of Contents

The following are the face values, carrying amounts and fair values of the Company's financial instruments as of September 30, 2014 and December 31, 2013 whose carrying amounts do not approximate their fair value (in thousands):

	September 30, 2014			December 31, 2013		
	Face Value [(1)]	Carrying Amount [(2)]	Fair Value	Face Value [(1)]	Carrying Amount [(2)]	Fair Value
Financial assets:						
Loans receivable	$237,955	$238,853	$237,385	$176,558	$177,509	$176,985
Preferred equity investments	11,631	11,821	12,268	7,695	7,784	7,950
Financial liabilities:						
Senior Notes	550,000	550,000	547,000	411,250	414,402	421,122
Mortgage indebtedness	124,714	124,714	108,467	141,328	141,328	130,622

(1) Face value represents amounts contractually due under the terms of the respective agreements.
(2) Carrying amounts represent the book value of financial instruments and include unamortized premiums (discounts).
The Company determined the fair value of financial instruments as of September 30, 2014 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	$237,385	$—	$—	$237,385
Preferred equity investments	12,268	—	—	12,268
Financial liabilities:				
Senior Notes	547,000	—	547,000	—
Mortgage indebtedness	108,467	—	—	108,467

Disclosure of the fair value of financial instruments is based on pertinent information available to the Company at the applicable dates and requires a significant amount of judgment. Despite increased capital market and credit market activity, transaction volume for certain financial instruments remains relatively low. This has made the estimation of fair values difficult and, therefore, both the actual results and the Company's estimate of fair value at a future date could be materially different.
During the nine months ended September 30, 2014, the Company recorded the following amounts measured at fair value (in thousands):

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring Basis:				
Contingent consideration liability	$4,600	$—	$—	$4,600

The Company's contingent consideration liability is the result of two acquisitions of real estate properties (see Note 3, "Recent Real Estate Acquisitions" for further details regarding the new contingent liability). In order to determine the fair value of the Company's contingent consideration liability, the Company used significant inputs not observable in the market to estimate the liability, then developed probability-weighted scenarios of the potential future performance of the tenant and the resulting payout from these scenarios. As of September 30, 2014, the total contingent consideration liability was valued at $4.6 million. The following reconciliation provides the details of activity during the nine months ended September 30, 2014 for contingent consideration liability recorded at fair value using Level 3

inputs:

Balance as of December 31, 2013	$7,500
New contingent liability	3,200
Decrease in contingent liability	(860)
Payment of contingent liability	(5,240)
Balance as of September 30, 2014	$4,600

A corresponding amount equal to the decrease in contingent liability was included as other income on the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2014.

8. EQUITY

Preferred Stock

On March 21, 2013, the Company completed an underwritten public offering of 5.8 million shares of 7.125% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock") at a price of $25.00 per share, pursuant to an effective registration statement. The Company received net proceeds of $138.3 million from the offering, after deducting underwriting discounts and other offering expenses. The Company classified the par value as preferred equity on its condensed consolidated balance sheets with the balance of the liquidation preference, net of any issuance costs, recorded as an increase in paid-in capital.

The holders of the Company’s Series A Preferred Stock rank senior to the Company’s common stock with respect to dividend rights and rights upon the Company’s liquidation, dissolution or winding up of its affairs. At September 30, 2014, there were no dividends in arrears.

The Series A Preferred Stock does not have a stated maturity date, but the Company may redeem the Series A Preferred Stock on or after March 21, 2018, for $25.00 per share, plus any accrued and unpaid dividends. The Company may redeem the Series A Preferred Stock prior to March 21, 2018, in limited circumstances to preserve its status as a REIT or pursuant to a specified change of control. Upon the occurrence of a specified change of control, each holder of Series A Preferred Stock will have the right to convert some or all of the shares of Series A Preferred Stock held by such holder into a number of shares of the Company’s common stock equivalent to $25.00 plus accrued and unpaid dividends, but not to exceed a cap of 1.7864 shares of common stock per share of Series A Preferred Stock (subject to certain adjustments).

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, 2014:

Declaration Date	Record Date	Amount Per Share	Dividend Payable Date
January 23, 2014	February 15, 2014	$0.36	February 28, 2014
May 5, 2014	May 15, 2014	0.38	May 30, 2014
July 30, 2014	August 15, 2014	0.38	August 29, 2014

On May 12, 2014, the Company completed an underwritten public offering of 8.1 million newly issued shares of its common stock pursuant to an effective registration statement. The Company received net proceeds, before expenses, of $219.1 million from the offering, after giving effect to the issuance and sale of all 8.1 million shares of common stock (which included 1.1 million shares sold to the underwriters upon exercise of their option to purchase additional shares), at a price to the public of $28.35 per share.

On October 3, 2014, the Company completed an underwritten public offering of 6.9 million newly issued shares of its common stock pursuant to an effective registration statement. The Company received net proceeds, before expenses, of $160.6 million from the offering, after giving effect to the issuance and sale of all 6.9 million shares of common stock (which included 0.9 million shares sold to the underwriters upon exercise of their option to purchase additional shares), at a price to the public of $24.25 per share.

During the nine months ended September 30, 2014, the Company issued 0.2 million shares of common stock as a result of restricted stock unit vestings and in connection with amounts payable under the Company's 2013 Bonus Plan pursuant to an election by certain participants to receive their bonus payment in shares of the Company's common

stock. During the nine months ended September 30, 2014, the Company issued 11,515 shares of common stock as a result of stock options exercised.
Upon any payment of shares as a result of restricted stock unit vestings, the participant is required to satisfy the related tax withholding obligation. The 2009 Performance Incentive Plan provides that the Company has the right at its option to (a) require the participant to pay such tax withholding or (b) reduce the number of shares to be delivered by a number of shares necessary to satisfy the related minimum applicable statutory tax withholding obligation. During the nine months ended September 30, 2014, pursuant to advance elections made by certain participants, the Company paid $5.1 million in tax withholding obligations that were satisfied through a reduction in the number of shares delivered to those participants.
At-The-Market Common Stock Offering Program (“ATM Program”)
On March 18, 2013, the Company entered into a sales agreement (each, a “Sales Agreement”) with each of Barclays Capital Inc., Cantor Fitzgerald & Co., Credit Agricole Securities (USA) Inc., RBC Capital Markets, LLC, RBS Securities Inc. and Wells Fargo Securities, LLC (individually, a “Sales Agent” and together, the “Sales Agents”) to sell shares of its common stock having aggregate gross proceeds of up to $100.0 million (the “ATM Shares”) from time to time through the Sales Agents.
Pursuant to the terms of the Sales Agreements, the ATM Shares may be sold by any method permitted by law deemed to be an “at-the-market” offering, including, without limitation, sales made directly on the NASDAQ Global Select Market, on any other existing trading market for the Company's common stock or to or through a market maker. In addition, with the Company's prior consent, the Sales Agents may also sell the ATM Shares in privately negotiated transactions. The Company will pay each Sales Agent a commission of up to 2% of the gross proceeds from the sales of ATM Shares sold pursuant to the applicable Sales Agreement.
During the three months ended September 30, 2014, the Company sold 0.4 million ATM Shares, at an average price of $28.28 per share, generating gross proceeds of approximately $10.3 million, before $0.2 million of commissions. During the nine months ended September 30, 2014, the Company sold 0.6 million ATM Shares, at an average price of $28.05 per share, generating gross proceeds of approximately $16.9 million, before $0.3 million of commissions. As of September 30, 2014, the Company had $44.8 million available under the ATM Program.

9. 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, 2014 and 2013 (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator				
Net income attributable to common stockholders	$14,643	$9,242	$17,020	$15,310
Denominator				
Basic weighted average common shares	47,359,949	37,358,334	43,358,620	37,334,120
Dilutive stock options and restricted stock units	517,253	470,239	481,930	443,338
Diluted weighted average common shares	47,877,202	37,828,573	43,840,550	37,777,458
Net income attributable to common stockholders, per:				
Basic common share	$0.31	$0.25	$0.39	$0.41
Diluted common share	$0.31	$0.24	$0.39	$0.41

Certain of our outstanding restricted stock units are considered participating securities because dividend payments are not forfeited even if the underlying award does not vest. Accordingly, the Company uses the two-class method when computing basic and diluted earnings per share. During the three months ended September 30, 2014 and 2013, no

restricted stock units were considered anti-dilutive. During the nine months ended September 30, 2014, approximately 5,000 restricted stock units were not included because they were considered anti-dilutive. During the nine months ended September 30, 2013, approximately 3,000 restricted stock units were not included because they were anti-dilutive. No stock options were considered anti-dilutive during the three and nine months ended September 30, 2014 and 2013.

10.SUMMARIZED CONDENSED CONSOLIDATING INFORMATION

In connection with the offerings of the Senior Notes by the Issuers and the Issuers' previous offerings of the 2018 Notes (which were no longer outstanding as of September 30, 2014), the Company and certain 100% owned subsidiaries of the Company (the "Guarantors") have, jointly and severally, fully and unconditionally guaranteed the Senior Notes, subject to release under certain customary circumstances as described below. These guarantees are subordinated to all existing and future senior debt and senior guarantees of the Guarantors and are unsecured. The Company conducts all of its business through and derives virtually all of its income from its subsidiaries. Therefore, the Company's ability to make required payments with respect to its indebtedness (including the Senior Notes) and other obligations depends on the financial results and condition of its subsidiaries and its ability to receive funds from its subsidiaries.

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

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

Pursuant to Rule 3-10 of Regulation S-X, the following summarized condensed 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:

CONDENSED CONSOLIDATING BALANCE SHEET
September 30, 2014
(in thousands)
(unaudited)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Assets						
Real estate investments, net of accumulated depreciation	$63	$—	$1,426,998	$ 141,207	$—	$1,568,268
Loans receivable and other investments, net	—	—	250,674	—	—	250,674
Cash and cash equivalents	21,475	—	—	4,004	—	25,479
Restricted cash	—	—	160	6,377	—	6,537
Deferred tax assets	24,212	—	—	—	—	24,212
Prepaid expenses, deferred financing costs and other assets	977	20,920	112,615	7,684	—	142,196
Intercompany	230,614	965,828	—	—	(1,196,442)	—
Investment in subsidiaries	417,157	602,179	24,887	—	(1,044,223)	—
Total assets	$694,498	$1,588,927	$1,815,334	$ 159,272	$(2,240,665)	$2,017,366
Liabilities						
Mortgage notes	$—	$—	$—	$ 124,714	$—	$124,714
Revolving credit facility	—	614,000	—	—	—	614,000
Senior unsecured notes	—	550,000	—	—	—	550,000
Accounts payable and accrued liabilities	6,536	7,770	24,864	1,549	—	40,719
Tax liability	24,212	—	—	—	—	24,212
Intercompany	—	—	1,191,119	5,323	(1,196,442)	—
Total liabilities	30,748	1,171,770	1,215,983	131,586	(1,196,442)	1,353,645
Total equity	663,750	417,157	599,351	27,686	(1,044,223)	663,721
Total liabilities and equity	$694,498	$1,588,927	$1,815,334	$ 159,272	$(2,240,665)	$2,017,366

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2013
(in thousands)

	Parent Company	Issuers	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Assets						
Real estate investments, net of accumulated depreciation	$101	$—	$751,771	$163,546	$—	$