Kentucky Holdings I LLC
Form S-4
September 13, 2012
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As filed with the Securities and Exchange Commission on September 13, 2012

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

SABRA HEALTH CARE LIMITED PARTNERSHIP

SABRA CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**6798**	**27-2712888**
Delaware	**6798**	**27-3642390**
(State of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

For Co-Registrants, please see Table of Co-Registrants on the following page.

18500 Von Karman Avenue, Suite 550

Irvine, CA 92612

(888) 393-8248

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Richard K. Matros

President and Chief Executive Officer

Sabra Health Care REIT, Inc.

18500 Von Karman Avenue, Suite 550

Irvine, CA 92612

(888) 393-8248

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

Andor D. Terner, Esq.

Shelly A. Heyduk, Esq.

O Melveny & Myers LLP

610 Newport Center Drive, 17th Floor

Newport Beach, CA 92660

(949) 823-6900

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement is declared effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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):

Registrants and Co-Registrants (other than Sabra Health Care REIT, Inc.).:	Large-accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company ¨
Sabra Health Care REIT, Inc. (a Co-Registrant):	Large-accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) ¨

Exchange Act Rule 14d-1(d) (Cross-Border Third Party Tender Offer) ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered**	**Proposed Maximum Offering Price per Unit (1)**	**Proposed Maximum Aggregate Offering Price**	**Amount of Registration Fee**
8.125% Senior Notes due 2018 (2)	$100,000,000	100%	$100,000,000	$11,460.00
Guarantees of 8.125% Senior Notes due 2018	(3)	(3)	(3)	(3)

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(f) promulgated under the Securities Act of 1933, as amended.
(2) The 8.125% Senior Notes due 2018 will be the obligations of Sabra Health Care Limited Partnership and Sabra Capital Corporation.
(3) Each of the Co-Registrants listed on the Table of Co-Registrants on the following page will guarantee on a full and unconditional basis the obligations of Sabra Health Care Limited Partnership and Sabra Capital Corporation under the 8.125% Senior Notes due 2018. No separate filing fee is required pursuant to Rule 457(n) under the Securities Act.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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TABLE OF CO-REGISTRANTS

Name	State or Other Jurisdiction of Incorporation or Organization	Primary Standard Industrial Classification Code Number	I.R.S. Employer Identification Number
Sabra Health Care REIT, Inc.	Maryland	6798	27-2560479
Sabra Health Care, L.L.C.	Delaware	6798	27-2696900
Sabra Health Care Holdings I, LLC	Delaware	6798	27-2713167
Sabra Health Care Holdings II, LLC	Delaware	6798	27-2713398
Orchard Ridge Nursing Center LLC	Massachusetts	6798	04-3072231
New Hampshire Holdings, LLC	Delaware	6798	20-1862503
Oakhurst Manor Nursing Center LLC	Massachusetts	6798	04-3072232
Sunset Point Nursing Center LLC	Massachusetts	6798	04-3072233
Connecticut Holdings I, LLC	Delaware	6798	20-4599420
West Bay Nursing Center LLC	Massachusetts	6798	04-3072226
HHC 1998-1 Trust	Massachusetts	6798	04-6872003
Northwest Holdings I, LLC	Delaware	6798	47-0913206
395 Harding Street, LLC	Delaware	6798	47-0913207
1104 Wesley Avenue, LLC	Delaware	6798	47-0913211
Kentucky Holdings I, LLC	Delaware	6798	20-2512023
Sabra Lake Drive, LLC	Delaware	6798	75-3098968
Bay Tree Nursing Center LLC	Massachusetts	6798	04-3071703
Sabra Health Care Holdings III, LLC	Delaware	6798	27-2713574
Sabra Health Care Holdings IV, LLC	Delaware	6798	27-2713747
Sabra Idaho, LLC	Delaware	6798	27-3541245
Sabra California II, LLC	Delaware	6798	27-3540830
Sabra New Mexico, LLC	Delaware	6798	27-3541140
Sabra Connecticut II, LLC	Delaware	6798	27-3541049
Sabra Ohio, LLC	Delaware	6798	27-3540905
Sabra Kentucky, LLC	Delaware	6798	27-3662491
Sabra NC, LLC	Delaware	6798	27-3662387
Sabra Texas Properties, L.P.	Texas	6798	45-3643319
Sabra Texas GP, LLC	Texas	6798	80-0763246
Sabra Texas Holdings, L.P.	Texas	6798	36-4740794
Sabra Texas Holdings GP, LLC	Texas	6798	36-4740701
Sabra Health Care Virginia, LLC	Delaware	6798	80-0847513
Sabra Health Care Pennsylvania, LLC	Delaware	6798	30-0748318
Sabra Health Care Northeast, LLC	Delaware	6798	90-0883325
Sabra Health Care Delaware, LLC	Delaware	6798	38-3883573
Sabra Phoenix TRS Venture, LLC	Delaware	6798	80-0842040

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 13, 2012

Prospectus

$100,000,000

Sabra Health Care Limited Partnership

Sabra Capital Corporation

Exchange Offer for

8.125% Senior Notes due 2018

We are offering to exchange all of our outstanding 8.125% Senior Notes due 2018, having an aggregate principal amount of $100,000,000 (the Old Notes), for up to $100,000,000 in aggregate principal amount of 8.125% Senior Notes due 2018 that have been registered under the Securities Act of 1933, as amended (the Securities Act) (the Exchange Notes). The Old Notes were issued as additional notes under the indenture pursuant to which, on October 27, 2010, we issued $225,000,000 aggregate principal amount of 8.125% Senior Notes due 2018 that were subsequently exchanged on March 14, 2011 for notes registered under the Securities Act (the existing 2018 notes and, together with the Exchange Notes and the Old Notes, the notes).

Terms of the Exchange Offer:

Expires 5:00 p.m., New York City time, , 2012, unless extended.

You may withdraw tendered outstanding Old Notes any time before the expiration or termination of the exchange offer.

The exchange offer is subject to customary conditions that may be waived by us.

We will not receive any proceeds from the exchange offer.

The exchange of Old Notes for the Exchange Notes should not be a taxable exchange for United States federal income tax purposes. See U.S. Federal Income Tax Considerations.

All Old Notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer will be exchanged for the Exchange Notes.

Terms of the Exchange Notes:

The Exchange Notes will mature on November 1, 2018. The Exchange Notes will pay interest semi-annually in cash in arrears on May 1 and November 1 of each year, beginning on the first such date occurring after the Old Notes are tendered and accepted for exchange.

The Exchange Notes will be fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by Sabra Health Care REIT, Inc. and certain of its existing and, subject to certain exceptions, future subsidiaries other than the issuers, Sabra Health Care Limited Partnership and Sabra Capital Corporation.

The Exchange Notes and the related guarantees will rank effectively junior to all secured indebtedness to the extent of the value of the collateral securing such debt, *pari passu* with all existing and future senior unsecured indebtedness and senior to all existing and future indebtedness that by its terms is expressly subordinated to the Exchange Notes.

We may redeem the Exchange Notes in whole or in part from time to time. See Description of Exchange Notes.

Upon a change of control, we must give holders the opportunity to sell their Exchange Notes to us at 101% of their principal amount plus accrued and unpaid interest, if any.

The terms of the Exchange Notes are identical to those of the outstanding Old Notes, except the transfer restrictions, registration rights and additional interest provisions relating to the Old Notes do not apply to the Exchange Notes.

For a discussion of the specific risks that you should consider before tendering your outstanding Old Notes in the exchange offer, see Risk Factors beginning on page 11 of this prospectus.

No public market exists for the outstanding Old Notes. We do not intend to list the Exchange Notes on any securities exchange and, therefore, no active public market is anticipated for the Exchange Notes.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2012.

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Each broker-dealer that receives Exchange Notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. By so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. A broker-dealer who acquired Old Notes as a result of market making or other trading activities may use this prospectus, as supplemented or amended from time to time, in connection with any resales of the Exchange Notes. We have agreed that, for a period of up to 180 days after the closing of the exchange offer, we will make this prospectus available for use in connection with any such resale. See Plan of Distribution.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy securities other than those specifically offered hereby or an offer to sell any securities offered hereby in any jurisdiction where, or to any person whom, it is unlawful to make such offer or solicitation. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the Exchange Notes.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements and information. 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 distributions, 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 Healthcare Group, Inc. (Sun) 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-looki 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 qualify and maintain our status as a real estate investment trust (REIT); and

- compliance with REIT requirements and certain tax matters related to 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 contained in the section of this prospectus titled Risk Factors. We caution you that any forward-looking statements made in this prospectus 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 hereof. We do not intend, and we undertake no obligation, to update any forward-looking information to reflect future events or circumstances or to reflect the occurrence of unanticipated events, unless required by law to do so.

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INDUSTRY AND MARKET DATA

This prospectus includes information with respect to market share and industry conditions from third-party sources or based upon our estimates using such sources when available. While we believe that such information and estimates are reasonable and reliable, we have not independently verified any of the data from third-party sources. Similarly, our internal research is based upon our understanding of industry conditions, and such information has not been verified by any independent sources.

TENANT INFORMATION

This prospectus includes information regarding Sun. 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. Sun s filings with the SEC can be found at *www.sec.gov*. This prospectus also includes information regarding each of our other tenants that lease properties from us. The information related to Sun and our other tenants that is provided in this prospectus has been provided by the tenants or, in the case of Sun, derived from Sun s 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.

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SUMMARY

This summary highlights information contained in this prospectus. It is not complete and does not contain all of the information that you should consider before participating in the exchange offer. To fully understand the exchange offer, you should read carefully this entire prospectus, including the section entitled Risk Factors and the consolidated financial statements and notes thereto.

As used in this prospectus, unless otherwise specified or the context otherwise requires, the terms Sabra, we, our, and us refer to Sabra Health Care REIT, Inc. and its subsidiaries on a consolidated basis.

Our Company

We operate as a self-administered, self-managed REIT that, through our subsidiaries, owns and invests in real estate serving the healthcare industry. We primarily generate revenues by leasing properties to tenants and operators throughout the United States.

As of June 30, 2012, our investment portfolio consisted of 103 real estate properties (consisting of (i) 93 skilled nursing/post-acute facilities, (ii) nine senior housing facilities, and (iii) one acute care hospital), one mortgage loan investment and one mezzanine loan investment. As of June 30, 2012, our real estate properties were located in 25 states and included 11,392 licensed beds. As of June 30, 2012, all of our real estate properties are leased under triple-net operating leases with expirations ranging from nine to 22 years.

We expect to continue to grow our portfolio primarily through the acquisition of healthcare facilities with a focus on skilled nursing, assisted living and memory care facilities and through the origination of financing secured directly or indirectly by healthcare facilities. We also expect to opportunistically consider acquiring independent living and continuing care retirement community facilities and hospitals. We intend to finance our investments with cash on hand and availability under our Amended Secured Revolving Credit Facility, which is described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. As we acquire additional properties and expand our portfolio, we expect to further diversify by tenant, asset class and geography within the healthcare sector. We employ a disciplined, opportunistic approach in our healthcare real estate investment strategy by investing in assets that provide attractive opportunities for dividend growth and appreciation of asset values, while maintaining balance sheet strength and liquidity, thereby creating long-term stockholder value.

Corporate Information

Sabra Health Care Limited Partnership, a Delaware limited partnership (the Operating Partnership), and Sabra Capital Corporation, a Delaware corporation (together with the Operating Partnership, the Issuers), are wholly owned subsidiaries of Sabra Health Care REIT, Inc., a Maryland corporation. Sabra Health Care REIT, Inc. is a self-administered, self-managed realty company that owns and invests in real estate serving the healthcare industry through the Operating Partnership and other subsidiaries. Sabra Capital Corporation is a wholly owned subsidiary of the Operating Partnership formed for the purpose of acting as a co-issuer of the notes and does not and will not have any substantial operations, assets or revenues.

The subsidiary guarantors of the notes are all organized in the state of Delaware, except Orchard Ridge Nursing Center LLC, Oakhurst Manor Nursing Center LLC, Sunset Point Nursing Center LLC, West Bay Nursing Center LLC, HHC 1998-1 Trust, and Bay Tree Nursing Center LLC, which are organized in the state of Massachusetts, and Sabra Texas GP, LLC, Sabra Texas Holdings GP, LLC, Sabra Texas Properties, L.P., and Sabra Texas Holdings, L.P., which are organized in the state of Texas.

Sabra s principal executive offices are located at 18500 Von Karman Avenue, Suite 550, Irvine, CA 92612 and our telephone number is (888) 393-8248. We maintain a website at *www.sabrahealth.com*. **None of the information contained on our website or on websites linked to our website is part of this prospectus.**

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The Exchange Offer

On July 26, 2012, the Issuers sold, through a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act), $100,000,000 aggregate principal amount of 8.125% Senior Notes due 2018 (the Old Notes), all of which are eligible to be exchanged for notes that have been registered under the Securities Act (the Exchange Notes). The Old Notes were issued as additional notes under the indenture pursuant to which, on October 27, 2010, we issued $225,000,000 aggregate principal amount of 8.125% Senior Notes due 2018 that were subsequently exchanged on March 14, 2011 for notes registered under the Securities Act (the existing 2018 notes). The Old Notes, the Exchange Notes and the existing 2018 notes are referred to together as the notes.

Simultaneously with the private placement, we entered into a registration rights agreement with the initial purchasers of the Old Notes (the Registration Rights Agreement). Under the Registration Rights Agreement, we are required to cause a registration statement for substantially identical notes, which will be issued in exchange for the Old Notes, to be filed with the Securities and Exchange Commission (the SEC) and to use our commercially reasonable efforts to complete the exchange offer within 150 days following the date on which we issued the Old Notes. You may exchange your Old Notes for Exchange Notes in this exchange offer. You should read the discussion under the headings The Exchange Notes, The Exchange Offer and Description of Exchange Notes for further information regarding the Exchange Notes.

Securities to be Exchanged	Up to $100,000,000 principal amount of 8.125% Senior Notes due 2018.
The Exchange Offer; Securities Act Registration	We are offering to exchange the Old Notes for an equal principal amount of the Exchange Notes. Old Notes may be exchanged only in denominations of $2,000 of principal amount and any integral multiple of $1,000 in excess thereof.
	The exchange offer is being made pursuant to the Registration Rights Agreement, which grants the initial purchasers and any subsequent holders of the Old Notes certain exchange and registration rights. This exchange offer is intended to satisfy those exchange and registration rights with respect to the Old Notes. After the exchange offer is complete and except for our obligations to file a shelf registration statement under the circumstances described below, you will no longer be entitled to any exchange or registration rights with respect to Old Notes.
	You may tender your outstanding Old Notes for Exchange Notes by following the procedures described under the heading The Exchange Offer.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on , 2012, or a later date and time to which the Issuers may extend it.
Withdrawal Rights	You may withdraw your tender of the Old Notes at any time prior to the expiration date of the exchange offer. Any Old Notes not accepted by us for exchange for any reason will be returned to you at our expense promptly after the expiration or termination of the exchange offer.

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Conditions to the Exchange Offer	The exchange offer is subject to customary conditions, some of which we may waive.
	We intend to conduct the exchange offer in accordance with the provisions of the Registration Rights Agreement and the applicable requirements of the Securities Act, the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules and regulations of the SEC.
	For more information, see The Exchange Offer Conditions to the Exchange Offer.
Procedures for Tendering Old Notes Through Brokers and Banks	Since the Old Notes are represented by global book-entry notes, The Depositary Trust Company (DTC), as depositary, or its nominee is treated as the registered holder of the Old Notes and will be the only entity that can tender your Old Notes for Exchange Notes.
To tender your outstanding Old Notes, you must instruct the institution where you keep your Old Notes to tender your Old Notes on your behalf so that they are received on or prior to the expiration of this exchange offer. By tendering your Old Notes you will be deemed to have acknowledged and agreed to be bound by the terms set forth under The Exchange Offer. Your outstanding Old Notes must be tendered in denominations of $2,000 of principal amount and any integral multiple of $1,000 in excess thereof.	
	In order for your tender to be considered valid, the exchange agent must receive a confirmation of book-entry transfer of your outstanding Old Notes into the exchange agent s account at DTC, under the procedure described in this prospectus under the heading The Exchange Offer, on or before 5:00 p.m., New York City time, on the expiration date of the exchange offer.
	See The Exchange Offer for more information regarding the procedures for tendering Old Notes.
Effect of Not Tendering Old Notes	If you do not tender your Old Notes or if you do tender them but they are not accepted by us, your Old Notes will continue to be subject to the existing restrictions upon transfer. Except for our obligation to file a shelf registration statement under the circumstances described below, we will have no further obligation to provide for the registration under the Securities Act of Old Notes. If your outstanding Old Notes are not tendered and accepted in the exchange offer, it may become more difficult for you to sell or transfer your outstanding Old Notes. The Old Notes have a separate CUSIP number from that of the existing 2018 notes.

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Resale of the Exchange Notes	Under existing interpretations by the staff of the SEC as set forth in no-action letters issued to unrelated third parties and referenced below, we believe that the Exchange Notes issued in the exchange offer in exchange for Old Notes may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act, if you: are not an affiliate of ours within the meaning of Rule 405 of the Securities Act; are acquiring the Exchange Notes in the ordinary course of business; and have no arrangement or understanding with any person to participate in a distribution of the Exchange Notes. In addition, each participating broker-dealer that receives Exchange Notes for its own account pursuant to the exchange offer in exchange for Old Notes that were acquired as a result of market-making or other trading activity must also acknowledge that it will deliver a prospectus in connection with any resale of the Exchange Notes. For more information, see Plan of Distribution. Any holder of Old Notes, including any broker-dealer, who: is our affiliate, does not acquire the Exchange Notes in the ordinary course of its business, or tenders in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of Exchange Notes, cannot rely on the position of the staff of the SEC expressed in *Exxon Capital Holdings Corporation, Morgan Stanley & Co., Incorporated* or similar no-action letters and, in the absence of an applicable exemption, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with the resale of the Exchange Notes or it may incur liability under the Securities Act. We will not be responsible for, or indemnify against, any such liability.
Minimum Condition	The exchange offer is not conditioned on any minimum aggregate principal amount of Old Notes being tendered for exchange.
Appraisal or Dissenters Rights	Holders of the Old Notes do not have any appraisal or dissenters rights in connection with the exchange offer.

U.S. Federal Income Tax Considerations	Your exchange of Old Notes for Exchange Notes to be issued in the exchange offer will not be a taxable event for U.S. federal income tax purposes. See U.S. Federal Income Tax Considerations for a summary of U.S. federal tax consequences associated with the exchange of Old Notes for Exchange Notes and the ownership and disposition of those Exchange Notes.

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Use of Proceeds	We will not receive any proceeds from the issuance of Exchange Notes pursuant to the exchange offer.
Exchange Agent	Wells Fargo Bank, National Association is serving as the exchange agent in connection with the exchange offer. The address and telephone number of the exchange agent are set forth under the heading The Exchange Offer Exchange Agent.
Shelf Registration Statement	The Registration Rights Agreement requires that we file a shelf registration statement, in addition to or in lieu of conducting the exchange offer, in the event that:

(a) we are not permitted to file the exchange offer registration statement or to consummate the exchange offer due to a change in law or SEC policy; or

(b) for any reason, we do not consummate the exchange offer within 150 days following the date on which we issued the Old Notes; or

(c) any holder notifies us that:

- it is not permitted under law or SEC policy to participate in the exchange offer;
- it cannot publicly resell Exchange Notes that it acquires in the exchange offer without delivering a prospectus, and the prospectus contained in the exchange offer registration statement is not appropriate or available for resales by that holder;
- it is a broker-dealer and holds Old Notes that it has not exchanged and that it acquired directly from us or one of our affiliates; or
- the initial purchaser so requests (with respect to Old Notes that have not been resold and that it acquired directly from us or one of our affiliates).

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The Exchange Notes

The summary below describes the principal terms of the Exchange Notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The terms of the Exchange Notes are identical to the terms of the Old Notes, except that the transfer restrictions, registration rights and provisions for additional interest relating to the Old Notes do not apply to the Exchange Notes. The Description of Exchange Notes section of this prospectus contains a more detailed description of the terms and conditions of the Exchange Notes.

Issuers	Sabra Health Care Limited Partnership and Sabra Capital Corporation.
Securities Offered	$100,000,000 principal amount of 8.125% Senior Notes due 2018.
Maturity	November 1, 2018.
Interest	Interest on the Exchange Notes will accrue beginning May 1, 2012 or from the date of last payment of interest on the Old Notes, whichever is later. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. We will not pay interest on Old Notes from and after the date such Old Notes are tendered and accepted for exchange.
Interest Rate	Interest will accrue at a rate of 8.125% per annum.
Interest Payment Dates	Each May 1 and November 1, beginning on the first such date occurring after the Old Notes are tendered and accepted for exchange.
Ranking	The Exchange Notes and the guarantees thereof will be our and the guarantors senior unsecured obligations and will rank: senior to all existing and future indebtedness that by its terms is expressly subordinated to the Exchange Notes; *pari passu* with all existing and future senior unsecured indebtedness, including the existing 2018 notes; and effectively junior to all secured indebtedness to the extent of the value of the collateral securing such debt, including our $200.0 million Amended Secured Revolving Credit Facility and our mortgage indebtedness.
Guarantees	The Exchange Notes will be guaranteed by Sabra Health Care REIT, Inc. and all existing and, subject to certain exceptions, future material subsidiaries of the Issuers, other than the Real Property Non-Guarantor Subsidiaries. As used in this prospectus, the Real

Property Non-Guarantor Subsidiaries are the subsidiaries that hold properties subject to mortgages whose terms prohibit such subsidiaries from entering into guarantees of other indebtedness. In each instance, the Exchange Notes will be fully and unconditionally guaranteed, jointly and severally, on an unsecured basis by the applicable guarantors. If we do not make payments required by the Exchange Notes, the guarantors must make them. The subsidiary guarantees may be released under certain circumstances.

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Optional Redemption	We may redeem some or all of the Exchange Notes at any time prior to November 1, 2014 at a price equal to 100% of the principal amount, plus any accrued and unpaid interest to the date of redemption, plus a make-whole premium. The make-whole premium will be based on a discount rate equal to the yield on a comparable U.S. Treasury Security plus 50 basis points. We may also redeem some or all of the Exchange Notes at any time on or after November 1, 2014, at the redemption prices specified under the section Description of Exchange Notes Optional Redemption plus accrued and unpaid interest, if any, to the redemption date.
Optional Redemption After Equity Offering	At any time prior to November 1, 2013, we may also redeem up to 35% of the original aggregate principal amount of the Exchange Notes with the proceeds from specific kinds of equity offerings at a redemption price equal to 108.125% of the aggregate principal amount of the Exchange Notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date. See Description of Exchange Notes Optional Redemption.
Change of Control Offer	If a change in control of our company occurs, we must give holders the opportunity to sell their Exchange Notes to us at 101% of their principal amount plus accrued and unpaid interest, if any.
	We, however, may not be able to pay the required price for our Exchange Notes presented to us at the time of a change of control event because we may have insufficient funds.
Restrictive Covenants	The indenture governing the notes (including the Exchange Notes), dated as of October 27, 2010, as supplemented by the First Supplemental Indenture, dated as of November 4, 2010, and the Second Supplemental Indenture, dated as of July 20, 2012, each among the Issuers, Sabra Health Care REIT, Inc., the guarantors named therein, and Wells Fargo Bank, National Association, as trustee (as supplemented, the Indenture) contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:
	incur or guarantee additional indebtedness;
	incur or guarantee secured indebtedness;
	pay dividends or distributions on, or redeem or repurchase, our capital stock;
	make certain investments;
	create liens on our assets;
	enter into transactions with affiliates;

merge or consolidate or sell all or substantially all of our assets; and

create restrictions on the ability of our restricted subsidiaries to pay dividends or other amounts to us.

	In addition, we are required to maintain Total Unencumbered Assets (as defined in Description of Exchange Notes) of at least 150% of our unsecured indebtedness. These covenants are subject to a number of important limitations and exceptions. See Description of Exchange Notes Covenants.
Absence of a Public Market for the Exchange Notes	Although the Exchange Notes will be treated as a single class with the existing 2018 notes and will be fungible in the trading market with the existing 2018 notes, our existing 2018 notes have only traded since October 27, 2010 and are not listed on any securities exchange. We do not intend to apply for listing of the Exchange Notes on any securities exchange.

You should refer to the section titled Risk Factors on page 11 of this prospectus for a description of some of the risks you should consider before investing in the Exchange Notes.

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Summary Condensed Consolidated Financial and Other Data

The following table sets forth summary condensed consolidated financial data for each of the periods indicated. You should read the following summary condensed consolidated financial and other data in conjunction with our consolidated financial statements and related notes and with Management s Discussion and Analysis of Financial Condition and Results of Operations included in this prospectus. The financial data as of and for the six months ended June 30, 2011 and June 30, 2012 are derived from our unaudited consolidated financial statements and are not necessarily indicative of results for any future period.

	Twelve Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2011 (unaudited)	Year Ended December 31, 2011
		(dollars in thousands)		
Operating Data:				
Revenues	$ 96,662	$ 48,844	$ 36,407	$ 84,225
Expenses:				
Depreciation and amortization	29,074	14,860	12,377	26,591
Interest	31,062	15,846	15,103	30,319
General and administrative	16,691	7,810	5,592	14,473
Net income	$ 19,835	$ 10,328	$ 3,335	$ 12,842
Balance Sheet Data (at period end):				
Cash and cash equivalents	$ 3,110	$ 3,110	$ 3,454	$ 42,250
Real estate investments, net of accumulated depreciation	698,578	698,578	542,590	658,377
Loans receivable, net	21,193	21,193		
Total assets	778,518	778,518	595,802	749,650
Total debt (1)	424,880	424,880	384,426	382,898
Net debt (2)	421,770	421,770	380,972	340,648
Total stockholders equity	316,425	316,425	175,842	326,573
Other Financial Data (unaudited):				
FFO (3)	$ 48,909	$ 25,188	$ 15,712	$ 39,433
AFFO (3)	57,457	29,668	19,368	47,157

(1) Total debt does not include $0.5 million of mortgage premium as of June 30, 2012, June 30, 2011 and December 31, 2011.

(2) Net debt consists of total debt, less cash and cash equivalents.

(3) We believe that net income as defined by U.S. generally accepted accounting principles (GAAP) is the most appropriate earnings measure. We also believe that funds from operations (FFO), as defined by the National Association of Real Estate Investment Trusts (NAREIT), and adjusted funds from operations (AFFO) (and related per share amounts) are important non-GAAP supplemental measures of operating performance for a REIT. We consider FFO and AFFO to be useful measures for reviewing comparative operating and financial performance because, by excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization, and, for AFFO, by excluding non-cash revenues (including straight-line rental income adjustments and amortization of acquired above/below market lease intangibles), non-cash expenses (including stock-based compensation expense and amortization of deferred financing costs) and acquisition pursuit costs, FFO and AFFO can help investors compare our operating performance between periods or as compared to other companies. See further discussion of FFO and AFFO in Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Funds from Operations and Adjusted Funds from Operations.

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The following table reconciles our calculations of FFO and AFFO for the year ended December 31, 2011, for the six months ended June 30, 2011 and 2012, and for the twelve months ended June 30, 2012, to net income, the most directly comparable GAAP financial measure, for the same periods (in thousands):

	Twelve Months Ended June 30, 2012	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Year Ended December 31, 2011
Net income	$ 19,835	$ 10,328	$ 3,335	$ 12,842
Depreciation and amortization	29,074	14,860	12,377	26,591
FFO	48,909	25,188	15,712	39,433
Acquisition pursuit costs	3,779	872	311	3,218
Stock-based compensation expense	5,964	3,842	2,478	4,600
Straight-line rental income adjustments	(3,654)	(1,690)	(128)	(2,092)
Amortization of deferred financing costs	2,450	1,447	995	1,998
AFFO [1]	$ 57,457	$ 29,668	$ 19,368	$ 47,157

(1) AFFO does not include adjustments to FFO for amortization of acquired above/below market lease intangibles as such item is not applicable for the periods presented.

Ratio of Earnings to Fixed Charges

The table below presents our consolidated ratio of earnings to fixed charges for each of the periods indicated. Sabra Health Care REIT, Inc. did not have any operations prior to November 15, 2010 and, accordingly, ratio information is not provided for any period prior to this time. The ratios are based solely on historical financial information and no pro forma adjustments have been made.

Six Months Ended June 30, 2012	Year Ended December 31, 2011	Period from November 15, 2010 through December 31, 2010
1.06x[1]	1.42x[1]	1.65x[1]

(1) For purposes of the ratio of earnings to fixed charges presented, earnings consists of pre-tax net income before fixed charges. Fixed charges consist of interest expensed and capitalized, amortized premiums, discounts and capitalized expenses related to indebtedness and estimated interest within rental expense.

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RISK FACTORS

Before you decide to participate in the exchange offer, you should be aware that an investment in the Exchange Notes involves various risks and uncertainties, including those described below. You should carefully consider the risks and uncertainties described below with all of the other information that is included in this prospectus. If any of these risks actually occur, our business, financial position or results of operations could be materially adversely affected, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We are dependent on Sun until we substantially diversify our portfolio, and an event that has a material adverse effect on Sun s business, financial position or results of operations would have a material adverse effect on our business, financial position or results of operations.

Subsidiaries of Sun were the lessees of 86 of our 103 properties as of June 30, 2012 (with Sun guaranteeing the obligations under these lease agreements) and, therefore, a significant source of our revenues. There can be no assurance that Sun and its subsidiaries will have sufficient assets, income and access to financing to enable them to satisfy their payment obligations under their lease agreements. The inability of Sun and its subsidiaries to meet their rent obligations would materially adversely affect our business, financial position or results of operations including our ability to pay dividends to our stockholders as required to maintain our status as a REIT. The inability of Sun and its subsidiaries to satisfy their other obligations under their lease agreements such as the payment of taxes, insurance and utilities could have a material adverse effect on the condition of the leased properties as well as on our business, financial position and results of operations. For these reasons, if Sun were to experience a material adverse effect on its business, financial position or results of operations, our business, financial position or results of operations would also be materially adversely affected.

Due to our dependence on rental payments from Sun and its subsidiaries as a significant source of revenues, we may be limited in our ability to enforce our rights under these lease agreements or to terminate a lease thereunder. Failure by Sun and its subsidiaries to comply with the terms of their lease agreements or to comply with the healthcare regulations to which the leased properties and Sun s operations are subject could require us to find other lessees for any affected leased properties and there could be a decrease or cessation of rental payments by Sun and its subsidiaries. In such event, we may be unable to locate suitable replacement lessees willing to pay similar rental rates or at all, which would have the effect of reducing our rental revenues.

We are dependent on the operating success of our tenants.

Our tenants revenues are primarily driven by occupancy, Medicare and Medicaid reimbursement and private pay rates. Revenues from government reimbursement have been, and may continue to be, subject to rate cuts and further pressure from federal and state budgetary cuts and constraints. Overall weak economic conditions in the United States may adversely affect occupancy rates of healthcare facilities that rely on private pay residents. Our tenants expenses are driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. To the extent any decrease in revenues and/or any increase in operating expenses results in our tenants not generating enough cash to make scheduled lease payments to us, or if a tenant is subject to bankruptcy or insolvency, our business, financial position or results of operations could be materially adversely affected.

We have substantial indebtedness and the ability to incur significant additional indebtedness.

As of June 30, 2012, on a pro forma basis after giving effect to the offering of the Old Notes and the use of proceeds therefor, we had $325.0 million of indebtedness with respect to the notes (excluding a $6.0 million premium) and $200.0 million in additional borrowings available under our Amended Secured Revolving Credit

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Facility. In addition, we had aggregate mortgage indebtedness to third parties of $157.4 million (excluding $0.5 million of mortgage premium) on certain of our properties. Our high level of indebtedness may have the following important consequences to us:

- It may become more difficult for us to satisfy our obligations (including ongoing interest payments and, where applicable, scheduled amortization payments) with respect to the notes and our other debt;
- It may limit our ability to obtain additional financing to fund future acquisitions, working capital, capital expenditures or other general corporate requirements;
- It may increase our cost of borrowing;
- It may limit our ability to adjust rapidly to changing market conditions and we may be vulnerable in the event of a downturn in general economic conditions or in the real estate and/or healthcare sectors;
- It may place us at a competitive disadvantage against less leveraged competitors; and
- It may require us to sell assets and properties at an inopportune time.

In addition, the Indenture governing the notes permits us to incur substantial additional debt, including secured debt (to which the notes will be effectively subordinated). If we incur additional debt, the related risks described above could intensify.

We may be unable to service our indebtedness.

Our ability to make scheduled payments on and to refinance our indebtedness depends on and is subject to our financial and operating performance, which in turn is affected by general and regional economic, financial, competitive, business and other factors beyond our control, including the availability of financing in the international banking and capital markets. Our business may fail to generate sufficient cash flow from operations or future borrowings may be unavailable to us under our Amended Secured Revolving Credit Facility or from other sources in an amount sufficient to enable us to service our debt, to refinance our debt or to fund our other liquidity needs. If we are unable to meet our debt obligations or to fund our other liquidity needs, we will need to restructure or refinance all or a portion of our debt. We may be unable to refinance any of our debt, including our Amended Secured Revolving Credit Facility, on commercially reasonable terms or at all. In particular, our Amended Secured Revolving Credit Facility will mature prior to the maturity of the notes. If we were unable to make payments or refinance our debt or obtain new financing under these circumstances, we would have to consider other options, such as asset sales, equity issuances and/or negotiations with our lenders to restructure the applicable debt. Our Amended Secured Revolving Credit Facility and the Indenture governing the notes restrict, and market or business conditions may limit, our ability to take some or all of these actions. Any restructuring or refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants that could further restrict our business operations.

Covenants in our debt agreements restrict our activities and could adversely affect our business.

Our debt agreements, including the Indenture governing the notes and our Amended Secured Revolving Credit Facility, contain various covenants that limit our ability and the ability of our restricted subsidiaries to engage in various transactions including:

- Incurring additional secured and unsecured debt;

Paying dividends or making other distributions on, redeeming or repurchasing capital stock;

Making investments or other restricted payments;

Entering into transactions with affiliates;

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- Issuing stock of or interests in restricted subsidiaries;
- Engaging in non-healthcare related business activities;
- Creating restrictions on the ability of our restricted subsidiaries to pay dividends or other amounts to us;
- Selling assets; or
- Effecting a consolidation or merger or selling all or substantially all of our assets.

These covenants limit our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively. In addition, our Amended Secured Revolving Credit Facility requires us to maintain specified financial covenants, which include a maximum leverage ratio, a minimum fixed charge coverage ratio and a minimum tangible net worth ratio, as well as satisfy other financial condition tests. The Indenture governing the notes requires us to maintain Total Unencumbered Assets (as defined in Description of Exchange Notes) of at least 150% of our unsecured indebtedness. Our ability to meet these requirements may be affected by events beyond our control, and we may not meet these requirements.

Our Amended Secured Revolving Credit Facility also allows for the lenders thereunder to conduct periodic appraisals of our owned properties that secure such facility, and if the appraised values were to decline in the future, the amount that can be borrowed under such facility would be decreased unless we pledge additional assets as collateral.

A breach of any of the covenants or other provisions in our debt agreements could result in an event of default, which if not cured or waived, could result in such debt becoming immediately due and payable. This, in turn, could cause our other debt to become due and payable as a result of cross-acceleration provisions contained in the agreements governing such other debt. We may be unable to maintain compliance with these covenants and, if we fail to do so, we may be unable to obtain waivers from the lenders and/or amend the covenants. In the event that some or all of our debt is accelerated and becomes immediately due and payable, we may not have the funds to repay, or the ability to refinance, such debt.

An increase in market interest rates could increase our interest costs on existing and future debt.

If interest rates increase, so could our interest costs for our existing debt and any new debt. This increased cost could make the financing of any acquisition more costly. Rising interest rates could limit our ability to refinance existing debt when it matures or cause us to pay higher interest rates upon refinancing. In addition, an increase in interest rates could decrease the access third parties have to credit, thereby decreasing the amount they are willing to pay for our assets, and consequently limit our ability to reposition our portfolio promptly in response to changes in economic or other conditions.

Our ability to raise capital through equity financings is dependent, in part, on the market price of our common stock, which depends on market conditions and other factors affecting REITs generally.

Our ability to raise capital through equity financings depends, in part, on the market price of our common stock, which in turn depends on fluctuating market conditions and other factors including the following:

- the reputation of REITs and attractiveness of their equity securities in comparison with other equity securities, including securities issued by other real estate companies;
- our financial performance and that of our tenants;
- concentrations in our investment portfolio by tenant and facility type;

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- concerns about our tenants financial condition due to uncertainty regarding reimbursement from governmental and other third-party payor programs;

- the contents of analyst reports about us and the REIT industry;

- changes in interest rates on fixed-income securities, which may lead prospective investors to demand a higher annual yield from investments in our common stock;

- maintaining or increasing our dividend, which is determined by our board of directors and depends on our financial position, results of operations, cash flows, capital requirements, debt covenants (which include limits on distributions by us), applicable law, and other factors as our board of directors deems relevant; and

- regulatory action and changes in REIT tax laws.

The market value of a REIT s equity securities is generally based upon the market s perception of the REIT s growth potential and its current and potential future earnings and cash distributions. If we fail to meet the market s expectation with regard to future earnings and cash distributions, the market price of our common stock could decline and our ability to raise capital through equity financings could be materially adversely affected.

Required regulatory approvals can delay or prohibit transfers of our healthcare properties, which could result in periods in which we are unable to receive rent for such properties.

Our tenants are operators of skilled nursing and other healthcare facilities, which operators must be licensed under applicable state law and, depending upon the type of facility, certified or approved as providers under the Medicare and/or Medicaid programs. Prior to the transfer of the operations of such healthcare properties to successor operators, the new operator generally must become licensed under state law and, in certain states, receive change of ownership approvals under certificate of need laws (which laws provide for a certification that the state has made a determination that a need exists for the beds located on the applicable property). If applicable, Medicare and Medicaid provider approvals may be needed as well. In the event that an existing lease is terminated or expires and a new tenant is found, then any delays in the new tenant receiving regulatory approvals from the applicable federal, state or local government agencies, or the inability of such tenant to receive such approvals, may prolong the period during which we are unable to collect the applicable rent.

Our tenants depend on reimbursement from governmental and other third-party payor programs, and reimbursement rates from such payors may be reduced.

Our tenants depend on third-party payors, including Medicare, Medicaid or private third-party payors, for the majority of their revenue. The reduction in reimbursement rates from third-party payors, including Medicare and Medicaid programs, or other measures reducing reimbursements for services provided by our tenants, has resulted, and may continue to result, in a reduction in our tenants revenues and operating margins. In addition, reimbursement from private third-party payors may be reduced as a result of retroactive adjustment during claims settlement processes or as a result of post-payment audits. Furthermore, new legislative and regulatory proposals could impose additional limitations on government and private payments to healthcare providers. We cannot assure you that adequate reimbursement levels will continue to be available for the services provided by our tenants. Although moderate reimbursement rate reductions may not affect our tenants ability to meet their financial obligations to us, significant limits on reimbursement rates or on the services reimbursed could have a material adverse effect on their business, financial position or results of operations, which could materially adversely affect their ability to meet their financial obligations to us.

For example, on July 29, 2011, the Centers for Medicare & Medicaid Services (CMS) released its final rule regarding 2012 Medicare payment rates for skilled nursing facilities, which became effective October 1, 2011 (the CMS Final Rule). Based on the CMS Final Rule, the net reduction in fiscal year 2012 Medicare reimbursement rates for skilled nursing facilities will be 11.1%. On January 4, 2012, Sun issued a press release

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announcing its 2012 financial outlook and guidance, in which Sun stated that it expected the net impact of the CMS Final Rule in 2012 to be between $40 million to $45 million after mitigation strategies were implemented to partially offset the impact of the CMS Final Rule. Based on Sun s expected 2012 consolidated earnings before interest, taxes, depreciation, amortization and rent (EBITDAR) of between $222.0 million and $228.0 million and expected consolidated rents across all of its facilities totaling $148.0 million, Sun s expected 2012 consolidated EBITDAR coverage would be between 1.50x and 1.54x (Sun s expected 2012 consolidated EBITDAR coverage would be between 1.46x and 1.50x before eliminating Sabra facilities from which Sun expects to transition operations to held for sale status in 2012). Sun s actual consolidated EBITDAR and consolidated rents across all of its facilities for the six months ended June 30, 2012, was $106.6 million and $72.9 million, respectively. Sun s consolidated EBITDAR coverage for the six months ended June 30, 2012 was 1.46x. In addition to Sun, other tenants have undertaken cost and patient mix mitigation activities intended to partially offset the impact of the CMS Final Rule. If Sun and our other skilled nursing facility tenants are unable to mitigate the impact of the CMS Final Rule as expected, this may have an adverse impact on their business and financial results, which will adversely affect our business, financial position or results of operations if they are unable to timely make their rental payments to us.

We may not be able to sell properties when we desire because real estate investments are relatively illiquid, which could have a material adverse effect on our business, financial position or results of operations.

Real estate investments generally cannot be sold quickly. In addition, some and potentially substantially all of our properties serve as collateral for our current and future secured debt obligations and cannot readily be sold unless the underlying mortgage indebtedness is concurrently repaid. We may not be able to vary our portfolio promptly in response to changes in the real estate market. A downturn in the real estate market could materially adversely affect the value of our properties and our ability to sell such properties for acceptable prices or on other acceptable terms. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property or portfolio of properties. Further, because Sabra owns appreciated assets that were held before Sabra elected to be treated as a REIT, if Sabra sells any such property in a taxable transaction within the ten-year period following Sabra s qualification as a REIT, Sabra will generally be subject to corporate tax on that gain to the extent of the built-in gain in that property at the time Sabra became a REIT. The amount of corporate tax that Sabra would pay will vary depending on the actual amount of net built-in gain or loss present in those assets as of the time Sabra became a REIT. As of January 1, 2011, the effective time of our REIT election, the built-in-gains tax associated with our properties totaled approximately $145.8 million assuming a 40% corporate tax rate. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could have a material adverse effect on our business, financial position or results of operations.

Real estate is a competitive business and this competition may make it difficult for us to identify and purchase suitable healthcare properties.

We operate in a highly competitive industry and face competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders and other investors, some of whom are significantly larger than us and have greater resources and lower costs of capital than we do. This competition makes it more challenging to identify and successfully capitalize on acquisition opportunities that meet our investment objectives. If we cannot identify and purchase a sufficient quantity of healthcare properties at favorable prices or if we are unable to finance acquisitions on commercially favorable terms, our business, financial position or results of operations could be materially adversely affected.

If we lose our key management personnel, we may not be able to successfully manage our business and achieve our objectives.

Our success depends in large part upon the leadership and performance of our executive management team, particularly Richard K. Matros, our President and Chief Executive Officer. If we lose the services of Mr. Matros, we may not be able to successfully manage our business or achieve our business objectives.

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We have a limited number of employees and, accordingly, the loss of any one of our employees could harm our operations.

As of June 30, 2012, we employed six full-time employees, including our executive officers. Accordingly, the impact we may feel from the loss of one of our full-time employees may be greater than the impact such a loss would have on a larger organization. While it is anticipated that we could find replacements for our personnel, the loss of their services could harm our operations, at least in the short term.

Potential litigation and rising insurance costs may affect our tenants ability to obtain and maintain adequate liability and other insurance and their ability to make lease payments and fulfill their insurance and indemnification obligations to us.

Our tenants may be subject to lawsuits filed by advocacy groups that monitor the quality of care at healthcare facilities or by patients, facility residents or their families. Significant damage awards are possible in cases where neglect has been found. This litigation has increased our tenants costs of monitoring and reporting quality of care and has resulted in increases in the cost of liability and medical malpractice insurance. These increased costs may materially adversely affect our tenants ability to obtain and maintain adequate liability and other insurance; manage related risk exposures; fulfill their insurance, indemnification and other obligations to us under their leases; or make lease payments to us.

We may experience uninsured or underinsured losses, which could result in a significant loss of the capital we have invested in a property, decrease anticipated future revenues or cause us to incur unanticipated expenses.

While our lease agreements require that comprehensive insurance and hazard insurance be maintained by the tenants, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods, that may be uninsurable or not economically insurable. Insurance coverage may not be sufficient to pay the full current market value or current replacement cost of a loss. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it infeasible to use insurance proceeds to replace properties after they have been damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to restore the economic position with respect to a damaged property.

Environmental compliance costs and liabilities associated with real estate properties owned by us may materially impair the value of those investments.

As an owner of real property, we or our subsidiaries are subject to various federal, state and local environmental and health and safety laws and regulations. Although we do not operate or manage our properties, we or our subsidiaries may be held primarily or jointly and severally liable for costs relating to the investigation and clean-up of any property where there has been a release or threatened release of a hazardous regulated material as well as other affected properties, regardless of whether we knew of or caused the release. In addition to these costs, which are typically not limited by law or regulation and could exceed an affected property s value, we could be liable for certain other costs, including governmental fines and injuries to persons, property or natural resources. Further, some environmental laws provide for the creation of a lien on a contaminated site in favor of the government as security for damages and any costs the government incurs in connection with such contamination and associated clean-up.

Although we require our operators and tenants to undertake to indemnify us for environmental liabilities they cause, the amount of such liabilities could exceed the financial ability of the tenant or operator to indemnify us. The presence of contamination or the failure to remediate contamination may adversely affect our ability to sell or lease the real estate or to borrow using the real estate as collateral.

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Failure to maintain effective internal control over financial reporting could have a material adverse effect on our ability to report our financial results on a timely and accurate basis.

We are required to maintain internal control over financial reporting pursuant to Rule 13a-15 under the Exchange Act. Failure to maintain such controls could result in misstatements in our financial statements and potentially subject us to sanctions or investigations by the SEC or other regulatory authorities or could cause us to delay the filing of required reports with the SEC and our reporting of financial results. Any of these events could result in a decline in the trading price or liquidity of the Exchange Notes.

RISKS ASSOCIATED WITH OUR STATUS AS A REIT

The 90% distribution requirement will decrease our liquidity and may limit our ability to engage in otherwise beneficial transactions.

To comply with the 90% distribution requirement applicable to REITs and to avoid the nondeductible excise tax, Sabra must make distributions to its stockholders. The Indenture governing the notes permits us to declare or pay any dividend or make any distribution that is necessary to maintain our REIT status if the aggregate principal amount of all outstanding Indebtedness of the Parent and its Restricted Subsidiaries on a consolidated basis at such time is less than 60% of Adjusted Total Assets (as each term is defined in the Indenture governing the notes) and to make additional distributions if we pass certain other financial tests.

Sabra is required under the Internal Revenue Code of 1986, as amended (the Code), to distribute at least 90% of its taxable income, determined without regard to the dividends-paid deduction and excluding any net capital gain, and the Operating Partnership is required to make distributions to Sabra to allow it to satisfy these REIT distribution requirements. However, distributions may limit Sabra s ability to rely upon rental payments from its properties or subsequently acquired properties to finance investments, acquisitions or new developments.

Although Sabra anticipates that it generally will have sufficient cash or liquid assets to enable Sabra to satisfy the REIT distribution requirement, it is possible that, from time to time, Sabra may not have sufficient cash or other liquid assets to meet the 90% distribution requirement. This may be due to the timing differences between the actual receipt of income and actual payment of deductible expenses, on the one hand, and the inclusion of that income and deduction of those expenses in arriving at our taxable income, on the other hand. In addition, non-deductible expenses such as principal amortization or repayments or capital expenditures in excess of non-cash deductions also may cause Sabra to fail to have sufficient cash or liquid assets to enable Sabra to satisfy the 90% distribution requirement.

In the event that such an insufficiency or such timing differences occur, in order to meet the 90% distribution requirement and maintain Sabra s status as a REIT, Sabra may have to sell assets at unfavorable prices, borrow at unfavorable terms, make taxable stock dividends, or pursue other strategies. This may require Sabra to raise additional capital to meet its obligations. The terms of our Amended Secured Revolving Credit Facility and the terms of the Indenture governing the notes may restrict our ability to engage in some of these transactions.

We could fail to qualify as a REIT if income we receive is not treated as qualifying income, including as a result of one or more of the lease agreements we have entered into or assumed (as well as any other leases we enter into or assume) not being characterized as true leases for U.S. federal income tax purposes, which would subject us to U.S. federal income tax at corporate tax rates.

Under applicable provisions of the Code, we will not be treated as a REIT unless we satisfy various requirements, including requirements relating to the sources of our gross income. Rents received or accrued by us will not be treated as qualifying rent for purposes of these requirements if the lease agreements we have entered into or assumed (as well as any other leases we enter into or assume) are not respected as true leases for U.S. federal income tax purposes and are instead treated as service contracts, joint ventures, loans or some other type

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of arrangement. In the event that the lease agreements entered into with Sun are not characterized as true leases for U.S. federal income tax purposes, we likely would fail to qualify as a REIT. In addition, rents received by us from Sun will not be treated as qualifying rent for purposes of these requirements if we are treated, either directly or under the applicable attribution rules, as owning 10% or more of Sun common stock. We will be treated as owning, under the applicable attribution rules, 10% or more of Sun common stock at any time that a stockholder owns, directly or under the applicable attribution rules, (a) 10% or more of our common stock and (b) 10% or more of Sun common stock. The provisions of our charter restrict the transfer and ownership of our common stock that would cause the rents received or accrued by us from Sun (or any other tenant of ours) to be treated as non-qualifying rent for purposes of the REIT gross income requirements. Nevertheless, there can be no assurance that such restrictions will be effective in ensuring that we will not be treated as related to Sun (or any other tenant of ours). If we fail to qualify as a REIT, we would be subject to U.S. federal income tax (including any applicable minimum tax) on our taxable income at corporate tax rates, which would decrease the amount of cash available for distribution to holders of our common stock.

Complying with REIT requirements may cause us to forego otherwise attractive acquisition opportunities or liquidate otherwise attractive investments, which could materially hinder our performance.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy certain tests, including tests concerning the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego investments or acquisitions we might otherwise make. Thus, compliance with the REIT requirements may materially hinder our performance.

If we have significant amounts of non-cash taxable income, we may have to declare taxable stock dividends or make other non-cash distributions, which could cause our stockholders to incur tax liabilities in excess of cash received.

We currently intend to pay dividends in cash only, and not in-kind. However, if for any taxable year, we have significant amounts of taxable income in excess of available cash flow, we may have to declare dividends in-kind in order to satisfy the REIT annual distribution requirements. We may distribute a portion of our dividends in the form of our stock or our debt instruments. In either event, a holder of our common stock will be required to report dividend income as a result of such distributions even though we distributed no cash or only nominal amounts of cash to such stockholder.

Pursuant to Revenue Procedure 2010-12, a recent revenue procedure issued by the Internal Revenue Service (the IRS), the IRS has indicated that it will treat distributions from certain publicly traded REITs that are paid partly in cash and partly in stock (through 2011) at the election of each stockholder as dividends that would satisfy the REIT annual distribution requirements and qualify for the dividends paid deduction for U.S. federal income tax purposes. If we make such a distribution, U.S. holders would be required to include the full amount of the dividend (i.e., the cash and stock portion) as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. holder may be required to pay income taxes with respect to such dividends in excess of the cash received. If a U.S. holder sells our stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of the stock at the time of the sale. Furthermore, with respect to non-U.S. holders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, these sales may put downward pressure on the trading price of our stock.

Further, because IRS Revenue Procedure 2010-12 only applies through 2011, it is unclear whether and to what extent we will be able to pay taxable dividends in cash and/or stock in later years. Moreover, various tax aspects of a taxable dividend payable in cash and/or stock are uncertain and have not yet been addressed by the

IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable dividends payable in cash and/or stock, including on a retroactive basis, or assert that the requirements for such taxable dividends have not been met.

Our charter restricts the transfer and ownership of our stock, which may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares.

In order for us to maintain our qualification as a REIT for each taxable year after 2011, no more than 50% of the value of our outstanding stock may be owned, directly or constructively, by five or fewer individuals, as defined in the Code. For the purpose of preserving our REIT qualification, our charter prohibits, subject to certain exceptions, direct, indirect and constructive ownership of more than 9.9% in value or number of shares, whichever is more restrictive, of our outstanding common stock or more than 9.9% in value of our outstanding stock. The constructive ownership rules are complex and may cause shares of stock owned directly or constructively by a group of related individuals to be constructively owned by one individual or entity. The ownership limits may have the effect of discouraging an acquisition of control of us without the approval of our board of directors.

We could be subject to tax on any unrealized net built-in gains in the assets held before electing to be treated as a REIT.

We own appreciated assets that were held before we elected to be treated as a REIT. If such appreciated assets are disposed of in a gain recognition transaction within the 10-year period following our qualification as a REIT, we will generally be subject to corporate tax on that gain to the extent of the built-in gain in those assets at the time we became a REIT. The total amount of gain on which we can be taxed is limited to our net built-in gain at the time we became a REIT, i.e., the excess of the aggregate fair market value of our assets at the time we became a REIT over the adjusted tax bases of those assets at that time. We would be subject to this tax liability even if we qualify and maintain our status as a REIT. Any recognized built-in gain will retain its character as ordinary income or capital gain and will be taken into account in determining REIT taxable income and our distribution requirement. Any tax on the recognized built-in gain will reduce REIT taxable income. We may choose not to dispose of appreciated assets we might otherwise dispose of during the 10-year period in which the built-in gain tax applies in order to avoid the built-in gain tax. However, there can be no assurances that such a disposition will not occur. If we dispose of such assets in a gain recognition transaction, the amount of corporate tax that we will pay will vary depending on the actual amount of net built-in gain or loss present in those assets as of the effective time of our REIT election. The amount of tax could be significant. As of January 1, 2011, the effective time of our REIT election, the built-in-gains tax associated with our properties totaled approximately $145.8 million assuming a 40% corporate tax rate.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax law could materially adversely affect our stockholders. We cannot predict with certainty whether, when, in what forms, or with what effective dates, the tax laws applicable to us or our stockholders may be changed.

Our failure to qualify and maintain our qualification as a REIT would subject us to U.S. federal income tax, which could adversely affect the value of the shares of our common stock and would substantially reduce the cash available for distribution to our stockholders.

We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code, and we believe we have operated in a manner that will enable us to meet the requirements for qualification and taxation as a REIT commencing with our taxable year beginning on January 1, 2011. However, we cannot assure you that we will qualify and remain qualified as a REIT. Moreover, our qualification and taxation as a REIT will depend upon our ability to meet on a continuing basis, through actual annual operating results, certain

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qualification tests set forth in the U.S. federal tax laws. Accordingly, given the complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the potential tax treatment of investments we make, and the possibility of future changes in our circumstances, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements.

If we fail to qualify as a REIT in any calendar year, we would be required to pay U.S. federal income tax (and any applicable state and local tax), including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income (although such dividends received by certain non-corporate U.S. taxpayers generally would be subject to a preferential rate of taxation through December 31, 2012). Further, if we fail to qualify as a REIT, we might need to borrow money or sell assets in order to pay any resulting tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT, we no longer would be required under U.S. federal tax laws to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT was subject to relief under U.S. federal tax laws, we could not re-elect to qualify as a REIT until the fifth calendar year following the year in which we failed to qualify.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from qualified dividends payable to domestic stockholders taxed at individual rates has been reduced by legislation to 15% through the end of 2012. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends treated as qualified dividend income, which could adversely affect the value of the stock of REITs, including our common stock.

Our ownership of and relationship with any taxable REIT subsidiaries that we have formed or will form will be limited and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more taxable REIT subsidiaries (TRSs). A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation (other than a REIT) of which a TRS directly or indirectly owns securities possessing more than 35% of the total voting power or total value of the outstanding securities of such corporation will automatically be treated as a TRS. Overall, no more than 25% of the value of a REIT s total assets may consist of stock or securities of one or more TRSs. A domestic TRS will pay U.S. federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm s length basis. Any domestic TRS that we have formed or may form will pay U.S. federal, state and local income tax on its taxable income, and its after-tax net income will be available for distribution to us but is not required to be distributed to us unless necessary to maintain our REIT qualification.

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RISKS RELATING TO THE EXCHANGE OFFER

You may not be able to sell your Old Notes if you do not exchange them for Exchange Notes in the exchange offer.

If you do not exchange your Old Notes for Exchange Notes in the exchange offer, your Old Notes will continue to be subject to restrictions on transfer. In general, you may not offer, sell or otherwise transfer the Old Notes in the United States unless they are:

- registered under the Securities Act;
- offered or sold pursuant to an exemption from the Securities Act and applicable state securities laws; or
- offered or sold in a transaction not subject to the Securities Act and applicable state securities laws.

The Issuers and the guarantors do not currently anticipate that they will register the Old Notes under the Securities Act and, except for the limited instances involving the initial purchasers or holders of the Old Notes who are not eligible to participate in the exchange offer or who do not receive freely transferable Exchange Notes in the exchange offer, they will not be under any obligation to do so under the Registration Rights Agreement or otherwise.

Your ability to sell your Old Notes may be significantly more limited and the price at which you may be able to sell your Old Notes may be significantly lower if you do not exchange them for Exchange Notes in the exchange offer.

To the extent that the Old Notes are tendered and accepted for exchange in the exchange offer, the trading market for the Old Notes that remain outstanding may be significantly more limited. The Old Notes have a separate CUSIP number from that of the existing 2018 notes and will not be fungible in the trading market with the existing 2018 notes. As a result, the liquidity of the Old Notes not tendered and accepted for exchange could be adversely affected. The extent of the market for Old Notes and the availability of price quotations would depend on a number of factors, including the number of holders of Old Notes remaining outstanding and the interest of securities firms in maintaining a market in the Old Notes. An issue of securities with a similar outstanding market value available for trading, which is called the float, may command a lower price than would be comparable to an issue of securities with a greater float. As a result, the market price for the Old Notes that are not exchanged in the exchange offer may be affected adversely to the extent that the Old Notes exchanged in the exchange offer reduce the float. The reduced float also may make the trading price of the Old Notes that are not exchanged more volatile.

You must comply with the exchange offer procedures in order to receive new, freely tradable Exchange Notes.

Delivery of Exchange Notes in exchange for Old Notes tendered and accepted for exchange pursuant to the exchange offer will be made only after timely receipt by the exchange agent of book-entry transfer of Old Notes into the exchange agent s account at DTC, as depositary, including an Agent s Message (as defined in The Exchange Offer Procedures for Tendering Old Notes Through Brokers and Banks). We are not required to notify you of defects or irregularities in tenders of Old Notes for exchange. Old Notes that are not tendered or that are tendered but we do not accept for exchange will, following consummation of the exchange offer, continue to be subject to the existing transfer restrictions under the Securities Act and, upon consummation of the exchange offer, certain registration and other rights under the Registration Rights Agreement will terminate. See The Exchange Offer Procedures for Tendering Old Notes Through Brokers and Banks and The Exchange Offer Consequences of Failure to Exchange.

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Some holders who exchange their Old Notes may be deemed to be underwriters, and these holders will be required to comply with the registration and prospectus delivery requirements in connection with any resale transaction.

If you exchange your Old Notes in the exchange offer for the purpose of participating in a distribution of the Exchange Notes, you may be deemed to have received restricted securities and, if so, will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

RISKS RELATING TO THE NOTES

The notes and the guarantees are unsecured and are effectively subordinated to our secured indebtedness to the extent of the value of the collateral securing such indebtedness.

The notes and the guarantees are the Issuers and the guarantors unsecured obligations. The Indenture governing the notes generally permits us to incur secured indebtedness so long as we maintain a specified ratio of unencumbered assets to unsecured debt. The notes and the guarantees are effectively subordinated to all of our existing and future secured debt and that of the guarantors to the extent of the value of the assets securing such obligations, including our Amended Secured Revolving Credit Facility. Our obligations under our Amended Secured Revolving Credit Facility are secured by first lien mortgages on certain of our properties, a pledge of the capital stock of subsidiaries owning such properties and other customary collateral, including an assignment of leases and rents with respect to such mortgaged properties. In addition, we had $157.5 million available for borrowing under our Amended Secured Revolving Credit Facility as of June 30, 2012, which increased to $200.0 million available for borrowing after giving effect to the offering of the Old Notes and the use of proceeds therefrom. Because the notes are unsecured obligations, your right of repayment may be compromised in the following situations:

- We enter into bankruptcy, liquidation, reorganization or other winding-up;
- There is a default in payment under any of our secured debt; or
- There is an acceleration of any of our secured debt.

If any of these events occurs, the secured lenders could foreclose on our assets in which they have been granted a security interest, in each case to your exclusion, even if an event of default exists under the Indenture at such time. As a result, upon the occurrence of any of these events, it is possible that there would be no assets remaining from which your claims could be satisfied or, if any assets remained, they might be insufficient to fully satisfy your claims. You may therefore not be fully repaid if we or the subsidiary guarantors become insolvent or otherwise fail to make payment on the notes.

The notes are structurally subordinated to all liabilities of our non-guarantor subsidiaries.

The notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries that are not guaranteeing the notes or in the future do not guarantee the notes. These non-guarantor subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes, or to make any funds available therefor, whether by dividends, loans, distributions or other payments. Any right that we or the subsidiary guarantors have to receive any assets of any of the non-guarantor subsidiaries upon the bankruptcy, liquidation or reorganization of those subsidiaries, and the consequent rights of holders of notes to realize proceeds from the sale of any of those subsidiaries assets, will be effectively subordinated to the claims of those subsidiaries creditors, including creditors (including mortgage holders) and holders of preferred equity interests of those subsidiaries. Accordingly, in the event of a bankruptcy, liquidation or reorganization of any of our non-guarantor subsidiaries, these non-guarantor subsidiaries will pay the holders of their debts, holders of preferred equity interests and their trade creditors before distributing any of their assets

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to us. Our revenues on an annualized basis attributable to the properties held by the Real Property Non-Guarantor Subsidiaries, as described further under Description of Exchange Notes Guaranties and Subsidiary Guarantors, were $25.8 million based on revenues for the six months ended June 30, 2012, and, as of June 30, 2012, these properties accounted for 26% of Sabra s total real estate investments, net of accumulated depreciation, and had aggregate mortgage indebtedness to third parties of approximately $157.4 million (excluding $0.5 million of mortgage premium).

We rely on our subsidiaries for our operating funds, and our non-guarantor subsidiaries have no obligation to supply us with any funds.

We conduct our operations through subsidiaries and depend on our subsidiaries for the funds necessary to operate and repay our debt obligations. We depend on the transfer of funds from our subsidiaries to make the payments due under the notes. Under certain circumstances, one or more of our subsidiaries may be released from its, or may not be required to provide a, guarantee of the notes, and in such circumstances, will not be required to fund any of our obligations with respect to the notes. Each of our subsidiaries is a distinct legal entity and has no obligation, contingent or otherwise, to transfer funds to us. In addition, our ability to make payments under the notes, and the ability of our subsidiaries to transfer funds to us, could be restricted by the terms of subsequent financings.

Federal and state statutes allow courts, under specific circumstances, to void guarantees and require noteholders to return payments received from subsidiary guarantors.

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee of the notes could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that subsidiary guarantor if, among other things, the subsidiary guarantor, at the time it incurred the debt evidenced by its guarantee:

- Received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee; and
  - was insolvent or rendered insolvent by reason of such incurrence;
  - was engaged in a business or transaction for which the subsidiary guarantor s remaining assets constituted unreasonably small capital; or
  - intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by that subsidiary guarantor pursuant to its guarantee could be voided and required to be returned to the subsidiary guarantor, or to a fund for the benefit of our creditors or the creditors of the subsidiary guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a subsidiary guarantor would be considered insolvent if:

- The sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;
- The present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- It could not pay its debts as they become due.

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On the basis of historical financial information, recent operating history and other factors, we believe that each subsidiary guarantor, after giving effect to its guarantee of the notes, is not insolvent, has a fair market value of its assets greater than the total amount of its liabilities (including contingent liabilities), has a present fair salable value of its assets greater than the amount that will be required to pay its probable liabilities on its debts as they become absolute and matured, is able to realize upon its assets and pay its debts and other liabilities, including contingent liabilities, as they mature, and does not have unreasonably small capital. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard. In addition, each guarantee contains a provision intended to limit the subsidiary guarantor s liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent transfer. This provision may not be effective to protect the guarantees from being voided under fraudulent transfer laws, or may eliminate the subsidiary guarantor s obligations or reduce the subsidiary guarantor s obligations to an amount that effectively makes the guarantee worthless.

We may not have the funds necessary to finance the repurchase of the notes in connection with a change of control offer required by the Indenture governing the notes.

Upon the occurrence of specific kinds of change of control events, the Indenture governing the notes requires us to make an offer to repurchase all outstanding notes at 101% of the principal amount thereof, plus accrued and unpaid interest (and additional interest, if any) to the date of repurchase. However, it is possible that we will not have sufficient funds, or the ability to raise sufficient funds, at the time of the change of control to make the required repurchase of the notes. In addition, restrictions under our Amended Secured Revolving Credit Facility, or other future debt, may not allow us to repurchase the notes upon a change of control. If we could not refinance such senior debt or otherwise obtain a waiver from the holders of such debt, we would be prohibited from repurchasing the notes, which would constitute an event of default under the Indenture governing the notes, which in turn would constitute a default under our Amended Secured Revolving Credit Facility. In addition, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a Change of Control under the Indenture governing the notes although these types of transactions could affect our capital structure or credit ratings and the holders of the notes. See Description of Exchange Notes Repurchase of Notes upon a Change of Control.

Courts interpreting change of control provisions under New York law (which is the governing law of the Indenture governing the notes) have not provided clear and consistent meanings of such change of control provisions which leads to subjective judicial interpretation. In addition, a court case in Delaware has questioned whether an indenture change of control provision, similar to the one contained in the Indenture governing the notes, related to a change of control as a result of a change in the composition of a board of directors could be unenforceable on public policy grounds. Accordingly, the ability of a holder of notes to require us to repurchase notes as a result of a change in the composition of our board of directors is uncertain. Another court may not enforce the change of control provisions in the Indenture governing the notes as written for the benefit of the holders, and the change of control provisions could be impacted if we become a debtor in a bankruptcy case.

An active trading market for the notes may not be sustained, which may hinder your ability to liquidate your investment.

Although the Exchange Notes will be treated as a single class with the existing 2018 notes and will be fungible in the trading market with the existing 2018 notes, the existing 2018 notes have only traded since October 27, 2010 and are not listed on any securities exchange. We do not intend to list the notes on any national securities exchange or seek the admission of the notes for quotation through any automated inter-dealer quotation system. As a result, even though there is currently a trading market for the existing 2018 notes, we cannot guarantee that an active trading market for the notes will be sustained. If an active trading market for the notes fails to be sustained, the trading price of the notes could be adversely affected.

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The liquidity of the trading market for the notes and the trading price quoted for the notes may be adversely affected by many factors, some of which are beyond our control, including:

- Prevailing interest rates;
- Demand for high yield debt securities generally;
- General economic conditions;
- Our financial condition, performance and future prospects;
- Our credit rating; and
- Prospects for companies in our industry generally.

In addition, historically, the market for non-investment grade debt like the notes has been subject to disruptions that have caused substantial market price fluctuations in the price of securities that are similar to the notes and, therefore, the notes may be subject to similar disruptions and price volatility.

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THE EXCHANGE OFFER

Purpose of the Exchange Offer

The Old Notes were originally issued and sold on July 26, 2012. In connection with the original issuance and sale of the Old Notes, we entered into the Registration Rights Agreement pursuant to which we agreed, for the benefit of the holders of the Old Notes, at our cost, to use our commercially reasonable efforts:

(1) to file with the SEC an exchange offer registration statement pursuant to which we and the guarantors will offer, in exchange for the Old Notes, new notes identical in all material respects to, and evidencing the same indebtedness as, the Old Notes (but will not contain terms with respect to transfer restrictions or provide for the additional interest described below);

(2) to cause the exchange offer registration statement to be declared effective under the Securities Act on or prior to 120 days following the date on which we issued the Old Notes; and

(3) to cause the exchange offer to be consummated by the 150th day following the date on which we issued the Old Notes (the Consummation Deadline).

Under existing interpretations by the staff of the SEC as set forth in no-action letters issued to unrelated third parties and referenced below, we believe that the Exchange Notes issued in the exchange offer in exchange for the Old Notes may be offered for resale, resold and otherwise transferred by any exchange noteholder without compliance with the registration and prospectus delivery provisions of the Securities Act, if:

(1) such holder is not an affiliate of ours within the meaning of Rule 405 of the Securities Act;

(2) such Exchange Notes are acquired in the ordinary course of the holder s business; and

(3) such holder has no arrangement or understanding with any person to participate in a distribution (within the meaning of the Securities Act) of the Exchange Notes.

Any holder who tenders in the exchange offer with the intention of participating in any manner in a distribution of the Exchange Notes:

(1) cannot rely on the position of the staff of the SEC set forth in *Exxon Capital Holdings Corporation, Morgan Stanley & Co., Incorporated* or similar no-action letters; and

(2) in the absence of an applicable exemption, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a resale of the Exchange Notes or it may incur liability under the Securities Act. We will not be responsible for, or indemnify against, any such liability.

If, as stated above, a holder cannot rely on the position of the staff of the SEC set forth in *Exxon Capital Holdings Corporation*, *Morgan Stanley & Co., Incorporated* or similar no-action letters, any effective registration statement used in connection with a secondary resale transaction must contain the selling security holder information required by Item 507 of Regulation S-K under the Securities Act.

We do not intend to seek our own interpretation regarding the exchange offer, and we cannot assure you that the staff of the SEC would make a similar determination with respect to the Exchange Notes as it has in other interpretations to third parties.

This prospectus may be used for an offer to resell, for the resale or for other retransfer of Exchange Notes only as specifically set forth in this prospectus. With regard to broker-dealers, only broker-dealers that acquired the Old Notes for its own account as a result of market-making activities or other trading activities may participate in the exchange offer. Each broker-dealer that receives Exchange Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making

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activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the Exchange Notes. Please read the section entitled Plan of Distribution for more details regarding these procedures for the transfer of Exchange Notes. We have agreed, for a period of 180 days after the exchange offer is consummated, to make this prospectus available to any broker-dealer for use in connection with any resale of the Exchange Notes.

In order to participate in the exchange offer, each holder of Old Notes that wishes to exchange Old Notes for Exchange Notes in the exchange offer will be required to make the representations described below under Representations.

Shelf Registration Statement

In the event that:

(1) we are not permitted to file the exchange offer registration statement or to consummate the exchange offer due to a change in law or SEC policy; or

(2) for any reason, we do not consummate the exchange offer by the Consummation Deadline; or

(3) any holder notifies us that:

- it is not permitted under law or SEC policy to participate in the exchange offer;

- it cannot publicly resell new notes that it acquires in the exchange offer without delivering a prospectus, and the prospectus contained in the exchange offer registration statement is not appropriate or available for resales by that holder;

- it is a broker-dealer and holds Old Notes that it has not exchanged and that it acquired directly from us or one of our affiliates; or

- the initial purchaser so requests (with respect to Old Notes that have not been resold and that it acquired directly from us or one of our affiliates),

then in addition to or in lieu of conducting the exchange offer, we will be required to file a shelf registration statement with the SEC to cover resales of the Old Notes or the Exchange Notes, as the case may be. In that case, we will use our commercially reasonable efforts to (a) cause the registration statement to become effective (i) in the case of clause (1) above, by the 60th day after we determine we are not permitted to file the exchange offer registration statement or to consummate the exchange offer due to a change in law or policy but in any event not earlier than the 120th day following the issuance of the Old Notes, (ii) in the case of clause (2) above, by the 60th day after the Consummation Deadline, and (iii) in the case of clause (3) above, by the 60th day after receipt of such notice by in any event not earlier than the 120th day following the issuance of the Old Notes, and (b) maintain the effectiveness of the registration statement for two years or such lesser period after which all the notes registered therein have been sold under the Securities Act.

Additional Interest

If (1) we have not filed the exchange offer registration statement or the shelf registration statement by the dates described above as required by the Registration Rights Agreement, (2) the exchange offer registration statement or the shelf registration statement is not declared effective by the dates described above as required by the Registration Rights Agreement, (3) we do not consummate the exchange offer described in this prospectus by the Consummation Deadline, or (4) the shelf registration statement is declared effective, but thereafter, subject to certain exceptions, ceases to be effective or usable in connection with resales of any notes registered under the shelf registration statement during the periods specified in the Registration Rights Agreement, then we will be in default under the Registration Rights Agreement. If one of the registration defaults occurs, the annual interest rate on the Old Notes will increase by $0.05 per week per $1,000 principal amount of transfer restricted securities for the first 90-day period. The amount of additional interest will increase by an additional $0.05 per week per

$1,000 principal amount of transfer restricted securities for any subsequent 90-day period until all registration defaults are cured, up to a maximum additional interest rate of $0.20 per week per $1,000 principal amount of transfer restricted securities. When we have cured all of the registration defaults, the interest rate on the Old Notes will revert immediately to the original level.

The exchange offer is intended to satisfy our exchange offer obligations under the Registration Rights Agreement. The notes will not have rights to additional interest as set forth above upon the consummation of the exchange offer.

Terms of the Exchange Offer

We are offering to exchange up to $100.0 million aggregate principal amount of the Exchange Notes, the issuance of which has been registered under the Securities Act, for an equal principal amount of the Old Notes. Upon the terms and subject to the conditions set forth in this prospectus, we will accept any and all Old Notes validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on the expiration date of the exchange offer. We will issue $1,000 principal amount of Exchange Notes in exchange for each $1,000 principal amount of Old Notes accepted in the exchange offer. Holders may tender some or all of their Old Notes pursuant to the exchange offer. However, Old Notes may be tendered only in denominations of $2,000 of principal amount and any integral multiple of $1,000 in excess thereof.

The form and terms of the Exchange Notes are the same as the form and terms of the Old Notes except that the Exchange Notes have been registered under the Securities Act and will not have transfer restrictions or contain the additional interest provisions of the Old Notes. The Exchange Notes will evidence the same debt as the Old Notes and will be issued under and entitled to the benefits of the Indenture. Consequently, the Old Notes and the Exchange Notes will be treated, together with the existing 2018 notes, as a single class of debt securities under the Indenture.

As of the date of this prospectus, Old Notes representing $100.0 million in aggregate principal amount were outstanding, and there was one registered holder, CEDE & Co., as nominee of DTC. This prospectus is being sent to all registered holders of the Old Notes.

The exchange offer is not conditioned on any minimum aggregate principal amount of Old Notes being tendered for exchange.

We intend to conduct the exchange offer in accordance with the applicable requirements of the Exchange Act and the rules and regulations of the SEC. We will be deemed to have accepted for exchange properly tendered Old Notes when we have given oral or written notice of the acceptance to the exchange agent. The exchange agent will act as agent for the tendering holders for the purposes of receiving the Exchange Notes from us and delivering the Exchange Notes to such holders.

Old Notes that are not tendered for exchange in the exchange offer or that are tendered but we do not accept for exchange will remain outstanding and continue to accrue interest and will continue to be entitled to the rights and benefits such holders have under the Indenture relating to the Old Notes. The Old Notes that are not exchanged will continue to be subject to the existing transfer restrictions under the Securities Act and, upon consummation of the exchange offer, certain registration and other rights under the Registration Rights Agreement will terminate. Holders of the Old Notes do not have any appraisal or dissenters rights in connection with the exchange offer.

Holders who tender Old Notes in the exchange offer will not be required to pay brokerage commissions or fees or transfer taxes with respect to the exchange of Old Notes pursuant to the exchange offer. We will pay all charges and expenses, other than transfer taxes in certain circumstances, in connection with the exchange offer. See Fees and Expenses and Transfer Taxes below.

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Expiration Date; Extensions; Amendments

The exchange offer will remain open for at least 30 days, and in all events will remain open for at least 20 full business days. The term expiration date will mean 5:00 p.m., New York City time, on , 2012, unless we, in our sole discretion, extend the exchange offer, in which case the term expiration date will mean the latest date and time to which the exchange offer is extended.

In order to extend the exchange offer, we will notify the exchange agent orally or in writing of any extension. We will notify in writing by press release or other public announcement the registered holders of Old Notes of the extension no later than 9:00 a.m., New York City time, on the business day after the previously scheduled expiration date.

We reserve the right, in our sole discretion:

(1) to delay accepting any Old Notes, to extend the exchange offer or, if any of the conditions to the exchange offer set forth below under Conditions to the Exchange Offer have not been satisfied, to terminate the exchange offer, by giving oral or written notice of such delay, extension or termination to the exchange agent; or

(2) to amend the terms of the exchange offer in any manner.

Any delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by written notice to the registered holders by a press release or other public announcement. If we amend the exchange offer in a manner that we determine to constitute a material change in the exchange offer, we will promptly disclose such amendment in a manner reasonably calculated to inform the holders of Old Notes of such amendment, and we will extend the exchange offer period, if necessary, so that at least five business days remain in the exchange offer following notice of the material change. If we terminate an exchange offer as provided in this prospectus before accepting any Old Notes for exchange or if we amend the terms of the exchange offer in a manner that constitutes a fundamental change in the information set forth in the registration statement of which this prospectus forms a part, we will promptly file a post-effective amendment to the registration statement of which this prospectus forms a part. In addition, we will in all event comply with our obligation to exchange promptly all Old Notes properly tendered and accepted for exchange in the exchange offer.

Procedures for Tendering Old Notes Through Brokers and Banks

Since the Old Notes are represented by global book-entry notes, DTC, as depositary, or its nominee is treated as the registered holder of the Old Notes and will be the only entity that can tender your Old Notes for Exchange Notes. Therefore, to tender Old Notes subject to this exchange offer and to obtain Exchange Notes, you must instruct the institution where you keep your Old Notes to tender your Old Notes on your behalf so that they are received on or prior to the expiration of this exchange offer.

To tender your Old Notes in the exchange offer, you must:

(1) comply with DTC s Automated Tender Offer Program (ATOP) procedures described below; and

(2) the exchange agent must receive a timely confirmation of a book-entry transfer of the Old Notes into its account at DTC through ATOP pursuant to the procedure for book-entry transfer described below, along with a properly transmitted Agent s Message (defined below), before the expiration date.

IF YOU WISH TO ACCEPT THIS EXCHANGE OFFER, PLEASE INSTRUCT YOUR BROKER OR ACCOUNT REPRESENTATIVE IN TIME FOR YOUR OLD NOTES TO BE TENDERED BEFORE THE 5:00 PM (NEW YORK CITY TIME) DEADLINE ON , 2012.

In order to accept this exchange offer on behalf of a holder of Old Notes you must submit or cause your DTC participant to submit an Agent s Message as described below.

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The exchange agent, on our behalf, will seek to establish an ATOP account with respect to the outstanding Old Notes at DTC promptly after the delivery of this prospectus. Any financial institution that is a DTC participant, including your broker or bank, may make book-entry tender of outstanding Old Notes by causing the book-entry transfer of such Old Notes into our ATOP account in accordance with DTC s procedures for such transfers. Concurrently with the delivery of Old Notes, an Agent s Message in connection with such book-entry transfer must be transmitted by DTC to, and received by, the exchange agent on or prior to 5:00 pm, New York City Time on the expiration date. The confirmation of a book entry transfer into the ATOP account as described above is referred to herein as a Book-Entry Confirmation.

The term Agent s Message means a message transmitted by the DTC participants to DTC, and thereafter transmitted by DTC to the exchange agent, forming a part of the Book-Entry Confirmation which states that DTC has received an express acknowledgment from the participant in DTC described in such Agent s Message stating that such participant and beneficial holder agree to be bound by the terms of this exchange offer, including the letter of transmittal, and that the agreement may be enforced against such participant.

Each Agent s Message must include the following information:

(1) Name of the beneficial owner tendering such Old Notes;

(2) Account number of the beneficial owner tendering such Old Notes;

(3) Principal amount of Old Notes tendered by such beneficial owner; and

(4) A confirmation that the beneficial holder of the Old Notes tendered has made the representations for our benefit set forth under Representations below.

BY SENDING AN AGENT S MESSAGE THE DTC PARTICIPANT IS DEEMED TO HAVE CERTIFIED THAT THE BENEFICIAL HOLDER FOR WHOM NOTES ARE BEING TENDERED HAS BEEN PROVIDED WITH A COPY OF THIS PROSPECTUS AND AGREES TO BE BOUND BY THE TERMS OF THIS EXCHANGE OFFER, INCLUDING THE LETTER OF TRANSMITTAL.

The delivery of Old Notes through DTC, and any transmission of an Agent s Message through ATOP, is at the election and risk of the person tendering Old Notes. We will ask the exchange agent to instruct DTC to promptly return those Old Notes, if any, that were tendered through ATOP but were not accepted by us, to the DTC participant that tendered such Old Notes on behalf of holders of the Old Notes.

When you tender your outstanding Old Notes and we accept them, the tender will be a binding agreement between you and us as described in this prospectus. By using the ATOP procedures to exchange Old Notes, you will not be required to deliver a letter of transmittal to the exchange agent. However, you will be bound by its terms, and you will be deemed to have made the acknowledgements and the representations and warranties it contains, just as if you had signed it.

We will decide all questions about the validity, form, eligibility, time of receipt, acceptance and withdrawal of tendered Old Notes, and our reasonable determination will be final and binding on you. We reserve the absolute right to: (1) reject any and all tenders of any particular Old Note not properly tendered; (2) refuse to accept any Old Note if, in our reasonable judgment or the judgment of our counsel, the acceptance would be unlawful; and (3) waive any defects or irregularities or conditions of the exchange offer as to any particular Old Notes before the expiration of the offer. Our interpretation of the terms and conditions of the exchange offer will be final and binding on all parties. You must cure any defects or irregularities in connection with tenders of Old Notes as we will reasonably determine. Neither us, the exchange agent nor any other person will incur any liability for failure to notify you of any defect or irregularity with respect to your tender of Old Notes. If we waive any terms or conditions pursuant to (3) above with respect to a noteholder, we will extend the same waiver to all noteholders with respect to that term or condition being waived.

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Representations

To participate in the exchange offer, each holder of Old Notes that wishes to exchange Old Notes for Exchange Notes in the exchange offer will be required to make the following representations:

(1) it has full corporate (or similar) power and authority to tender, exchange, assign and transfer the Old Notes and to acquire the Exchange Notes;

(2) when the Old Notes are accepted for exchange, the Issuers will acquire good and unencumbered title to the tendered Old Notes, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim; and

(3) if such holder is a broker dealer that will receive Exchange Notes for its own account in exchange for Old Notes that were acquired as a result of market-making or other trading activities, then such holder will comply with the applicable provisions of the Securities Act with respect to any resale of the Exchange Notes. See Plan of Distribution.

Broker-dealers who cannot make the representations in item (3) of the paragraph above cannot use this exchange offer prospectus in connection with resales of the Exchange Notes issued in the exchange offer.

Each holder of Old Notes that wishes to exchange Old Notes for Exchange Notes in the exchange offer and any beneficial owner of those Old Notes also will be required to make the following representations:

(1) neither the holder nor any beneficial owner of the Old Notes is an affiliate (as defined in Rule 405 under the Securities Act) of the Issuers;

(2) neither the holder nor any beneficial owner of the Old Notes is engaged in or intends to engage in, and has no arrangement or understanding with any person to participate in, a distribution (within the meaning of the Securities Act) of the Exchange Notes;

(3) any Exchange Notes to be acquired by the holder and any beneficial owner of the Old Notes pursuant to the exchange offer will be acquired in the ordinary course of business of the person receiving such Exchange Notes; and

(4) the holder is not acting on behalf of any person who could not truthfully make the foregoing representations.

BY TENDERING YOUR OLD NOTES YOU ARE DEEMED TO HAVE MADE THESE REPRESENTATIONS.

If you are our affiliate, as defined under Rule 405 of the Securities Act, if you are a broker-dealer who acquired your Old Notes in the initial offering and not as a result of market-making or trading activities, or if you are engaged in or intend to engage in or have an arrangement or understanding with any person to participate in a distribution of Exchange Notes acquired in the exchange offer, you or that person:

(1) cannot rely on the position of the staff of the SEC set forth in *Exxon Capital Holdings Corporation, Morgan Stanley & Co., Incorporated* or similar no-action letters; and

(2) in the absence of an applicable exemption, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a resale of the Exchange Notes.

Acceptance of Outstanding Old Notes for Exchange; Delivery of Exchange Notes

We will accept validly tendered Old Notes when the conditions to the exchange offer have been satisfied or we have waived them. We will have accepted your validly tendered Old Notes when we have given oral or written notice to the exchange agent. The exchange agent will act as agent for the tendering holders for the purpose of receiving the Exchange Notes from us. If we do not accept any tendered Old Notes for exchange by book-entry transfer because of an invalid tender or other valid reason, we will credit the Old Notes to an account maintained with DTC promptly after the exchange offer terminates or expires.

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THE AGENT S MESSAGE MUST BE TRANSMITTED TO THE EXCHANGE AGENT ON OR BEFORE 5:00 PM, NEW YORK CITY TIME, ON THE EXPIRATION DATE.

No Guaranteed Delivery

There are no guaranteed delivery procedures provided for by us in conjunction with the exchange offer. Holders of Old Notes must timely tender their Old Notes in accordance with the procedures set forth herein.

Withdrawal Rights

You may withdraw your tender of outstanding notes at any time before 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, you should contact your bank or broker where your Old Notes are held and have them send an ATOP notice of withdrawal so that it is received by the exchange agent before 5:00 p.m., New York City time, on the expiration date. Such notice of withdrawal must:

(1) specify the name of the person that tendered the Old Notes to be withdrawn;

(2) identify the Old Notes to be withdrawn, including the CUSIP number and principal amount at maturity of the Old Notes; specify the name and number of an account at the DTC to which your withdrawn Old Notes can be credited.

We will decide all questions as to the validity, form and eligibility of the notices and our determination will be final and binding on all parties. Any tendered Old Notes that you withdraw will not be considered to have been validly tendered. We will promptly return any outstanding Old Notes that have been tendered but not exchanged, or credit them to the DTC account. You may re-tender properly withdrawn Old Notes by following one of the procedures described above before the expiration date.

Conditions to the Exchange Offer

Notwithstanding any other provision of the exchange offer, we are not required to accept for exchange, or to issue Exchange Notes in exchange for, any Old Notes and may terminate or amend the exchange offer if, at any time before the acceptance of Old Notes for exchange, (1) we determine that the exchange offer violates applicable law, any applicable interpretation of the staff of the SEC or any order of any governmental agency or court of competent jurisdiction, (2) any action or proceeding has been instituted or threatened in any court or before any governmental agency with respect to the exchange offer which, in our judgment, might impair our ability to proceed with the exchange offer or have a material adverse effect on us, or (3) we determine that there has been a material change in our business or financial affairs which, in our judgment, would materially impair our ability to consummate the exchange offer.

The foregoing conditions are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to any such condition or may be waived by us in whole or in part at any time and from time to time in our sole discretion. Our failure to exercise any of the foregoing rights at any time will not be deemed a waiver of any such right and each such right will be deemed an ongoing right which may be asserted at any time and from time to time.

In addition, we will not accept for exchange any Old Notes tendered, and no Exchange Notes will be issued in exchange for any Old Notes, if at such time any stop order will be threatened or in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the Indenture under the Trust Indenture Act of 1939, as amended. In any such event we are required to use our commercially reasonable efforts to promptly obtain the withdrawal of any stop order.

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Exchange Agent

We have appointed Wells Fargo Bank, National Association as the exchange agent for the exchange offer. You should direct questions, requests for assistance, and requests for additional copies of this prospectus and the letter of transmittal to the exchange agent addressed as follows:

WELLS FARGO BANK, NATIONAL ASSOCIATION, EXCHANGE AGENT

By registered or certified mail, overnight delivery:

608 2nd Avenue South, 12th Floor

MAC: N9303-121

Minneapolis, MN 55402

Attention: Bondholder Communications

For Information Call:

(800) 344-5128

Confirm by Telephone:

(800) 344-5128

Delivery to an address other than set forth above will not constitute a valid delivery.

Fees and Expenses

The principal solicitation is being made through DTC by Wells Fargo Bank, National Association, as exchange agent. We will pay the exchange agent customary fees for its services, reimburse the exchange agent for its reasonable out-of-pocket expenses incurred in connection with the provisions of these services and pay other registration expenses, including registration and filing fees and expenses, fees and expenses of compliance with federal securities and state securities or blue sky securities laws, printing expenses, messenger and delivery services and telephone, fees and disbursements to our counsel, application and filing fees and any fees and disbursements to our independent certified public accountants. We will not make any payment to brokers, dealers, or others soliciting acceptances of the exchange offer except for reimbursement of mailing expenses.

Additional solicitations may be made by telephone, facsimile or in person by our and our affiliates   officers employees and by persons so engaged by the exchange agent.

Accounting Treatment

The Exchange Notes will be recorded at the same carrying value as the existing Old Notes, as reflected in our accounting records on the date of exchange. Accordingly, we will recognize no gain or loss for accounting purposes. The expenses of the exchange offer will be capitalized and expensed over the term of the Exchange Notes.

Transfer Taxes

If you tender outstanding Old Notes for exchange you will not be obligated to pay any transfer taxes. However, if you instruct us to register Exchange Notes in the name of, or request that your Old Notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder, you will be responsible for paying any transfer tax owed.

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Consequences of Failure to Exchange

If you do not tender your outstanding Old Notes, you will not have any further registration rights, except for the rights described in the Registration Rights Agreement and described above, and your Old Notes will continue to be subject to the provisions of the Indenture governing the notes regarding transfer and exchange of the Old Notes and the restrictions on transfer of the Old Notes imposed by the Securities Act and states securities law when we complete the exchange offer. These transfer restrictions are required because the Old Notes were issued under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, if you do not tender your Old Notes in the exchange offer, your ability to sell your Old Notes could be adversely affected. Once we have completed the exchange offer, holders who have not tendered notes will not continue to be entitled to any additional interest that the Indenture governing the notes provides for if we do not complete the exchange offer.

Other

Participation in the exchange offer is voluntary, and you should carefully consider whether to accept. You are urged to consult your financial, tax, legal and other advisors in making your own decision on what action to take.

We may in the future seek to acquire untendered Old Notes in the open market or in privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plans to acquire any Old Notes that are not tendered in the exchange offer or to file a shelf registration statement to permit resales of any untendered Old Notes.

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USE OF PROCEEDS

This exchange offer is intended to satisfy our obligations under the Registration Rights Agreement. We will not receive any proceeds from the issuance of the Exchange Notes. In consideration for issuing the Exchange Notes, we will receive, in exchange, an equal number of Old Notes in like principal amount. The form and terms of the Exchange Notes are identical to the form and terms of the Old Notes, except as otherwise described under the heading The Exchange Offer Terms of the Exchange Offer. The Old Notes properly tendered and exchanged for Exchange Notes will be retired and cancelled. Accordingly, issuance of the Exchange Notes will not result in any change in our capitalization. We have agreed to bear the expense of the exchange offer.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2012:

- on an actual basis; and
- on an as adjusted basis to give effect to the issuance and sale of $100.0 million aggregate principal amount of the Old Notes on July 26, 2012 through a private placement exempt from the registration requirements under the Securities Act, and the receipt by us of proceeds, after deducting discounts, commissions, and offering expenses payable by us of $2.7 million.

You should read this table together with Description of Other Indebtedness included elsewhere in this prospectus, as well as our consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

	Actual	As Adjusted
	(in thousands)	
Cash and cash equivalents	$ 3,110	$ 60,809
Long term debt, including amounts due within one year		
Senior secured revolving credit facility (1)	$ 42,500	
Mortgage indebtedness	157,872	$ 157,872
Notes (8.125% due 2018) (2)	225,000	325,000
Total debt	425,372	482,872
Common stockholders equity	316,425	316,425
Total capitalization	$ 741,797	$ 799,297

(1) Our Amended Secured Revolving Credit Facility provides for up to a $200.0 million senior secured revolving credit facility (up to $20.0 million of which may be utilized for letters of credit) and includes an accordion feature that allows the borrowers (the Operating Partnership and certain of its subsidiaries) to increase the borrowing availability under the senior secured revolving credit facility by up to an additional $150.0 million, subject to certain terms and conditions. As of June 30, 2012, there was $42.5 million outstanding under our Amended Secured Revolving Credit Facility and $157.5 million available for borrowing. We used a portion of the proceeds from the offering of the Old Notes to repay the borrowings outstanding on the Amended Secured Revolving Credit Facility.

(2) The $100.0 million aggregate principal amount of Old Notes excludes a $6.0 million premium.

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SELECTED FINANCIAL DATA

The following selected financial data as of December 31, 2011 and December 31, 2010 and for the year ended December 31, 2011 and the period from the Separation Date through December 31, 2010 should be read in conjunction with the consolidated financial statements and related notes thereto included in this prospectus and Management s Discussion and Analysis of Financial Condition and Results of Operations :

	June 30, 2012	June 30, 2011	As of December 31, 2011	December 31, 2010
Balance sheet data				
Total real estate investments, net	$ 698,578	$ 542,590	$ 658,377	$ 482,297
Cash and cash equivalents	$ 3,110	$ 3,454	$ 42,250	$ 74,233
Total assets	$ 778,518	$ 595,802	$ 749,650	$ 599,559
Mortgage notes payable	$ 157,872	$ 159,935	$ 158,398	$ 161,440
Senior unsecured notes payable	$ 225,000	$ 225,000	$ 225,000	$ 225,000
Total liabilities	$ 462,093	$ 419,960	$ 423,077	$ 422,026
Total stockholders equity	$ 316,425	$ 175,842	$ 326,573	$ 177,533

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Year Ended December 31, 2011	Separation Date through December 31, 2010
Operating data				
Total revenues	$ 48,844	$ 36,407	$ 84,225	$ 8,795
Net income	$ 10,328	$ 3,335	$ 12,842	$ 7
Net income per common share basic	$ 0.28	$ 0.13	$ 0.43	$
Net income per common share diluted	$ 0.28	$ 0.13	$ 0.43	$
Other data				
Cash flows provided by operations	$ 24,087	$ 17,928	$ 44,705	$ 6,592
Cash flows (used in) provided by investing activities	$ (77,456)	$ (79,434)	$ (204,586)	$ 67,118
Cash flows provided by (used in) financing activities	$ 14,229	$ (9,273)	$ 127,898	$ 523
Dividends declared and paid per common share	$ 0.66	$ 0.32	$ 0.96	$
Weighted-average number of common shares outstanding, basic	37,092,683	25,140,781	30,109,417	25,110,936
Weighted-average number of common shares outstanding, diluted net income and FFO	37,119,005	25,210,575	30,171,225	25,186,988
Weighted-average number of common shares outstanding, diluted AFFO	37,472,271	25,474,693	30,399,132	25,645,131
FFO (1)	$ 25,188	$ 15,712	$ 39,433	$ 3,141
FFO per diluted common share (1)	$ 0.68	$ 0.62	$ 1.31	$ 0.12
AFFO (1)	$ 29,668	$ 19,368	$ 47,157	$ 3,706
AFFO per diluted common share (1)	$ 0.79	$ 0.76	$ 1.55	$ 0.14

(1) We believe that net income as defined by GAAP is the most appropriate earnings measure. We also believe that funds from operations (or FFO), as defined by the National Association of Real Estate Investment Trusts (or NAREIT), and adjusted funds from operations (or AFFO) (and related per share amounts) are important non-GAAP supplemental measures of operating performance for a REIT. We consider FFO and AFFO to be useful measures for reviewing comparative operating and financial performance because, by excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization, and,

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for AFFO, by excluding non-cash revenues (including straight-line rental income adjustments and amortization of acquired above/below market lease intangibles), non-cash expenses (including stock-based compensation expense and amortization of deferred financing costs) and acquisition pursuit costs, FFO and AFFO can help investors compare our operating performance between periods or as compared to other companies. See further discussion of FFO and AFFO in Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Funds from Operations and Adjusted Funds from Operations.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We commenced operations upon completion of the Separation and REIT Conversion Merger (both defined below) on November 15, 2010 (the Separation Date). For comparison purposes, we have presented below an unaudited pro forma consolidated income statement for the year ended December 31, 2010 as if the Separation and REIT Conversion Merger had occurred on January 1, 2010. Accordingly, the discussion and analysis of our results of operations set forth below includes a comparison of our pro forma results of operations for the year ended December 31, 2010 and our actual results of operations for the year ended December 31, 2011.

The discussion below contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those which are discussed above in the Risk Factors.

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and the notes thereto. Also see Cautionary Note Regarding Forward-Looking Statements preceding Summary.

Our Management s Discussion and Analysis of Financial Condition and Results of Operations is organized as follows:

- Overview
- Sun Genesis Pending Merger Transaction
- Recent Transactions
- Critical Accounting Policies
- Results of Operations
- Liquidity and Capital Resources
- Change in Skilled Nursing Facility Reimbursement Rates
- Obligations and Commitments
- Impact of Inflation
- Off-Balance Sheet Arrangements
- Recently Issued Accounting Standards Updates

Quarterly Financial Data

Overview

We were incorporated on May 10, 2010 as a wholly owned subsidiary of Sun Healthcare Group, Inc. (Old Sun), a provider of nursing, rehabilitative and related specialty healthcare services principally to the senior population in the United States. Pursuant to a restructuring plan by Old Sun, Old Sun restructured its business by separating its real estate assets and its operating assets into two separate publicly traded companies, Sabra and SHG Services Inc. (which has been renamed Sun Healthcare Group, Inc. or Sun). In order to effect the restructuring, Old Sun distributed to its stockholders on a pro rata basis all of the outstanding shares of common stock of Sun (the Separation), together with an additional cash distribution. Immediately following the Separation, Old Sun merged with and into Sabra, with Sabra surviving the merger and Old Sun stockholders receiving shares of Sabra common stock in exchange for their shares of Old Sun common stock (the REIT Conversion Merger). The Separation and REIT Conversion Merger were completed on November 15, 2010, which we refer to as the Separation Date.

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Following the restructuring of Old Sun s business and the completion of the Separation and REIT Conversion Merger, we began operating as a self-administered, self-managed REIT that, directly or indirectly, owns and invests in real estate serving the healthcare industry.

As of June 30, 2012, our investment portfolio consisted of 103 real estate properties (consisting of (i) 93 skilled nursing/post-acute facilities, (ii) nine senior housing facilities, and (iii) one acute care hospital), a mortgage loan secured by a first trust deed in a skilled nursing facility located in Texas with an option to purchase this facility and a mezzanine loan secured by the borrowers equity interests in three skilled nursing facilities and one assisted living facility located in Texas and with an option to purchase these four facilities. As of June 30, 2012, our real estate properties had a total of 11,392 licensed beds, or units, spread across 25 states. As of June 30, 2012, all of our real estate properties are leased under triple-net operating leases with expirations ranging from nine to 22 years.

We expect to continue to grow our portfolio primarily through the acquisition of healthcare facilities with a focus on skilled nursing, assisted living and memory care facilities and through the origination of financing secured directly or indirectly by healthcare facilities. We also expect to opportunistically consider acquiring independent living and continuing care retirement community facilities and hospitals. We intend to finance our investments with cash on hand, including a portion of the proceeds from our July 2012 offering of the Old Notes, and availability under our Amended Secured Revolving Credit Facility. As we acquire additional properties and expand our portfolio, we expect to further diversify by tenant, asset class and geography within the healthcare sector. We employ a disciplined, opportunistic approach in our healthcare real estate investment strategy by investing in assets that provide attractive opportunities for dividend growth and appreciation of asset values, while maintaining balance sheet strength and liquidity, thereby creating long-term stockholder value.

We are organized to qualify as a REIT and we have elected to be treated as a REIT for U.S. federal income tax purposes with the filing of our U.S. federal income tax return for the taxable year beginning January 1, 2011. We operate through an umbrella partnership (commonly referred to as an UPREIT) structure in which substantially all of our properties and assets are held by the Operating Partnership or by subsidiaries of the Operating Partnership.

Sun Genesis Pending Merger Transaction

On June 20, 2012, Sun announced that it had signed a definitive agreement to be acquired by Genesis. According to Sun s announcement, Genesis will acquire Sun for $8.50 of cash per share of common stock, resulting in a transaction value of approximately $275 million net of cash and debt acquired. Sun s Board of Directors unanimously approved this transaction. According to Sun s announcement, the closing of this transaction is subject to customary conditions, including approval by Sun stockholders as well as regulatory approvals, and the closing is expected to occur in the fall of 2012. In connection with this transaction, we expect to obtain a parent guaranty from Genesis to replace the existing Sun guaranty of the lease obligations of its subsidiaries that are tenants under our lease agreements. Additionally, we expect the guaranty to include a tangible net worth covenant and expect to obtain an amendment to our master lease agreement with Sun to improve the annual rent escalators to a fixed 2.5% increase and to include cross-default provisions with Genesis term loan, all of which modifications should improve the overall quality of our leases with Sun. However, there can be no assurances that the proposed transaction will be completed on its proposed terms or at all. In its announcement, Sun expressed its belief that the combined entity will have broad geographic reach and the scale necessary to remain competitive in the post-acute sector. Sun has reported that, on a combined basis, the two companies generated roughly $4 billion in revenue in 2011 and have more than 420 facilities and 75,000 employees.

Recent Transactions

Pipeline Agreement

On August 16, 2012, we 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

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assisted living and memory care facilities through at least 2014. Under the Pipeline Agreement, First Phoenix will identify and develop the properties, affiliates of Sabra will purchase the properties once stabilized and a 50%/50% RIDEA-compliant joint venture partnership between affiliates of Sabra and First Phoenix will operate the facilities, subject to certain terms and conditions. Sabra 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%. First Phoenix currently operates one facility under the Stoney River Assisted Living brand located in Marshfield, Wisconsin which is expected to be acquired by Sabra during 2012 and operated by the joint venture partnership.

Concurrently with our execution of the Pipeline Agreement, we 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. Repayment of the loan is expected to occur in connection with the acquisition of the stabilized property by Sabra, or earlier in certain circumstances.

Issuance of the Notes

On July 26, 2012, we, through the Issuers, issued an additional $100.0 million aggregate principal amount of Old Notes, which are treated as a single class with our existing 2018 notes. The Old Notes were issued at 106.0% providing net proceeds of $103.8 million after underwriting costs but before other offering expenses and a yield-to-maturity of 6.92%.

Onion Creek Mortgage Loan

On June 22, 2012, we 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, we have an option to purchase and the borrowers have an option to sell us 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 EBITDAR of the facility for the three month period preceding the option exercise date; however, in no event can the borrowers require us to purchase the property if the three month annualized EBITDAR is below $1.7 million. The purchase price was funded with available cash and proceeds from our Amended Secured Revolving Credit Facility.

Aurora Portfolio

On June 1, 2012, we acquired three skilled nursing facilities in a sale-leaseback transaction with affiliates of Aurora Health Management, LLC (Aurora) for $21.8 million. Two of the facilities are located in Connecticut and the third is located in New Hampshire. Collectively, the facilities have 327 beds. In connection with the acquisition, we amended the existing master lease with Aurora (the Aurora Master Lease) to include these three facilities with the two facilities that we were already leasing to Aurora and to extend the term by six months. The Aurora Master Lease has an initial term of 15 years with two five-year renewal options and contains fixed annual rent escalators of 2.5%. With the addition of these facilities, the Aurora portfolio will provide an initial yield on cash rent of 10.18% and annual lease revenues determined in accordance with GAAP of $4.6 million. The purchase price was funded with available cash and proceeds from our Amended Secured Revolving Credit Facility.

Ridgecrest Manor

On May 1, 2012, we acquired a 120-bed skilled nursing facility located in Virginia for $5.7 million. Concurrently with the purchase, we entered into a triple-net lease agreement with affiliates of Trinity Health

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Systems, LLC. The lease has an initial term of 15 years with two five-year renewal options and provides for annual rent escalators equal to the greater of the change in the Consumer Price Index or 3.0%, resulting in annual lease revenues determined in accordance with GAAP of $0.8 million and an initial yield on cash rent of 11.0%. In addition, we have provided the tenant with an improvement allowance of up to $0.5 million. The loan was funded with available cash and proceeds from our Amended Secured Revolving Credit Facility.

Refinancing of Mortgage Indebtedness

On June 28, 2012, we refinanced four of our existing United States Department of Housing and Urban Development (HUD) mortgage notes totaling $20.9 million. We 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. In connection with the refinancing, we wrote off $0.2 million in unamortized deferred financing costs related to the original mortgage notes. Subsequent to June 30, 2012, we refinanced one additional HUD mortgage note totaling $13.5 million. We 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.

On May 1, 2012, we amended the Amended, Restated and Consolidated Loan Agreement with General Electric Capital Corporation. We reduced the interest rate spread of the floating rate portion (totaling $58.6 million as of June 30, 2012) by 50 basis points and maintained the fixed rate portion (totaling $31.1 million as of June 30, 2012) at the original pricing of 6.82%; however, the reduced pricing will apply to the fixed portion of the loan beginning on December 19, 2013 when it converts to a floating rate loan. We 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.

Critical Accounting Policies

Below is a discussion of the accounting policies that management considers critical in that they involve significant management judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Revenue Recognition

We recognize rental revenue from tenants, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured. If the lease provides for tenant improvements, we determine whether the tenant improvements, for accounting purposes, are owned by the tenant or by us. When we are the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term.

Real Estate Investments

Depreciation and Amortization

Real estate costs related to the acquisition and improvement of properties are capitalized and amortized over the expected useful life of the asset on a straight-line basis. Repair and maintenance costs are charged to expense as incurred and significant replacements and betterments are capitalized. Repair and maintenance costs include all costs that do not extend the useful life of the real estate asset. We consider the period of future benefit of an asset to determine its appropriate useful life. Depreciation of real estate assets and amortization of lease intangibles are included in depreciation and amortization in the consolidated statements of operations. We anticipate the estimated useful lives of our assets by class to be generally as follows: land improvements, 3 to 40 years; buildings and building improvements, 3 to 40 years; and furniture and equipment, 1 to 20 years.

Impairment of Real Estate Investments

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate investments may not be recoverable or realized. When indicators of potential impairment suggest that the carrying value of real estate investments may not be recoverable, we assess the recoverability by estimating whether we will recover the carrying value of our real estate investments through its undiscounted future cash flows and the eventual disposition of the investment. If, based on this analysis, we do not believe that we will be able to recover the carrying value of our real estate investments, we would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of our real estate investments. We did not record any impairment losses on our real estate investments during the year ended December 31, 2011 and during the period from the Separation Date through December 31, 2010.

Real Estate Acquisition Valuation

We account 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 year ended December 31, 2011, we completed eleven business combinations and expensed $3.2 million of acquisition pursuit costs, which is included in general and administrative expense on the accompanying consolidated statements of income. No business combinations were completed during the period from the Separation Date through December 31, 2010.

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities require us 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 our acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of our net income.

Interest Income

Interest income on our 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 we will not recognize interest income until the cash is received, or the loan returns to accrual status. If we determine that the collection of interest according to the contractual terms of the loan is probable, we will resume the accrual of interest.

Stock-Based Compensation

Stock-based compensation expense for stock-based awards granted to our employees and our non-employee directors are recognized in the statement of income based on their estimated fair value. Compensation expense for awards with graded vesting schedules is generally recognized ratably over the period from the grant date to the date when the award is no longer contingent on the employee providing additional services.

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Income Taxes

We are organized to qualify as a REIT and we have elected to be treated as a REIT for U.S. federal income tax purposes with the filing of our U.S. federal income tax return for the taxable year beginning January 1, 2011. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to stockholders (which is computed without regard to the dividends-paid deduction or net capital gains and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, we generally will not be subject to federal income tax on income that we distribute as dividends to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost, unless the IRS grants us relief under certain statutory provisions. Such an event could materially and adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT.

For income tax purposes, we are the surviving taxpayer of the Separation. Accordingly, tax positions taken by Old Sun prior to the Separation will remain our obligations after the Separation. However, under an agreement with Sun relating to tax allocation matters, Sun is responsible for and will indemnify us against, among other things, federal, state and local taxes related to periods prior to the Separation to the extent the deferred tax assets allocated to us as part of the Separation are not sufficient and/or cannot be utilized to satisfy these taxes. After the 2010 tax year, we and Sun have agreed, to the extent allowable by applicable law, to allocate all net operating loss attributes generated in prior years to Sun. In addition, Sun will generally have the right to control the conduct and disposition of any tax audits or other proceedings with regard to such periods, and will be entitled to any refund or credit for such periods.

We evaluate our tax positions using a two-step approach: step one (recognition) occurs when a company concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination and step two (measurement) is only addressed if step one has been satisfied (i.e., the position is more likely than not to be sustained). Under step two, the tax benefit is measured as the largest amount of benefit (determined on a cumulative probability basis) that is more likely than not to be realized upon ultimate settlement. We will recognize tax penalties relating to unrecognized tax benefits as additional tax expense.

Fair Value Measurements

Under GAAP, we are required to measure certain financial instruments at fair value on a recurring basis. In addition, we are required to measure other financial instruments and balances at fair value on a non-recurring basis (e.g., carrying value of impaired real estate loans receivable and long-lived assets). Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

- Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

When available, we utilize quoted market prices from an independent third-party source to determine fair value and classify such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require us to make a significant adjustment to derive a fair value measurement. Additionally, in an inactive market, a market price quoted from an independent third party may rely more on models with inputs based on information available only to that independent third party. When we determine the market for a financial instrument owned by us to be illiquid or when market transactions for similar instruments do not appear orderly, we use several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) and establish a fair value by assigning weights to the various valuation sources. Additionally, when determining the fair value of liabilities in circumstances in which a quoted price in an active market for an identical liability is not available, we measure fair value using (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach.

Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

We consider the following factors to be indicators of an inactive market: (i) there are few recent transactions, (ii) price quotations are not based on current information, (iii) price quotations vary substantially either over time or among market makers (for example, some brokered markets), (iv) indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability, (v) there is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with our estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability, (vi) there is a wide bid-ask spread or significant increase in the bid-ask spread, (vii) there is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities, and (viii) little information is released publicly (for example, a principal-to-principal market).

We consider the following factors to be indicators of non-orderly transactions: (i) there was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions, (ii) there was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant, (iii) the seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced), and (iv) the transaction price is an outlier when compared with other recent transactions for the same or similar assets or liabilities.

Results of Operations

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

As of June 30, 2012, our investment portfolio included 103 real estate properties and two investments in loans receivable. As of June 30, 2011, our investment portfolio included 88 real estate properties and an investment in a mortgage note, which was subsequently repaid. In general, we expect that our income and expenses related to our portfolio will increase in future periods as a result of owning investments acquired in 2011 and 2012 for an entire period and the anticipated future acquisition of additional investments. The results of operations presented for the six months ended June 30, 2012 and 2011 are not directly comparable due to the increase in acquisition activity subsequent to June 30, 2011.

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Comparison of the six months ended June 30, 2012 versus the six months ended June 30, 2011 (dollars in thousands):

	Six Months Ended June 30,					
	2012	2011	Increase	Percentage Difference	Increase due to Acquisitions (1)	Increase (Decrease) Due to Properties Held Throughout Both Periods (2)
Revenues:						
Rental income	$ 48,483	$ 36,190	$ 12,293	34%	$ 11,415	$ 878
Interest income	361	217	144	66%	353	(209)
Expenses:						
Depreciation and amortization	14,860	12,377	2,483	20%	2,964	(481)
Interest	15,846	15,103	743	5%		743
General and administrative	7,810	5,592	2,218	40%	558	1,660

(1) Represents the dollar amount increase for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 as a result of properties and other real estate-related assets acquired on or after January 1, 2011.

(2) Represents dollar amount increase (decrease) for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 with respect to properties and other real estate-related investments owned by us during both periods.

Rental Income

During the six months ended June 30, 2012, we recognized $48.5 million of rental income compared to $36.2 million for the six months ended June 30, 2011. The $12.3 million net increase in rental income is due to an increase of $11.4 million from properties acquired after January 1, 2011 and an increase of $0.9 million due to annual rent escalators related to properties owned prior to 2011. Amounts due under the terms of all of our lease agreements are subject to contractual increases, and there is no contingent rental income that may be derived from our properties.

Interest Income

During the six months ended June 30, 2012, we recognized $0.4 million of interest income, which consisted primarily of interest income earned on loans receivable. During the six months ended June 30, 2011, we recognized $0.2 million of interest income, which consisted mostly of interest income earned on the Hillside Terrace Mortgage Note, which we acquired on March 25, 2011 and was subsequently repaid on December 5, 2011. Based on our current estimates, we expect interest income to increase on an annual basis by $2.0 million as a result of loan originations completed through the first six months of 2012.

Depreciation and Amortization

During the six months ended June 30, 2012, we incurred $14.9 million of depreciation and amortization expense compared to $12.4 million for the six months ended June 30, 2011. The $2.5 million net increase in depreciation and amortization was primarily due to an increase of $3.0 million from properties acquired in 2011, partially offset by a decrease of $0.5 million related to assets that have been fully depreciated. As of June 30, 2012, the purchase price allocations for our 2012 acquisitions 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. Based on our current estimates, we expect depreciation and amortization expense to increase on an annual basis by $1.5 million as a result of our acquisitions during the first six months of 2012.

Interest Expense

We incur interest expense comprised of costs of borrowings plus the amortization of deferred financing costs related to our indebtedness. During the six months ended June 30, 2012, we incurred $15.8 million of interest expense compared to $15.1 million for the six months ended June 30, 2011. The $0.7 million increase is primarily related to a $0.3 million increase in unused facility fees and amortization of deferred financing costs related to the increase in capacity under our Amended Secured Revolving Credit Facility from $100.0 million to $200.0 million, $0.2 million increase in interest expense related to the outstanding principal amounts on our Amended Secured Revolving Credit Facility and $0.2 million increase in amortization of deferred financing costs due to the write-off of fees in connection with our mortgage refinancing.

General and Administrative Expenses

General and administrative expenses include compensation-related expenses as well as professional services, office costs and other costs associated with acquisition pursuit activities. During the six months ended June 30, 2012, general and administrative expenses were $7.8 million compared to $5.6 million during the six months ended June 30, 2011. During the six months ended June 30, 2012, we incurred $0.9 million of acquisition pursuit costs compared to $0.3 million of acquisition pursuit costs incurred during the six months ended June 30, 2011. The majority of the remaining increase relates to an increase in stock-based compensation from $2.5 million during the six months ended June 30, 2011 to $3.8 million during the six months ended June 30, 2012. This increase primarily relates to the change in our stock price from the prior year period. During the six months ended June 30, 2012, the stock price increased $5.02 compared to a decrease of $1.69 during the six months ended June 30, 2011. We expect acquisition pursuit costs to fluctuate from period to period depending on acquisition activity. We also expect stock-based compensation expense to fluctuate from period to period depending upon changes in our stock price and estimates associated with performance-based compensation.

Year Ended December 31, 2011 Compared to Pro Forma Year Ended December 31, 2010

Unaudited Pro Forma Financial Data

The following reflects the unaudited pro forma consolidated income statement of Sabra for the year ended December 31, 2010 as if the Separation and REIT Conversion Merger and the offering of the existing 2018 notes had occurred on January 1, 2010. The pro forma adjustments represent revenues and expenses to reflect the pro forma consolidated performance for the year ended December 31, 2010 and are necessary in order to develop the pro forma financial information consistent with the requirements of the SEC. The actual results reported in periods following the Separation may differ significantly from those reflected in this pro forma consolidated income statement for a number of reasons, including differences between the assumptions used to prepare these pro forma amounts and actual amounts. In addition, no adjustments have been made to the unaudited pro forma consolidated income statement for non-recurring items related to the Separation. As a result, the pro forma financial information does not purport to be indicative of what the results of operations would have been had the Separation been completed on January 1, 2010. The unaudited pro forma consolidated income statement does not purport to project the future results of operations after giving effect to the Separation.

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SABRA HEALTH CARE REIT, INC.

UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT

For the Year Ended December 31, 2010

(in thousands)

	Actual Results from the Separation Date to December 31, 2010	Pro Forma Adjustments	Pro Forma for the Year Ended December 31, 2010
Revenues:			
Rental income	$ 8,781	$ 61,464	$ 70,245
Interest income	14		14
Total revenues	8,795	61,464	70,259
Expenses:			
Depreciation and amortization	3,134	21,082	24,216
Interest	3,859	26,659	30,518
General and administrative	1,553	8,082	9,635
Total expenses	8,546	55,823	64,369
Income before income taxes	249	5,641	5,890
Income tax expense	242	(242)	
Net income	$ 7	$ 5,883	$ 5,890

Sabra began operating as a separate company following the Separation and REIT Conversion Merger, which was completed on November 15, 2010, which we refer to as the Separation Date. The following is a discussion of our results of operations for the year ended December 31, 2011 compared to our pro forma results of operations for the year ended December 31, 2010.

Comparison of results of operations for the year ended December 31, 2011 and pro forma results of operations for the year ended December 31, 2010 (dollars in thousands):

	Actual for the Year Ended December 31, 2011	Pro Forma for the Year Ended December 31, 2010	Variance	Percentage Difference
Revenues:				
Rental income	$ 80,678	$ 70,245	$ 10,433	15%
Interest income	3,547	14	3,533	NM
Expenses:				
Depreciation and amortization	26,591	24,216	2,375	10%
Interest	30,319	30,518	(199)	(1)%
General and administrative	14,473	9,635	4,838	50%

Rental Income

During the year ended December 31, 2011, we recognized $80.7 million of rental income, compared to $70.2 million on a pro forma basis for the year ended December 31, 2010. The increase during the year ended December 31, 2011 primarily resulted from the recognition of $10.3 million of rental income from the acquisitions of the Cadia Portfolio, Texas Regional Medical Center at Sunnyvale, the Aurora Portfolio, the Encore Portfolio, Oak Brook Health Care Center and Creekside Senior Living, which were completed in 2011. Amounts due under the terms of all of our lease agreements are subject to contractual increases and there is no contingent rental income that may be derived from our properties.

Interest Income

During the year ended December 31, 2011, we recognized $3.5 million of interest income compared to $14,000 recognized on a pro forma basis for the year ended December 31, 2010. Interest income during the year ended December 31, 2011 consisted primarily of interest income earned on the Hillside Terrace Mortgage Note, which we acquired on March 25, 2011. Included in interest income is $3.0 million that we recognized in connection with the repayment of the Hillside Terrace Mortgage Note on December 5, 2011, representing the difference between our $5.3 million investment in the Hillside Terrace Mortgage Note and the repayment amount of $8.3 million.

Depreciation and Amortization

During the year ended December 31, 2011, we incurred depreciation and amortization expense of $26.6 million compared to $24.2 million on a pro forma basis for the year ended December 31, 2010. The increase during the year ended December 31, 2011 resulted from the recognition of $2.6 million of depreciation and amortization expense from the acquisitions of the Cadia Portfolio, Texas Regional Medical Center at Sunnyvale, the Aurora Portfolio, the Encore Portfolio, Oak Brook Health Care Center and Creekside Senior Living, which were completed in 2011. As a result of these acquisitions, we expect annual depreciation and amortization expense to increase by approximately $3.3 million over the depreciation and amortization expense recognized for the year ended December 31, 2011.

Interest

We incur interest expense comprised of costs of borrowings plus the amortization of deferred financing costs related to our indebtedness. During the year ended December 31, 2011, we incurred $30.3 million of interest expense. On a pro forma basis for the year ended December 31, 2010, interest expense was $30.5 million. See Liquidity and Capital Resources below for more information.

General and Administrative Expenses

General and administrative expenses include compensation-related expenses as well as professional services, office costs and other costs associated with acquisition pursuit activities. During the year ended December 31, 2011, general and administrative expenses were $14.5 million. The majority of our general and administrative expenses were comprised of compensation and benefit expenses totaling $6.8 million, including stock-based compensation expense for our employees and board members totaling $4.6 million and employee salaries and benefits of $2.2 million. Also included in general and administrative expenses for the year ended December 31, 2011 were $3.2 million of acquisition pursuit costs and $1.4 million in expenses related to purchase and repayment of the Hillside Terrace Mortgage Note. On a pro forma basis for the year ended December 31, 2010, general and administrative expenses were $9.6 million, which excludes actual one-time start-up costs totaling $0.3 million, any acquisition pursuit costs and stock-based compensation accrual estimate adjustments. Pro forma compensation and benefit expenses for the year ended December 31, 2010 totaled $6.8 million, including stock-based compensation for employees and board members totaling $4.8 million and employee salaries and benefits of $2.0 million. We do not expect to incur start-up costs in future periods. We expect acquisition pursuit costs will fluctuate from period to period depending on acquisition activity. We also expect stock-based compensation expense to fluctuate from period to period depending upon changes in our stock price and estimates associated with performance-based compensation.

Funds from Operations and Adjusted Funds from Operations

We believe that net income as defined by GAAP is the most appropriate earnings measure. We also believe that funds from operations (or FFO), as defined in accordance with the definition used by the National Association of Real Estate Investment Trusts (or NAREIT), and adjusted funds from operations (or AFFO) (and related per share amounts) are important non-GAAP supplemental measures of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets requires straight-line depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. However, since real estate values have historically risen or fallen with market and other conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative. Thus, NAREIT created FFO as a supplemental measure of operating performance for

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REITs that excludes historical cost depreciation and amortization, among other items, from net income, as defined by GAAP. FFO is defined as net income, computed in accordance with GAAP, excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization. AFFO is defined as FFO excluding non-cash revenues (including straight-line rental income adjustments, amortization of acquired above/below market lease intangibles and non-cash interest income adjustments), non-cash expenses (including stock-based compensation expense and amortization of deferred financing costs) and acquisition pursuit costs. We believe that the use of FFO and AFFO (and the related per share amounts), combined with the required GAAP presentations, improves the understanding of operating results of REITs among investors and makes comparisons of operating results among such companies more meaningful. We consider FFO and AFFO to be useful measures for reviewing comparative operating and financial performance because, by excluding gains or losses related to sales of previously depreciated operating real estate assets and real estate depreciation and amortization, and, for AFFO, by excluding non-cash revenues (including straight-line rental income adjustments, amortization of acquired above/below market lease intangibles and non-cash interest income adjustments), non-cash expenses (including stock-based compensation expense and amortization of deferred financing costs) and acquisition pursuit costs, FFO and AFFO can help investors compare our operating performance between periods or as compared to other companies. While FFO and AFFO are relevant and widely used measures of operating performance of REITs, they do not represent cash flows from operations or net income as defined by GAAP and should not be considered an alternative to those measures in evaluating our liquidity or operating performance. FFO and AFFO also do not consider the costs associated with capital expenditures related to our real estate assets nor do they purport to be indicative of cash available to fund our future cash requirements. Further, our computation of FFO and AFFO may not be comparable to FFO and AFFO reported by other REITs that do not define FFO in accordance with the current NAREIT definition or that interpret the current NAREIT definition or define AFFO differently than we do.

The following table reconciles our calculations of FFO and AFFO for the six months ended June 30, 2012 and 2011, and for the year ended December 31, 2011 and for the period from the Separation Date to December 31, 2010, to net income, the most directly comparable GAAP financial measure, for the same periods (in thousands, except share and per share amounts):

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Year Ended December 31, 2011	Period from November 15, 2010 to December 31, 2010
Net income	$ 10,328	$ 3,335	$ 12,842	$ 7
Depreciation and amortization of real estate assets	14,860	12,377	26,591	3,134
FFO	25,188	15,712	39,433	3,141
Acquisition pursuit costs	872	311	3,218	
Stock-based compensation	3,842	2,478	4,600	335
Straight-line rental income adjustments	(1,690)	(128)	(2,092)	
Amortization of deferred financing costs	1,447	995	1,998	230
Non-cash interest income adjustments	9			
AFFO	$ 29,668	$ 19,368	$ 47,157	$ 3,706
FFO per diluted common share	$ 0.68	$ 0.62	$ 1.31	$ 0.12
AFFO per diluted common share	$ 0.79	$ 0.76	$ 1.55	$ 0.14
Weighted average number of common shares outstanding, diluted:				
FFO	37,119,005	25,210,575	30,171,225	25,186,988
AFFO	37,472,271	25,474,693	30,399,132	25,645,131

Set forth below is additional information related to certain other items included in net income above, which may be helpful in assessing our operating results. Please see the accompanying consolidated statement of cash flows for details of our operating, investing, and financing cash activities.

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Significant Items Included in Net Income:

- Interest income of $3.0 million and $1.4 million of expenses as a result of the repayment of the Hillside Terrace Mortgage Note on December 5, 2011;

- General and administrative expense of $0.3 million, $0.3 million and $0.1 million related to one-time start-up costs incurred during the six months ended June 30, 2011, the year ended December 31, 2011 and from the Separation Date through December 31, 2010, respectively; and

- General and administrative expense of $0.4 million during the period from the Separation Date through December 31, 2010 related to a one-time bonus paid to Mr. Matros, our president and chief executive officer, in December 2010.

Liquidity and Capital Resources

As of June 30, 2012, we had approximately $160.6 million in liquidity, consisting of unrestricted cash and cash equivalents of $3.1 million and available borrowings under our Amended Secured Revolving Credit Facility of $157.5 million. In addition, on July 26, 2012, we completed an offering of $100 million aggregate principal amount of the Old Notes at 106.0%, providing net proceeds of $103.8 million after underwriting costs but before other offering expenses. A portion of these proceeds was used to repay the $42.5 million outstanding under our Amended Secured Revolving Credit Facility as of June 30, 2012. See Overview Recent Transactions.

We believe that our available cash, operating cash flows and borrowings available to us under our Amended Secured Revolving Credit Facility provide sufficient funds for our operations, scheduled debt service payments with respect to the notes, mortgage indebtedness on our properties, and dividend requirements for the next twelve months. We have also filed with the SEC a shelf registration statement on Form S-3, which became effective on October 31, 2011, that will allow us to issue up to $500.0 million in new securities.

We intend to invest in additional healthcare properties as suitable opportunities arise and adequate sources of financing are available. We expect that future investments in properties, including any improvements or renovations of current or newly-acquired properties, will depend on and will be financed, in whole or in part, by our existing cash, borrowings available to us under our Amended Secured Revolving Credit Facility, future borrowings or the proceeds from additional issuances of common stock or other securities. In addition, we expect to seek financing from U.S. government agencies, including through Fannie Mae and HUD, in appropriate circumstances in connection with acquisitions and refinancings of existing mortgage loans.

In connection with the Separation and REIT Conversion Merger, we completed two significant debt financing transactions, as described below under Loan Agreements. As of June 30, 2012, we had $225.0 million of indebtedness with respect to the existing 2018 notes and aggregate mortgage indebtedness to third parties of approximately $157.4 million (excluding $0.5 million of mortgage premium) on certain of our properties. In addition, as of June 30, 2012, we had $42.5 million outstanding under our Amended Secured Revolving Credit Facility with $157.5 million available for borrowing.

Although we are subject to restrictions on our ability to incur indebtedness under the Indenture governing the notes and under the terms of our Amended Secured Revolving Credit Facility, we expect that we will be able to refinance existing indebtedness or incur additional indebtedness for acquisitions or other purposes, if needed. However, there can be no assurance that in the future we will be able to refinance our indebtedness, incur additional indebtedness or access additional sources of capital, such as by issuing common stock or other debt or equity securities, on terms that are acceptable to us or at all.

Cash Flows from Operating Activities

Net cash provided by operating activities was $24.1 million and $17.9 million for the six months ended June 30, 2012 and 2011, respectively. This was derived primarily from the rental payments received under the lease agreements with subsidiaries of Sun and rental payments from our other tenants following the date of our acquisition of the underlying property we are leasing to them.

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Net cash provided by operating activities was $44.7 million and $6.6 million for the year ended December 31, 2011 and for the period from the Separation Date through December 31, 2010, respectively. This was derived primarily from the rental payments received under the lease agreements with subsidiaries of Sun, rental payments from our other tenants following the date of our acquisition of the underlying property we are leasing to them and interest from the Hillside Terrace Mortgage Note, which was repaid on December 5, 2011.

We expect our annualized cash flows provided by operating activities to increase as a result of completed and anticipated future real estate investment acquisitions.

Cash Flows from Investing Activities

During the six months ended June 30, 2012, net cash used in investing activities was $77.5 million and consisted of $55.6 million used in the acquisition of the six skilled nursing facilities and $21.2 million used to originate two loans receivable. During the six months ended June 30, 2011, net cash used in investing activities was $79.4 million and consisted of $74.0 million used in the acquisitions of the Texas Regional Medical Center at Sunnyvale and the Oak Brook Health Care Center and $5.3 million used for the acquisition of the Hillside Terrace Mortgage Note.

During the year ended December 31, 2011, net cash used in investing activities was $204.6 million and consisted primarily of $204.5 million used in the acquisitions of the Texas Regional Medical Center at Sunnyvale, the Oak Brook Health Care Center, the Cadia Portfolio, the Aurora Portfolio, the Encore Portfolio and Creekside Senior Living.

We expect to continue using available liquidity in connection with anticipated future real estate investment acquisitions.

Cash Flows from Financing Activities

During the six months ended June 30, 2012, net cash provided by financing activities was $14.2 million and consisted of $42.5 million in proceeds from our Amended Secured Revolving Credit Facility, $21.9 million in proceeds from mortgage notes payable and $0.1 million in net proceeds related to the issuance of common stock, partially offset by $24.5 million of dividends paid to common stockholders, $22.5 million of principal repayments of mortgage notes payable and $3.4 million of payments for deferred financing costs primarily related to the entry into the Amended Secured Revolving Credit Facility and the refinance of the mortgage notes. During the six months ended June 30, 2011, net cash used in financing activities was $9.3 million and consisted of $8.1 million of dividends paid to common stockholders, $1.5 million of principal repayments of mortgage notes payable and $0.3 million of payments for deferred financing costs.

During the year ended December 31, 2011, net cash provided by financing activities was $127.9 million and consisted of $163.2 million from the issuance of common stock, partially offset by $31.6 million of dividends paid to common stockholders, $3.0 million of principal repayments of mortgage notes payable and $0.7 million of payments for deferred financing costs.

Loan Agreements

8.125% Senior Notes due 2018. On October 27, 2010, the Issuers issued $225.0 million aggregate principal amount of the existing 2018 notes in a private placement. The existing 2018 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 existing 2018 notes for substantially identical 8.125% senior unsecured notes registered under the Securities Act (also referred to herein as the existing 2018 notes).

On July 26, 2012, the Issuers issued an additional $100.0 million aggregate principal amount of the Old Notes, which are treated as a single class with the existing 2018 notes. The Old Notes were issued at 106.0% providing net proceeds of $103.8 million after underwriting costs but before other offering expenses. See Overview Recent Transactions.

The obligations under the notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by us and certain of our 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, in the Notes to Condensed Consolidated Financial Statements for additional information concerning the circumstances pursuant to which the guarantors will be automatically and unconditionally released from their obligations under the guarantees.

The 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 notes, 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 notes at a redemption price equal to 100% of the principal amount of the notes redeemed, plus a make-whole premium, plus accrued and unpaid interest to the applicable redemption date. At any time, or from time to time, on or prior to November 1, 2013, the Issuers may redeem up to 35% of the principal amount of the 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 notes are not redeemed, the notes mature on November 1, 2018.

The Indenture governing the 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 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 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 notes may become due and payable immediately. As of June 30, 2012, we were in compliance with all applicable financial covenants under the 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), as amended on February 10, 2012 (as amended, 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 up to an additional $150.0 million, subject to certain terms and conditions. The Amended Secured Revolving Credit Facility is secured by, among other things, a first priority lien against certain of the properties owned by certain of our subsidiaries. The obligations of the Borrowers under the Amended Secured Revolving Credit Facility are guaranteed by us and certain of our subsidiaries. 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 relating to the Amended Secured Revolving Credit Facility) 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 June 30, 2012, there was $42.5 million outstanding under the Amended Secured Revolving Credit Facility and $157.5 million available for borrowing. During the three and six months ended June 30, 2012, we incurred $0.2 million in interest expense on amounts outstanding under the Amended Secured Revolving Credit Facility. During the three and six months ended June 30, 2012, we incurred $0.2 million and $0.4 million, respectively, of unused facility fees.

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 2.00% to 3.00% per annum for borrowings at the Base Rate and 3.00% to 4.00% per annum for LIBOR based borrowings. As of June 30, 2012, the interest rate on our Amended Secured Revolving Credit Facility was 3.49%. 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.

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 that we, through the Borrowers, comply with specified financial covenants, which include a maximum leverage ratio, a minimum fixed charge coverage ratio and a minimum tangible net worth requirement. As of June 30, 2012, we were in compliance with all applicable financial covenants under the Amended Secured Revolving Credit Facility.

Mortgage Indebtedness

Of our 103 properties, 26 are subject to mortgage indebtedness to third parties that, as of June 30, 2012, totaled approximately $157.4 million (excluding $0.5 million of mortgage premium). As of June 30, 2012 and December 31, 2011, our mortgage notes payable consisted of the following (dollars in thousands):

Interest Rate Type	Principal Outstanding as of June 30, 2012 [2]	Principal Outstanding as of December 31, 2011 [2]	Weighted Average Interest Rate at June 30, 2012	Maturity Date
Fixed Rate	$ 98,818	$ 98,739	5.56%	August 2015 - June 2047
Variable Rate [1]	58,562	59,159	5.00%	August 2015
	$ 157,380	$ 157,898		

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

(2) Outstanding principal balance for mortgage indebtedness does not include mortgage premium of $0.5 million as of June 30, 2012 and December 31, 2011.

Capital expenditures

For the six months ended June 30, 2011, our aggregate capital expenditures were $9,000, which was primarily for corporate office needs. There were no capital expenditures for the six months ended June 30, 2012. There are no present plans for the improvement or development of any unimproved or undeveloped property; however, from time to time we may agree to fund improvements our tenants make at our facilities. Accordingly, we anticipate that our aggregate capital expenditure requirements for fiscal year 2012 will not exceed $3.0 million, and that such expenditures will principally be for improvements to our facilities and result in incremental rental income.

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Dividends

We paid dividends of $24.5 million during the six months ended June 30, 2012. On August 1, 2012, our board of directors declared a quarterly cash dividend of $0.33 per share of common stock, which was paid on August 31, 2012 to stockholders of record as of August 15, 2012.

Change in Skilled Nursing Facility Reimbursement Rates

Medicare reimburses skilled nursing facilities for Medicare Part A services under the Prospective Payment System (PPS), as implemented pursuant to the Balanced Budget Act of 1997 and modified pursuant to subsequent laws, most recently the Patient Protection and Affordable Care Act of 2010 (the Affordable Care Act). PPS regulations predetermine a payment amount per patient, per day, based on a market basket index calculated for all covered costs. The amount to be paid is determined by classifying each patient into one of 66 Resource Utilization Group (RUG) categories that represent the level of services required to treat different conditions and levels of acuity.

The current system of 66 RUG categories, or Resource Utilization Group version IV (RUG IV), became effective as of October 1, 2010. RUG IV resulted from research performed by CMS and was part of CMS s continuing effort to increase the correlation of the cost of services to the condition of individual patients.

On July 29, 2011, CMS released the CMS Final Rule regarding 2012 Medicare payment rates for skilled nursing facilities, which became effective October 1, 2011. Based on the CMS Final Rule, the net reduction in fiscal year 2012 Medicare reimbursement rates for skilled nursing facilities will be was 11.1%. On January 4, 2012, Sun issued a press release announcing its 2012 financial outlook and guidance, in which Sun stated that it expected the net impact of the CMS Final Rule in 2012 to be between $40 million to $45 million after mitigation strategies were implemented to partially offset the impact of the CMS Final Rule. Based on Sun s expected 2012 consolidated EBITDAR (earnings before interest, taxes, depreciation, amortization and rent) of between $222.0 million and $228.0 million and expected consolidated rents across all of its facilities totaling $148.0 million, Sun s expected 2012 consolidated EBITDAR coverage would be between 1.50x and 1.54x (Sun s expected 2012 consolidated EBITDAR coverage would be between 1.46x and 1.50x before eliminating Sabra facilities from which Sun expects to transition operations to held for sale status in 2012). Sun s actual consolidated EBITDAR and consolidated rents across all of its facilities for the six months ended June 30, 2012, was $106.6 million and $72.9 million, respectively. Sun s consolidated EBITDAR coverage for the six months ended June 30, 2012 was 1.46x. On July 27, 2012, CMS released final fiscal year 2013 Medicare rates for skilled nursing facilities of a net increase of 1.8% over fiscal year 2012 payments (comprised of a market basket increase of 2.5% less the productivity adjustment of 0.7%).

In addition to Sun, other tenants have undertaken cost and patient mix mitigation activities intended to partially offset the impact of the CMS Final Rule. Although there has been no negative impact on our tenants ability to pay their lease obligations to date, if Sun and our other skilled nursing facility tenants are unable to mitigate the impact of the CMS Final Rule as expected, this may have an adverse impact on their business and financial results, which will adversely affect our business, financial position or results of operations if they are unable to timely make their rental payments to us.

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Obligations and Commitments

The following table summarizes our contractual obligations and commitments in future years, including our existing 2018 notes and our mortgage indebtedness to third parties on certain of our properties that, as of June 30, 2012, totaled $157.4 million (excluding $0.5 million of mortgage premium). The following table is presented as of June 30, 2012 (in thousands):

		July 1, 2012 through	Year Ended December 31,				After
	Total	**December 31, 2012**	**2013**	**2014**	**2015**	**2016**	**2016**
Mortgage indebtedness [1]	$ 225,840	$ 5,896	$ 12,006	$ 12,010	$ 92,601	$ 4,950	$ 98,377
Existing 2018 notes [2]	343,828	9,141	18,281	18,281	18,281	18,281	261,563
Operating lease	321	44	91	95	91		
Total	$ 569,989	$ 15,081	$ 30,378	$ 30,386	$ 110,973	$ 23,231	$ 359,940

(1) Mortgage indebtedness includes principal payments and interest payments through the maturity dates. Total interest on mortgage indebtedness, based on contractual rates, is $69.4 million, of which $10.0 million is attributable to variable interest rates determined using the weighted average method.

(2) Notes include interest payments payable semi-annually each May 1st and November 1st at a fixed rate of 8.125%. The notes mature on November 1, 2018. Total interest on the notes is $118.8 million.

Impact of Inflation

Our rental income in future years will be impacted by changes in inflation. The majority of our lease agreements provide for an annual rent escalator based on the percentage change in the Consumer Price Index (but not less than zero), subject to minimum or maximum fixed percentages.

Off-Balance Sheet Arrangements

None.

Recently Issued Accounting Standards Updates

See Note 2 to the Consolidated Financial Statements in this prospectus for the year ended December 31, 2011 for a discussion of recently issued accounting standards.

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Quarterly Financial Data

The following table presents our quarterly financial data. This information has been prepared on a basis consistent with that of our audited consolidated financial statements. Our quarterly results of operations for the periods presented are not necessarily indicative of future results of operations. This unaudited quarterly data should be read together with the accompanying consolidated financial statements and related notes thereto (in thousands, except share and per share amounts).

	Period from November 15, 2010 to December 31, 2010	For the Year Ended December 31, 2011				For the Year Ending December 31, 2012	
		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter
Operating data							
Total revenues	$ 8,795	$ 17,601	$ 18,805	$ 21,470	$ 26,349	$ 23,727	$ 25,117
Net income	7	1,248	2,087	2,344	7,163	4,405	5,923
Net income per common share basic		0.05	0.08	0.07	0.19	0.12	0.16
Net income per common share diluted		0.05	0.08	0.07	0.19	0.12	0.16
Other data							
Cash flows provided by operations	$ 6,592	$ 12,458	$ 5,470	$ 16,581	$ 10,196	$ 16,464	7,623
Cash flows provided by (used in) investing activities	67,118	(5,415)	(74,019)	(113,700)	(11,452)	(40,209)	(37,247)
Cash flows provided by (used in) financing activities	523	(1,066)	(8,207)	150,082	(12,911)	(15,830)	30,059
Weighted-average number of common shares outstanding, basic	25,110,936	25,136,140	25,154,284	32,986,657	36,965,431	37,035,970	37,147,942
Weighted-average number of common shares outstanding, diluted:							
Net income and FFO	25,186,988	25,211,585	25,226,179	33,049,621	37,052,574	37,058,886	37,191,687
AFFO	25,645,131	25,694,787	25,480,729	33,320,262	37,248,402	37,284,423	37,538,337
FFO (1)	$ 3,141	$ 7,334	$ 8,377	$ 9,194	$ 14,528	11,708	13,480
FFO per diluted common share (1)	0.12	0.29	0.33	0.28	0.39	0.32	0.36
AFFO (1)	3,706	9,058	10,308	12,529	15,262	13,999	15,669
AFFO per diluted common share (1)	0.14	0.35	0.40	0.38	0.41	0.38	0.42
Reconciliation of FFO and AFFO							
Net income	$ 7	$ 1,248	$ 2,087	$ 2,344	$ 7,163	$ 4,405	$ 5,923
Add:							
Depreciation of real estate assets	$ 3,134	$ 6,086	$ 6,290	$ 6,850	$ 7,365	$ 7,303	$ 7,557
FFO	$ 3,141	$ 7,334	$ 8,377	$ 9,194	$ 14,528	$ 11,708	$ 13,480
Acquisition pursuit costs		87	224	2,643	264	491	381
Stock-based compensation	335	1,142	1,335	771	1,351	2,203	1,639
Straight-line rental income adjustments			(128)	(591)	(1,372)	(969)	(721)
Amortization of deferred financing costs	230	495	500	512	491	566	881
Non-cash interest income adjustments							9
AFFO	$ 3,706	$ 9,058	$ 10,308	$ 12,529	$ 15,262	$ 13,999	$ 15,669

(1) We believe that net income as defined by GAAP is the most appropriate earnings measure. We also believe that FFO, as defined by NAREIT, and AFFO (and related per share amounts) are important non-GAAP supplemental measures of operating performance for a REIT. We consider FFO and AFFO to be useful measures for reviewing comparative operating and financial performance because, by excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization, and, for AFFO, by excluding non-cash revenues (including straight-line rental income adjustments and amortization of acquired above/below market lease intangibles), non-cash expenses (including stock-based compensation expense and amortization of deferred financing costs) and acquisition pursuit costs, FFO and AFFO can help investors compare our operating performance between periods or as compared to other companies. See -Results of Operations-Funds from Operations and Adjusted Funds from Operations for further discussion of FFO and AFFO.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure is interest rate risk with respect to our indebtedness. As of June 30, 2012, this indebtedness included the $225.0 million aggregate principal amount of the existing 2018 notes, $157.4 million (excluding $0.5 million of mortgage premium) of mortgage indebtedness to third parties on certain of the properties that our subsidiaries own and $42.5 million outstanding under the Amended Secured Revolving Credit Facility. As of June 30, 2012, we had $101.1 million of outstanding variable rate indebtedness. In addition, as of June 30, 2012, we had $157.5 million available for borrowing under our Amended Secured Revolving Credit Facility. From time to time, we may borrow under the Amended Secured Revolving Credit Facility to finance future investments in properties, including any improvements or renovations of current or newly acquired properties, or for other purposes. Because 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 our 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 interest rate we will be required to pay on any such borrowings will depend on then applicable rates and may vary. An increase in interest rates could make the financing of any acquisition by us more costly. Rising interest rates could also limit our ability to refinance our debt when it matures or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. Assuming a 100 basis point increase in the interest rate related to our variable rate debt, and assuming no change in our outstanding debt balance as of June 30, 2012, interest expense would increase $0.6 million for the twelve months following June 30, 2012. As of June 30, 2012, the index underlying our variable rate mortgages is currently below 100 basis points and if this index was reduced to zero during the 12 months ending June 30, 2012, interest expense on our variable rate debt would decrease by $0.1 million.

We expect to manage our exposure to interest rate risk by maintaining a mix of fixed and variable rates for our indebtedness. We also may manage, or hedge, interest rate risks related to our borrowings by means of interest rate swap agreements, although we are not currently a party to any swap agreements.

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BUSINESS

Overview

We were incorporated on May 10, 2010 as a wholly owned subsidiary of Old Sun, a provider of nursing, rehabilitative and related specialty healthcare services principally to the senior population in the United States. Pursuant to a restructuring plan by Old Sun, Old Sun restructured its business by separating its real estate assets and its operating assets into two separate publicly traded companies. The Separation occurred by means of a spin-off transaction pursuant to which Old Sun distributed to its stockholders on a pro rata basis all of the outstanding shares of common stock of New Sun. Immediately following the Separation, Old Sun merged with an into Sabra, with Sabra surviving the merger, pursuant to the REIT Conversion Merger, and New Sun was renamed Sun Healthcare Group, Inc. The Separation and REIT Conversion Merger were completed on November 15, 2010.

We did not have any operations prior to the Separation Date. Following the restructuring of Old Sun s business and the completion of the Separation and REIT Conversion Merger, we began operating as a self-administered, self-managed REIT that, directly or indirectly, owns and invests in real estate serving the healthcare industry.

As of June 30, 2012, our investment portfolio consisted of 103 real estate properties (consisting of (i) 93 skilled nursing facilities, (ii) nine senior housing facilities, and (iii) one acute care hospital), one mortgage loan investment and one mezzanine loan investment. As of June 30, 2012, our real estate properties had a total of 11,392 licensed beds, or units, spread across 25 states. As of June 30, 2012, all of our real estate properties are leased under triple-net operating leases with expirations ranging from nine to 23 years.

We expect to continue to grow our portfolio primarily through the acquisition of healthcare facilities with a focus on skilled nursing, assisted living and memory care facilities and through the origination of financing secured directly or indirectly by healthcare facilities. We also expect to opportunistically consider acquiring independent living and continuing care retirement community facilities and hospitals. As we acquire additional properties and expand our portfolio, we expect to further diversify by tenant, asset class and geography within the healthcare sector. We employ a disciplined, opportunistic approach in our healthcare real estate investment strategy by investing in assets that provide attractive opportunities for dividend growth and appreciation of asset values, while maintaining balance sheet strength and liquidity, thereby creating long-term stockholder value.

We are organized to qualify as a REIT and we have elected to be treated as a REIT for U.S. federal income tax purposes with the filing of our U.S. federal income tax return for the taxable year beginning January 1, 2011. We operate through an UPREIT structure in which substantially all of our properties and assets are held by the Operating Partnership, or by subsidiaries of the Operating Partnership.

Our Industry

We operate as a REIT that invests in income-producing healthcare facilities, principally long-term care facilities, located in the United States. As we acquire additional properties and expand our portfolio, we expect to further diversify by tenant, asset class and geography within the healthcare sector. We invest primarily in the United States nursing home industry and other senior housing segments such as assisted living and independent living facilities. According to the American Health Care Association, as of June 2012, the nursing home industry was comprised of approximately 15,700 facilities with approximately 1.7 million Medicare certified beds in the United States. The nursing home industry is highly fragmented.

The primary growth drivers for the long-term care industry are expected to be the aging of the population and increased life expectancies. According to the United States Census Bureau, the number of Americans aged 65 or older is projected to increase from approximately 40.2 million in 2010 to approximately 54.8 million by 2020, representing a compounded annual growth rate of 3.1%. In addition to positive demographic trends, we expect demand for services provided by skilled nursing facilities to continue increasing due to the impact of cost containment measures adopted by the federal government that encourage patient treatment in more cost-effective settings, such as skilled nursing facilities. As a result, high acuity patients that previously would have been treated in long-term acute care hospitals and inpatient rehabilitation facilities are increasingly being treated in skilled nursing facilities. According to CMS, nursing home expenditures are projected to grow from approximately $143 billion in 2010 to approximately $240 billion in 2020, representing a compounded annual growth rate of 5.3%. We believe that these trends will support an increasing demand for long-term care services, which in turn will support an increasing demand for our properties.

Portfolio of Healthcare Properties

We have a geographically diverse portfolio of healthcare properties in the United States that offer a range of long-term care health services in the areas of skilled nursing, assisted and independent living and mental health. As of June 30, 2012, our investment portfolio included 103 real estate properties, one mortgage loan investment and one mezzanine loan investment.

Our portfolio consisted of the following types of healthcare facilities as of June 30, 2012:

Skilled Nursing/Post-Acute Facilities

Skilled nursing facilities. Skilled nursing facilities provide services that include daily nursing, therapeutic rehabilitation, social services, housekeeping, nutrition and administrative services for individuals requiring certain assistance for activities in daily living. A typical skilled nursing facility includes mostly one and two bed units, each equipped with a private or shared bathroom and community dining facilities.

Mental health facilities. Mental health facilities provide a range of inpatient and outpatient behavioral health services for adults and children through specialized treatment programs.

Senior Housing

Assisted living facilities. Assisted living facilities provide services that include minimal assistance for activities in daily living and permit residents to maintain some of their privacy and independence as they do not require constant supervision and assistance. Services bundled within one regular monthly fee usually include three meals per day in a central dining room, daily housekeeping, laundry, medical reminders and 24-hour availability of assistance with the activities of daily living, such as eating, dressing and bathing. Professional nursing and healthcare services are usually available at the facility on call or at regularly scheduled times. Assisted living facilities typically are comprised of one and two bedroom suites equipped with private bathrooms and efficiency kitchens.

Independent living facilities. Independent living facilities are age-restricted multi-family properties with central dining facilities that provide services that include security, housekeeping, nutrition and limited laundry services. Our independent living facilities are designed specifically for independent seniors who are able to live on their own, but desire the security and conveniences of community living. Independent living facilities typically offer several services covered under a regular monthly fee.

Continuing care retirement community. Continuing care retirement communities, or CCRCs, provide, as a continuum of care, the services described above for independent living facilities, assisted living facilities and skilled nursing facilities in an integrated campus, under long-term contracts with the residents.

Acute Care Hospital

Acute care hospitals provide inpatient medical care and other related services for surgery, acute medical conditions or injuries (usually for a short-term illness or condition).

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All of our properties are leased under long term, triple-net leases. The following table displays the expiration of the annualized straight-line rental revenues under our lease agreements as of June 30, 2012 by year and facility type (dollars in thousands) and, in each case, without giving effect to any renewal options:

	2012 - 2019	2020	2021	2022	2023	2024	2025	Thereafter	Total
Skilled Nursing									
Properties		29	30	12		1	6	15	93
Licensed Beds/Units		3,191	3,502	869		360	910	1,717	10,549
Annualized Revenues	$	$ 24,607	$ 27,183	$ 8,246	$	$ 1,821	$ 5,748	$ 22,286	$ 89,891
Senior Housing									
Properties		2	3	2			2		9
Licensed Beds/Units		251	197	128			197		773
Annualized Revenues		1,762	1,321	474			1,225		4,782
Acute Care Hospital									
Properties								1	1
Licensed Beds/Units								70	70
Annualized Revenues								6,593	6,593
Total									
Properties		31	33	14		1	8	16	103
Licensed Beds/Units		3,442	3,699	997		360	1,107	1,787	11,392
Annualized Revenues	$	$ 26,369	$ 28,504	$ 8,720	$	$ 1,821	$ 6,973	$ 28,879	$ 101,266
% of Revenue	%	26.10%	28.10%	8.60%	%	1.80%	6.90%	28.5%	100.0%

Geographic and Property Type Diversification

The following tables display the distribution of our licensed beds/units and the geographic concentration of our real estate investments by property type, investment and revenues as of or for the six months ended June 30, 2012 (dollars in thousands):

Distribution of Licensed Beds/Units (1)

		Bed Type				
State	Total Number of Properties	Skilled Nursing/Post-Acute	Senior Housing	Acute Care Hospital	Total	% of Total
Connecticut	13	1,770	49		1,819	16.0%
New Hampshire	16	1,464	203		1,667	14.6
Kentucky	15	1,020	128		1,148	10.1
Ohio	8	897			897	7.9
Florida	5	660			660	5.8
Oklahoma	5	501	83		584	5.1
Montana	4	538			538	4.7
Delaware	4	500			500	4.4
Texas	4	360		70	430	3.8
New Mexico	3	155	215		370	3.2
Other (15 states)	26	2,684	95		2,779	24.4
Total	103	10,549	773	70	11,392	100.0%
% of Total beds/units		92.6%	6.8%	0.6%	100.0%	

(1) Licensed Beds refer to the number of beds for which a license has been issued, which may vary in some instances from licensed beds available for use, which is used in the computation of occupancy percentage. Available beds aggregated 11,075 as of June 30, 2012.

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Geographic Concentration Property Type

State	Skilled Nursing/Post-Acute	Senior Housing	Acute Care Hospital	Total	% of Total
New Hampshire	14	2		16	15.5%
Kentucky	13	2		15	14.6
Connecticut	12	1		13	12.6
Ohio	8			8	7.8
Oklahoma	4	1		5	4.9
Florida	5			5	4.9
Texas	3		1	4	3.9
Delaware	4			4	3.9
Montana	4			4	3.9
Massachusetts	3			3	2.9
Other (15 states)	23	3		26	25.1
Total	93	9	1	103	100.0%

Geographic Concentration Investment(1)

State	Total Number of Centers	Skilled Nursing/Post-Acute	Senior Housing	Acute Care Hospital	Total	% of Total
Connecticut	13	$ 144,499	$ 8,008	$	$ 152,507	18.6%
Delaware	4	95,780			95,780	11.7
New Hampshire	16	77,905	12,997		90,902	11.1
Texas	4	24,959		61,640	86,599	10.5
Kentucky	15	60,551	10,503		71,054	8.6
Ohio	8	43,662			43,662	5.3
Montana	4	42,809			42,809	5.2
Florida	5	31,600			31,600	3.8
Oklahoma	5	24,230	5,708		29,938	3.6
Pennsylvania	2	29,258			29,258	3.6
Other (15 states)	27	137,205	10,676		147,881	18.0
Total	103	$ 712,458	$ 47,892	$ 61,640	$ 821,990	100.0%
% of Total Centers		86.7%	5.8%	7.5%	100.0%	

(1) Represents the undepreciated book value of our properties as of June 30, 2012.

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Geographic Concentration Rental Income for the Six Months Ended June 30, 2012

State	Total Number of Centers	Skilled Nursing/Post-Acute	Senior Housing	Acute Care Hospital	Total	% of Total
New Hampshire	16	$ 5,876	$ 671	$	$ 6,547	13.5%
Connecticut	13	5,942	147		6,089	12.6
Delaware	4	5,289			5,289	10.9
Kentucky	15	4,729	237		4,966	10.2
Texas	4	1,470		3,297	4,767	9.8
Florida	5	3,934			3,934	8.1
Ohio	8	2,626			2,626	5.4
Montana	4	2,608			2,608	5.4
Colorado	2	1,658			1,658	3.4
Idaho	3	1,446			1,446	3.0
Other (15 states)	29	7,271	1,282		8,553	17.7
Total	103	$ 42,849	$ 2,337	$ 3,297	$ 48,483	100.0%
% of Total centers		88.4%	4.8%	6.8%	100.0%	

Skilled Mix and Occupancy Trends

The following tables set forth the skilled mix and occupancy percentage for our properties for the periods indicated.

	Skilled Mix (1)(2)						
	Six Months Ended June 30,		Year Ended December 31,				
	2012	2011	2011	2010	2009	2008	2007
Skilled Nursing	37.6%	41.6%	41.4%	39.3%	39.2%	39.1%	36.0%

	Occupancy Percentage (2)						
	Six Months Ended June 30,		Year Ended December 31,				
	2012	2011	2011	2010	2009	2008	2007
Skilled Nursing/Post-Acute	88.2%	88.2%	88.0%	88.5%	90.1%	90.8%	91.2%
Senior Housing	80.6	82.3	82.7	84.4	88.3	91.4	93.6
Acute Care Hospital	70.5	76.3	71.8	N/A	N/A	N/A	N/A
Weighted Average	87.6%	87.7%	87.5%	88.2%	90.0%	90.9%	91.4%

(1) Skilled mix is defined as the total Medicare and non-Medicaid managed care patient revenue at skilled nursing facilities divided by the total revenues at skilled nursing facilities for any given period.

(2) Skilled mix and occupancy percentage for facilities with new tenants/operators are only included in periods subsequent to our acquisition of the facilities. All facility financial performance data are presented one month in arrears.

You should not rely upon occupancy percentages, either individually or in the aggregate, to determine the performance of a facility. Other factors that may impact the performance of a facility include the sources of payment and terms of reimbursement.

Significant Tenant Overview

As of June 30, 2012, 86 of our 103 properties were operated by subsidiaries of Sun. These properties are leased to subsidiaries of Sun pursuant to triple-net leases that are guaranteed by Sun. Sun is a healthcare services company, serving principally the senior population through its various subsidiaries. As of June 30, 2012, Sun s

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subsidiary SunBridge Healthcare and its subsidiaries operated 158 skilled nursing centers, 13 combined skilled nursing, assisted and independent living centers, 10 assisted living centers, two independent living centers and seven mental health centers with an aggregate of 21,349 licensed beds in 23 states; SunDance Rehabilitation provides rehabilitation therapy services to affiliated and non-affiliated centers in 36 states; CareerStaff Unlimited provides medical staffing services in 40 states; and SolAmor Hospice provides hospice services in 11 states.

Our lease agreements with subsidiaries of Sun provide for an initial term of between 10 and 15 years with no purchase options. At the option of Sun, these lease agreements may be extended for up to two five-year renewal terms beyond the initial term and, if elected, the renewal will be effective for all of the leased property then subject to the applicable lease agreement. Amounts due under these lease agreements are fixed (except for an annual rent escalator described below), and there is no contingent rental income based upon the revenues, net income or other measures which may be derived by subsidiaries of Sun from our properties. Under our lease agreements with subsidiaries of Sun, there is an annual rent escalator equal to the product of (a) the lesser of the percentage change in the Consumer Price Index (but not less than zero) or 2.5%, and (b) the prior year s rent.

Because we currently lease the majority of our properties to Sun and Sun is a significant source of our rental revenues, Sun s financial condition and ability and willingness to satisfy its obligations under its lease agreements with us and its willingness to renew those leases upon expiration of the initial base terms thereof will significantly impact our revenues and our ability to service our indebtedness and to make distributions to our stockholders. There can be no assurance that Sun will have sufficient assets, income and access to financing to enable it to satisfy its obligations under its lease agreements with us, and any inability or unwillingness on its part to do so would have a material adverse effect on our business, financial condition, results of operations and liquidity, on our ability to service our indebtedness and other obligations and on our ability to make distributions to our stockholders, as required for us to qualify, and maintain our status, as a REIT. We also cannot assure you that Sun will elect to renew its lease agreements with us upon expiration of the initial base terms or any renewal terms thereof or, if such leases are not renewed, that we can reposition the affected properties on the same or better terms. See Risk Factors Risks Relating to Our Business We are dependent on Sun until we substantially diversify our portfolio, and an event that has a material adverse effect on Sun s business, financial position or results of operations would have a material adverse effect on our business, financial position or results of operations.

Sun has announced that it signed a definitive agreement to be acquired by Genesis. See Management s Discussion and Analysis of Financial Condition and Results of Operations Sun Genesis Pending Merger Transaction.

Investment and Financing Strategy

We intend to invest in additional healthcare properties as suitable opportunities arise and adequate sources of financing are available. In making investments in healthcare properties, our investment objectives are to increase cash flow, provide quarterly cash distributions, maximize the value of our properties and acquire properties with cash flow growth potential. To date, we have generally structured our acquisitions with triple-net leases; however, we may choose to pursue other forms of investment structures, including taxable REIT subsidiary structures, mezzanine and secured debt investments, and joint ventures.

We expect that future investments in properties, including any improvements or renovations of current or newly-acquired properties, will depend on and will be financed, in whole or in part, by our existing cash, borrowings available to us pursuant to our secured revolving credit facility, future borrowings or the proceeds from additional issuances of common stock, debt or other securities. In addition, we expect to seek financing from U.S. government agencies, including through Fannie Mae and HUD, in appropriate circumstances in connection with acquisitions and refinancings of existing mortgage loans.

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Competitive Strengths

We believe the following competitive strengths contribute significantly to our success:

Geographically Diverse and Stable Property Portfolio

Our portfolio of 103 properties as of June 30, 2012, which comprised 11,392 licensed beds, is broadly diversified by location across 25 states. The properties in any one state did not account for more than 16% of our total licensed beds as of June 30, 2012 and the properties in any one state did not account for more than 14% of our total revenue during the six months ended June 30, 2012. Our geographic diversification will limit the effect of a decline in any one regional market on our overall performance. The annual occupancy percentages of our properties remained stable at between 87.5% and 91.4% over the last five years.

Long-Term, Triple-Net Lease Structure

All of our real estate properties are leased under triple-net operating leases with expirations ranging from nine to 22 years, pursuant to which the tenants are responsible for all facility maintenance, insurance required in connection with the leased properties and the business conducted on the leased properties, taxes levied on or with respect to the leased properties and all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties. As of June 30, 2012, the leases had a weighted-average remaining term of 12 years. We retain substantially all of the risks and benefits of ownership of the real estate assets leased to tenants. The lease agreements with subsidiaries of Sun are guaranteed by Sun, and as a result, we did not require a security deposit from any of Sun s subsidiaries. For our properties that are leased to tenants other than Sun s subsidiaries, we have in certain instances obtained security deposits.

Strong Relationships with Operators

The members of our management team have developed an extensive network of relationships with qualified local, regional and national operators of skilled nursing and senior housing facilities across the United States. This extensive network has been built by our management team through over 20 years of operating experience, involvement in industry trade organizations and the development of banking relationships and investor relations within the skilled nursing and senior housing industries. We work collaboratively with our operators to help them achieve their growth and business objectives. We believe these strong relationships with operators help us to source investment opportunities.

Ability to Identify Talented Operators

As a result of our management team s operating experience, network of relationships and industry insight, we have been able and expect to continue to be able to identify qualified local, regional and national operators. We seek operators who possess local market knowledge, demonstrate hands-on management, have proven track records and emphasize patient care. We believe our management team s experience gives us a key competitive advantage in objectively evaluating an operator s financial position, emphasis on care and operating efficiency.

Significant Experience in Proactive Asset Management

The members of our management team have significant experience developing systems to collect and evaluate data relating to the underlying operational and financial success of healthcare companies and healthcare-related real estate assets. We are able to utilize this experience and expertise to provide our operators, when requested, with significant assistance in the areas of marketing, development, facility expansion and strategic planning. We actively monitor the operating results of our tenants and, when requested, will work closely with our operators to identify and capitalize on opportunities to improve the operations of our facilities and the overall financial and operating strength of our operators.

Experienced Management Team

Our management team has extensive healthcare and real estate experience. Richard K. Matros, Chairman, President and Chief Executive Officer of Sabra, has more than 20 years of experience in the acquisition, development and disposition of skilled nursing facilities and other healthcare facilities, including nine years at

Old Sun, as defined below. Harold W. Andrews, Jr., Executive Vice President, Chief Financial Officer and Secretary of Sabra, is a finance professional with more than 10 years of experience in both the provision of healthcare services and healthcare real estate. Talya Nevo-Hacohen, Executive Vice President, Chief Investment Officer and Treasurer of Sabra, is a real estate finance executive with more than 20 years of experience in real estate finance, acquisition and development, including three years of experience managing and implementing the capital markets strategy of an S&P 500 healthcare REIT. Through years of public company experience, our management team also has extensive experience accessing both debt and equity capital markets to fund growth and maintain a flexible capital structure.

Flexible UPREIT Structure

Sabra operates through an UPREIT structure, in which substantially all of its properties and assets are held by the Operating Partnership or by subsidiaries of the Operating Partnership. Conducting business through the Operating Partnership allows us flexibility in the manner in which we structure and acquire properties. In particular, an UPREIT structure enables us to acquire additional properties from sellers in exchange for limited partnership units, which may provide property owners the opportunity to defer the tax consequences that would otherwise arise from a sale of their real properties and other assets to us. As a result, this structure allows us to acquire assets more efficiently and may allow us to acquire assets that the owner would otherwise be unwilling to sell because of tax considerations.

Business Strategies

We pursue business strategies focused on opportunistic acquisitions and property diversification where such acquisitions meet our investing and financing strategy. We also intend to further develop our relationships with tenants and healthcare providers with a goal to progressively expand the mixture of tenants managing and operating our properties.

The key components of our business strategies include:

Diversify Asset Portfolio

We expect to continue to grow our portfolio primarily through the acquisition of healthcare facilities with a focus on skilled nursing, assisted living and memory care facilities and through the origination of financing secured directly or indirectly by healthcare facilities. We also expect to opportunistically consider acquiring independent living and continuing care retirement community facilities and hospitals. As we acquire additional properties and expand our portfolio, we expect to further diversify by tenant, asset class and geography within the healthcare sector.

Maintain Balance Sheet Strength and Liquidity

We seek to maintain a capital structure that provides the resources and flexibility to support the growth of our business. As of June 30, 2012, we had approximately $160.6 million in liquidity, consisting of unrestricted cash and cash equivalents of $3.1 million and available borrowings under our Amended Secured Revolving Credit Facility of $157.5 million. Further, we expect to opportunistically seek access to U.S. government agency financing, including through Fannie Mae and HUD. We intend to maintain a mix of credit facility debt, mortgage debt and unsecured term debt that, together with our anticipated ability to complete future equity financings, we expect will fund the growth of our operations.

Develop New Tenant Relationships

We seek to cultivate our relationships with tenants and healthcare providers in order to expand the mix of tenants operating our properties and, in doing so, to reduce our dependence on any single tenant or operator. We expect to continue to develop new tenant relationships as part of our overall strategy to acquire new properties and further diversify our overall portfolio of healthcare properties.

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Capital Source to Underserved Operators

We believe that there is a significant opportunity to be a capital source to healthcare operators through the acquisition and leasing of healthcare properties that are consistent with our investment and financing strategy, but that, due to size and other considerations, are not a focus for larger healthcare REITs. We utilize our management team s operating experience, network of relationships and industry insight to identify financially strong and growing operators in need of capital funding for future growth. In appropriate circumstances, we may negotiate with operators to acquire individual healthcare properties from those operators and then lease those properties back to the operators pursuant to long-term triple-net leases.

Strategic Capital Improvements

We intend to continue to support operators by providing capital to them for a variety of purposes, including for capital expenditures and facility modernization. We expect to structure these investments as either lease amendments that produce additional rents or as loans that are repaid by operators during the applicable lease term.

Pursue Strategic Development Opportunities

We intend to work with our operators to identify strategic development opportunities. These opportunities may involve replacing or renovating facilities in our portfolio that may have become less competitive. We also intend to identify new development opportunities that present attractive risk-adjusted returns and, in addition to acquisitions with triple-net leases, pursue other forms of investment structures, including taxable REIT subsidiary structures, mezzanine and secured debt investments, and joint ventures.

Our Employees

As of June 30, 2012, we employed six full-time employees (including our executive officers), none of whom is subject to a collective bargaining agreement.

Competition

We compete for real property investments with other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders and other investors. Some of our competitors are significantly larger and have greater financial resources and lower costs of capital than we do. Increased competition will make it more challenging to identify and successfully capitalize on acquisition opportunities that meet our investment objectives. Our ability to compete is also impacted by national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends. See Risk Factors Risks Relating to Our Business Real estate is a competitive business and this competition may make it difficult for us to identify and purchase suitable healthcare properties.

In addition, revenues from our properties are dependent on the ability of our tenants and operators to compete with other healthcare operators. These operators compete on a local and regional basis for residents and patients, and the operators ability to successfully attract and retain residents and patients depends on key factors such as the number of facilities in the local market, the types of services available, the quality of care, reputation, age and appearance of each facility and the cost of care in each locality. Private, federal and state payment programs and the effect of other laws and regulations may also have a significant impact on the ability of our tenants and operators to compete successfully for residents and patients at the properties.

Government Regulation

The tenants of our properties who operate the skilled nursing, assisted living, independent living and mental health facilities are subject to extensive and complex federal, state and local healthcare laws and regulations,

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including anti-kickback, anti-fraud and abuse provisions codified under the Social Security Act. These provisions prohibit certain business practices and relationships that might affect the provision and cost of healthcare services reimbursable under Medicare and Medicaid. Sanctions for violating these anti-kickback, anti-fraud and abuse provisions include criminal penalties, civil sanctions, fines and possible exclusion from government programs such as Medicare and Medicaid. If a center is decertified as a Medicare or Medicaid provider by CMS or a state, the center will not thereafter be reimbursed for caring for residents that are covered by Medicare and Medicaid, and the center would be forced to care for such residents without being reimbursed or to transfer such residents.

Our tenants skilled nursing centers and mental health centers are licensed under applicable state law, and are certified or approved as providers under the Medicare and Medicaid programs. State and local agencies survey all skilled nursing centers on a regular basis to determine whether such centers are in compliance with governmental operating and health standards and conditions for participation in government sponsored third party payor programs. Under certain circumstances, the federal and state agencies have the authority to take adverse actions against a center or service provider, including the imposition of a monitor, the imposition of monetary penalties and the decertification of a center or provider from participation in the Medicare and/or Medicaid programs or licensure revocation. Challenging and appealing notices or allegations of noncompliance can require significant legal expenses and management attention.

Various states in which our tenants operate our centers have established minimum staffing requirements or may establish minimum staffing requirements in the future. Failure to comply with such minimum staffing requirements may result in the imposition of fines or other sanctions. Most states in which our tenants operate have statutes requiring that prior to the addition or construction of new nursing home beds, to the addition of new services or to certain capital expenditures in excess of defined levels, the tenant first must obtain a certificate of need, which certifies that the state has made a determination that a need exists for such new or additional beds, new services or capital expenditures. The certification process is intended to promote quality healthcare at the lowest possible cost and to avoid the unnecessary duplication of services, equipment and centers. This certification process can restrict or prohibit the undertaking of a project or lengthen the period of time required to enlarge or renovate a facility or replace a tenant.

In addition to the above, those of our tenants who provide services that are paid for by Medicare and Medicaid are subject to federal and state budgetary cuts and constraints that limit the reimbursement levels available from these government programs.

Our subsidiaries own eight health facilities with mortgage loans that are guaranteed by HUD. Those facilities are subject to the rules and regulations of HUD, including periodic inspections by HUD, although the tenants of those facilities have the primary responsibility for maintaining the facilities in compliance with HUD s rules and regulations. The regulatory agreements entered into by each owner and each operator of the property restrict, among other things, any sale or other transfer of the property, modification of the lease between the owner and the operator, use of surplus cash from the property except upon certain conditions, renovations of the property and use of the property other than for a skilled nursing facility, all without prior HUD approval.

In addition, as an owner of real property, we are subject to various federal, state and local environmental and health and safety laws and regulations. These laws and regulations address various matters, including asbestos, fuel oil management, wastewater discharges, air emissions, medical wastes and hazardous wastes. The costs of complying with these laws and regulations and the penalties for non-compliance can be substantial. For example, although we do not operate or manage our properties, we may be held primarily or jointly and severally liable for costs relating to the investigation and clean up of any property from which there has been a release or threatened release of a regulated material as well as other affected properties, regardless of whether we knew of or caused the release. In addition to these costs, which are typically not limited by law or regulation and could exceed the property s value, we could be liable for certain other costs, including governmental fines and injuries to persons, property or natural resources. See Risk Factors Risks Relating to Our Business Environmental compliance costs and liabilities associated with real estate properties owned by us may materially impair the value of those investments.

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The Operating Partnership

We own substantially all of our assets and properties and conduct our operations through the Operating Partnership. We believe that conducting business through the Operating Partnership provides flexibility with respect to the manner in which we structure and acquire properties. In particular, an UPREIT structure could enable us to acquire additional properties from sellers in tax deferred transactions. In these transactions, the seller would typically contribute its assets to the Operating Partnership in exchange for limited partnership interests. Holders of these limited partnership interests would be entitled to redeem their partnership interests for shares of the stock of Sabra on a specified basis, or, at our option, an equivalent amount of cash. We manage and control the Operating Partnership and are its sole general partner.

General Information

Our principal executive offices are located at 18500 Von Karman, Suite 550, Irvine, CA 92612, and our telephone number is (888) 393-8248. We maintain a website at *www.sabrahealth.com*. Sabra Health Care REIT, Inc. files reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We will make such filings available free of charge on our website as soon as reasonably practicable after such information has been filed or furnished with the SEC. In addition, investors and other members of the public are able to read and copy any materials filed or furnished with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information concerning the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. This information, and any other reports, proxy and information statements or other information filed or furnished with the SEC by issuers, can also be obtained free of charge on the Internet site maintained by the SEC, *www.sec.gov*.

Legal Proceedings

Neither we nor any of our subsidiaries is a party to, and none of our respective property is the subject of, any material legal proceeding, although we are from time to time party to legal proceedings that arise in the ordinary course of our business.

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POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

The following is a discussion of our policies with respect to investments, financing and certain other activities. These policies may be amended and revised from time to time at the discretion of our board of directors. The Indenture governing the notes and our Amended Secured Revolving Credit Facility limit our ability to make certain investments, incur or guarantee indebtedness or sell our assets. See Description of Exchange Notes Covenants and Description of Other Indebtedness.

Investment Policies

Investments in Real Estate or Interests in Real Estate

We conduct substantially all of our investment activities through the Operating Partnership. Our investment objectives are to increase cash flow, provide quarterly cash distributions, maximize the value of our properties and acquire properties with cash flow growth potential. Our business is focused on healthcare properties and activities directly related thereto. We have not established a specific policy regarding the relative priority of our investment objectives. We lease our properties pursuant to triple-net leases under which the tenants are responsible for all facility maintenance, insurance required in connection with the leased properties and the business conducted on the leased properties, taxes levied on or with respect to the leased properties, and all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties. For a discussion of our properties, business and other strategic objectives, see Business.

We have a geographically diverse portfolio of healthcare properties in the United States. We anticipate that future investment and development activity will be focused primarily in the United States, but will not be limited to any geographic area. We intend to engage in future investment activities in a manner that is consistent with requirements applicable to REITs for U.S. federal income tax purposes. These requirements do not have limitations on the percentage of our assets that may be invested in any one real estate asset or on the concentration of investments in any one location or facility type.

We do not have a specific policy as to the amount or percentage of our assets that will be invested in any specific property, but anticipate that our real estate investments will continue to be diversified among a relatively large number of facilities. As of June 30, 2012, our portfolio of investments consisted of 103 real estate properties spread across 25 states, one mortgage loan investment and one mezzanine loan investment. We expect to continue to grow our portfolio primarily through the acquisition of healthcare facilities with a focus on skilled nursing, assisted living and memory care facilities and through the origination of financing secured directly or indirectly by healthcare facilities. We also expect to opportunistically consider acquiring independent living and continuing care retirement community facilities and hospitals. As we acquire additional properties and expand our portfolio, we expect to further diversify by tenant, asset class and geography within the healthcare sector.

We expect to pursue our investment objectives through the ownership of properties by the Operating Partnership, but may also make investments in other entities, including joint ventures, if we determine that doing so would be our most effective means of deploying capital. Equity investments may be subject to existing mortgage financing and other indebtedness or such financing or indebtedness may be incurred in connection with acquiring properties, or a combination of these methods. Any such financing or indebtedness will have priority over our equity interest in such property. Investments are also subject to our policy not to make investments that would cause us to meet the definition of an investment company under the Investment Company Act of 1940, as amended (the Investment Company Act).

From time to time, we may make investments or agree to terms that support the objectives of our tenants without necessarily maximizing our short-term financial return, which may allow us to build long-term relationships and acquire properties otherwise unavailable to our competition. We believe that these dynamics create long-term, sustainable relationships and, in turn, profitability for us.

Purchase, Sale and Development of Properties

Our policy is to acquire properties primarily for cash flow growth potential and long-term value. Although we do not currently intend to sell any properties, we will sell certain properties where our board of directors or management determines such properties do not fit our strategic objectives or where such action would be in the best interest of our stockholders. From time to time, we may engage in strategic development opportunities. These opportunities may involve replacing or renovating properties in our portfolio that have become economically obsolete or identifying new sites that present an attractive opportunity and complement our existing portfolio.

Investments in Real Estate Mortgages

Our policy is to make investments in healthcare real estate properties. We do not currently intend to make material investments in mortgages or other real estate interests, unless doing so could facilitate our acquisition of the underlying property.

Investments in Securities or Interests in Entities Primarily Engaged in Real Estate Activities and Other Issuers

Subject to the gross income and asset requirements required for REIT qualification as well as the covenants in our Amended Secured Revolving Credit Facility and in the Indenture governing the notes that place limitations on our ability to make certain investments, including limitations on our ability to invest in joint ventures and other investment structures, we may, but do not presently intend to, invest in securities of entities engaged in real estate activities or securities of other issuers (including partnership interests, limited liability company interests or other joint venture interests in special purpose entities owning properties), including for the purpose of exercising control over such entities. We may acquire some, all or substantially all of the securities or assets of other REITs or entities engaged in real estate activities where such investment would be consistent with our investment policies and the REIT requirements. We have no limitations on the amount or percentage of our total assets that may be invested in any one entity, other than those imposed by the gross income and asset tests we must meet in order to qualify as a REIT under the Code. If we were to acquire investment securities, we would limit the total amount of such securities so that we would not, as a result of such investment, meet the definition of an investment company under the Investment Company Act.

Financing Policies

We expect to employ leverage in our capital structure in amounts that we determine appropriate from time to time. Our board of directors has not adopted a policy which limits the total amount of indebtedness that we may incur, but will consider a number of factors in evaluating our level of indebtedness from time to time, as well as the amount of such indebtedness that will be either fixed or variable rate. Our charter and bylaws do not limit the amount or percentage of indebtedness that we may incur nor do they restrict the form of our indebtedness (including recourse or nonrecourse debt and cross-collateralized debt). We may from time to time modify our debt policy in light of then-current economic conditions, relative costs of debt and equity capital, market values of our properties, general market conditions for debt and equity securities, fluctuations in the market price of our common stock, growth and acquisition opportunities and other factors.

To the extent that our board of directors or management determines that it is necessary to raise additional capital, we may borrow under our Amended Secured Revolving Credit Facility, issue debt or equity securities, including securities senior to our common stock, retain earnings (subject to the REIT distribution requirements for U.S. federal income tax purposes), assume secured indebtedness, obtain mortgage financing on a portion of our owned properties, engage in a joint venture, or employ a combination of these methods. As long as the Operating Partnership is in existence, the proceeds of all equity capital raised by us will be contributed to the Operating Partnership in exchange for additional interests in the Operating Partnership, which will dilute the ownership interests of the limited partners in the Operating Partnership to the extent ownership interests have been previously issued by the Operating Partnership to third parties.

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Investment and Other Policies

We may, but do not presently intend to, make investments other than as previously described. We may offer shares of our common stock, other equity securities senior to our common stock, or debt securities in exchange for cash or property and to repurchase or otherwise reacquire shares of our common stock or other equity or debt securities in exchange for cash or property. Similarly, we may offer additional operating partnership units, which are redeemable for cash or property. We may issue preferred stock from time to time, in one or more series, as authorized by our board of directors without the need for stockholder approval. We have not engaged in trading, underwriting or the agency distribution or sale of securities of other issuers and do not intend to do so. We intend to make investments in such a manner consistent with the REIT requirements of the Code unless, because of business circumstances or changes in the Code (or the Treasury Regulations promulgated thereunder), our board of directors determines that it is no longer in our best interests to qualify as a REIT. Our policies with respect to such activities may be reviewed and modified from time to time by our board of directors.

Lending Policies

We do not have a policy limiting our ability to make loans to other persons. Subject to REIT qualification rules, we may make loans to third parties. For example, we may consider offering purchase money financing in connection with the sale of properties where the provision of that financing will increase the value to be received by us for the property sold, or we may consider making loans to, or guaranteeing the debt of, joint ventures in which we participate or may participate in the future. We may choose to guarantee the debt of certain joint ventures with third parties. Consideration for those guarantees may include fees, long-term management contracts, options to acquire additional ownership and promoted equity positions. We do not currently intend to engage in any significant lending activities. However, our board of directors may adopt a lending policy without notice to or the vote of our stockholders.

Reporting Policies

We are subject to the information reporting requirements of the Exchange Act, pursuant to which we file periodic reports, proxy statements and other information, including audited financial statements, with the SEC. Such filings are publicly available to our stockholders.

Conflict of Interest Policies

Our governing instruments do not restrict any of our directors, officers, stockholders or affiliates from having a pecuniary interest in an investment or transaction in which we have an interest or from conducting, for their own account, business activities of the type we conduct. However, our policies are designed to eliminate or minimize potential conflicts of interest. A conflict of interest occurs when a director s, officer s or employee s private interest interferes in any way, or appears to interfere, with the interests of Sabra as a whole. Our board of directors has adopted a Code of Conduct and Ethics that prohibits personal conflicts of interest. This policy also provides that any situation that involves, or may reasonably be expected to involve, a conflict of interest must be disclosed immediately to a supervisor or a member of our audit committee.

Our board of directors has also adopted a written Related Person Transaction Policy, which is described under Transactions with Related Persons.

These policies may not be successful in eliminating the influence of conflicts of interest or related person transactions. If they are not successful, decisions could be made that might fail to reflect fully the interests of all stockholders.

Interested Director and Officer Transactions

Pursuant to the Maryland General Corporation Law, or MGCL, a contract or other transaction between us and a director or between us and any other corporation or other entity in which any of our directors is a director

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or has a material financial interest is not void or voidable solely on the grounds of such common directorship or interest, the presence of such director at the meeting at which the contract or transaction is authorized, approved or ratified or the counting of the director s vote in favor thereof, provided that:

- the fact of the common directorship or interest is disclosed or known to our board of directors or a committee of our board, and our board or committee authorizes, approves or ratifies the transaction or contract by the affirmative vote of a majority of disinterested directors, even if the disinterested directors constitute less than a quorum;

- the fact of the common directorship or interest is disclosed or known to our stockholders entitled to vote thereon, and the transaction or contract is authorized, approved or ratified by a majority of the votes cast by the stockholders entitled to vote other than the votes of shares owned of record or beneficially by the interested director or corporation, firm or other entity; or

- the transaction or contract is fair and reasonable to us.

Furthermore, under Delaware law (where the Operating Partnership is formed), we, as general partner, have a fiduciary duty to the Operating Partnership and, consequently, such transactions are also subject to the duties of care and loyalty that we, as general partner, owe to limited partners in the Operating Partnership (to the extent such duties have not been eliminated pursuant to the terms of the partnership agreement). Our policy requires that all contracts and transactions between us, the Operating Partnership or any of our subsidiaries, on one hand, and any of our directors or executive officers or any entity in which such director or executive officer is a director or has a material financial interest, on the other hand, must be approved by the affirmative vote of a majority of the disinterested directors even if less than a quorum. Where appropriate in the judgment of the disinterested directors, our board of directors may obtain a fairness opinion or engage independent counsel to represent the interests of nonaffiliated securityholders, although our board of directors will have no obligation to do so.

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MANAGEMENT AND BOARD OF DIRECTORS

Sabra Health Care REIT, Inc.

Set forth below are the names, ages (as of August 31, 2012) and positions of the persons who serve as the directors and executive officers of Sabra.

Name	Age	Position
Richard K. Matros	58	Chairman, President and Chief Executive Officer
Harold W. Andrews, Jr.	48	Executive Vice President, Chief Financial Officer and Secretary
Talya Nevo-Hacohen	52	Executive Vice President, Chief Investment Officer and Treasurer
Craig A. Barbarosh	45	Director
Robert A. Ettl	52	Director
Michael J. Foster	59	Director
Milton J. Walters	70	Director

Sabra Health Care Limited Partnership and Sabra Capital Corporation

The Operating Partnership is managed by Sabra, its general partner. Sabra Capital Corporation is a wholly owned subsidiary of the Operating Partnership. Set forth below are the names, ages (as of August 31, 2012) and positions of the persons who are the current executive officers and directors of Sabra Capital Corporation.

Name	Age	Position
Richard K. Matros	58	Chief Executive Officer and President; Director
Harold W. Andrews, Jr.	48	Chief Financial Officer and Secretary
Talya Nevo-Hacohen	52	Vice President and Treasurer

Directors

As described above, the directors of Sabra consist of Messrs. Barbarosh, Ettl, Foster, Matros and Walters.

Sabra believes that its directors should be of high character and integrity, be accomplished in their respective fields, have relevant expertise and experience and collectively represent a diversity of backgrounds and experiences. The disclosure below identifies and describes the key experience, qualifications and skills that are important for persons who serve on Sabra s board of directors in light of its business and structure. The specific experiences, qualifications and skills that led to the conclusion that each of Sabra s directors should serve on the board of directors is also included in the biographical description for each director provided below.

Leadership experience. The board of directors believes that directors with experience in a significant leadership position, such as having served as chief executive officer of another entity, will provide the board with special insights. These individuals generally possess extraordinary leadership qualities and the ability to identify and develop those qualities in others. They demonstrate a practical understanding of organizations, processes, strategy, risk management and the methods to drive change and growth.

Finance experience. The board of directors believes that an understanding of finance and financial reporting processes is important for its directors and therefore it seeks directors who are financially knowledgeable. Sabra measures its operating and strategic performance primarily by reference to financial targets. In addition, accurate financial reporting and robust auditing are critical to Sabra s success.

Industry experience. Sabra seeks directors with experience as executives or directors or in other leadership positions in the industries in which it operates. The board of directors believes that such experience is important to the director s understanding of Sabra s operations, risks and opportunities.

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Public company experience. The board of directors believes that directors with experience as executives or directors in publicly owned corporations, including as members of the key standing board committees of those corporations, will be more familiar with the securities laws and other issues faced by public companies that do not affect privately owned corporations.

Other experience. Sabra seeks directors who bring diverse, yet relevant experience to the board of directors.

Craig A. Barbarosh has served on our board of directors since November 2010. He has been a partner at the law firm of Katten Muchin Rosenman LLP (Katten) since June 2012 and is a nationally recognized restructuring expert. Mr. Barbarosh serves on Katten s Board of Directors and is a member of the firm s management team. From 1999 until joining Katten, Mr. Barbarosh was a partner at the law firm of Pillsbury Winthrop Shaw Pittman LLP (Pillsbury). He served in several leadership positions while a partner at Pillsbury including serving on the firm s Board of Directors, as the Chair of the firm s Board Strategy Committee, as a co-leader of the firm s national Insolvency & Restructuring practice section and as the Managing Partner of the firm s Orange County office. Mr. Barbarosh also currently serves as a director, and as chair of the nominating and governance committee and member of the transaction and compensation committees, of Quality Systems, Inc., a developer and marketer of healthcare information systems. Mr. Barbarosh received a Juris Doctorate with honors from the University of the Pacific, McGeorge School of Law in 1992 and a Bachelor of Arts in Business Economics from the University of California at Santa Barbara in 1989. Mr. Barbarosh has received certificates from Harvard Business School for completing executive education courses on Private Equity and Venture Capital (2007) and Strategic Financial Analysis for Business Evaluation (2010).

Director Qualifications:

Public company experience current director and chair of the nominating and governance committee of a public company; and

Other experience as a practicing attorney specializing in the area of financial and operational restructuring and related mergers and acquisitions, including in the real estate industry.

Robert A. Ettl has served on our board of directors since November 2010. He currently serves as Chief Operating Officer of Harvard Management Company (HMC). Mr. Ettl joined HMC in October 2008. HMC manages the endowment for Harvard University. Previously, he was a Managing Director with Allianz Global Investors from 2001 to 2008, where he was most recently Chief Executive Officer for the Alpha Vision hedge fund subsidiary from 2003 to 2007 and served as an internal management consultant from 2007 to 2008. He was also the firm s Global Chief Technology and Operations Officer from 2001 to 2003. Prior to its acquisition by Allianz, Mr. Ettl held various roles at Pacific Investment Management Co. (PIMCO) from 1995 to 2000. He joined PIMCO in 1995 as Chief Operations Officer, later focusing on PIMCO s international expansion as Chief Operating Officer of PIMCO s Global unit in 1998 and became Executive Vice President and Chief Information Officer in 1999. Mr. Ettl has previously held management positions in Salomon Brothers government arbitrage trading analytics, technology and operations divisions. He also was associated with Arthur Andersen & Co. (now Accenture) as a senior consultant. Mr. Ettl served as a director of Advent Software, Inc., a provider of software and services for the investment management industry, from November 2007 until November 2009. Mr. Ettl holds a B.A. degree in Economics, a M.B.A. in Finance, and a Master of Public Health in Health Administration from Columbia University.

Director Qualifications:

Leadership experience expertise managing operations of financial services companies in a variety of officer positions including chief executive officer, chief operating officer, and chief technology officer;

Finance experience chief operating officer of Harvard Management Company responsible for managing Harvard University s endowment and related assets and previously chief executive officer of a hedge fund;

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Industry experience management consulting in the healthcare field; and

Public company experience former director and a member of the audit committee of a public company.

Michael J. Foster has served on our board of directors since November 2010. He served as a member of Old Sun s board of directors from 2005 until the Separation and continues to serve as a member of Sun s board of directors. Mr. Foster is a managing director of RFE Management Corp. of New Canaan, Connecticut, where he has been employed since 1989. RFE Management Corp. is the investment manager for RFE Investment Partners V, L.P., RFE Investment Partners VI, L.P., RFE Investment Partners VII L.P. and RFE Investment Partners VIII, L.P. (collectively referred to as RFE) and other private equity investment funds. Mr. Foster was a director of several publicly held healthcare companies five or more years ago, including Res-Care., Inc., a provider of residential, therapeutic and educational support to people with developmental or other disabilities, from 2001 to 2005. Mr. Foster is also, and has been previously, a director of several privately held portfolio companies of RFE, including Peak Medical Corporation, an operator of long-term care inpatient centers, from 1998 to 2005.

Director Qualifications:

Industry experience former director of a long-term care company;

Public company experience current and former director of several public companies; and

Other experience as director of multiple privately held companies.

Richard K. Matros has served as Sabra s President and Chief Executive Officer and as a director since May 2010, and he has served as Chairman of the Board since November 2010. He was Chairman of the board of directors and Chief Executive Officer of Old Sun from 2001 until the Separation. Mr. Matros served as Chief Executive Officer and President of Bright Now! Dental from 1998 to 2000. From 1998 until the sale of its operations in 2006, Mr. Matros was also a member of, and a member of the management committee of, CareMeridian, LLC (CareMeridian), a healthcare company that specialized in offering subacute and skilled nursing for patients suffering from traumatic brain injury, spinal cord injury and other catastrophic injuries. Previously, from 1994 to 1997, he served Regency Health Services, Inc., a publicly held long-term care operator, holding positions as Chief Executive Officer, President, director and Chief Operating Officer. Prior to that time, from 1988 to 1994, he served Care Enterprises, Inc., holding positions as Chief Executive Officer, President, Chief Operating Officer, director and Executive Vice President Operations. Mr. Matros currently serves on the advisory board for RFE Investment Partners and is the Executive Producer of Sabra Films, LLC.

Director Qualifications:

Industry experience executive of long-term care companies for over 20 years and experience in long-term care companies for 35 years;

Public company experience former and current chief executive officer of publicly held companies; and

Leadership experience former and current chief executive officer.

Milton J. Walters has served on our board of directors since November 2010. He served as a member of Old Sun s board of directors from 2001 until the Separation and continues to serve as a member of Sun s board of directors and as the chairman of Sun s audit committee and a member of its compensation committee. Mr. Walters has served with investment banking companies for over 40 years, including: President of Tri-River Capital since 1999; Managing Director of Prudential Securities from 1997 to 1999; Senior Vice President and Managing Director of Smith Barney from 1984 to 1988, where he was in charge of the financial institutions group; and the head of the financial institutions group of Warburg Paribas Becker from 1969 to 1984, including as Managing Director from 1978 to 1984. He has served on the board of directors and audit and governance committees of Fredericks of Hollywood Group, Inc., a publicly held company that designs, manufactures and sells women s clothing, since 2008 and is currently the chairman of its audit committee.

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Director Qualifications:

- Public company experience current director and audit committee chairman of public companies;
- Leadership experience current president and former managing director of investment banking companies; and
- Finance experience current audit committee chairman of public companies and extensive experience from 40 years of investment banking positions.

Executive Officers

The biographical information for Richard K. Matros is included under Directors above.

Harold W. Andrews, Jr. served as Sabra s Treasurer and Secretary from May 2010 to November 2010 and has served as Sabra s Executive Vice President, Chief Financial Officer and Secretary since November 2010. Mr. Andrews is also a member of, and a member of the management committee of, Journey Health Properties, LLC and Journey Lane 5, LLC, two real estate holding entities he organized to own and lease specialized healthcare facilities and a commercial office building. From 1997 to May 2008, Mr. Andrews was also a member, a member of the management committee and Chief Financial Officer of CareMeridian. Previously, from 1996 to 1997, Mr. Andrews served as the Vice President of Finance for Regency Health Services, Inc., a provider of post-acute care services. Prior to that time, he spent 10 years in public accounting at Arthur Andersen LLP, including serving as senior manager for publicly traded healthcare and real estate companies. Mr. Andrews is also a CPA and a member of the AICPA and Financial Executives International. He also serves on the board of directors of Links Players International, a non-profit organization.

Talya Nevo-Hacohen has served as Sabra s Executive Vice President, Chief Investment Officer and Treasurer since November 2010. From September 2006 to August 2008 and from February 2009 to November 2010, Ms. Nevo-Hacohen served as an advisor to private real estate developers and operators regarding property acquisitions and dispositions, corporate capitalization, and equity and debt capital raising. From August 2008 to February 2009, Ms. Nevo-Hacohen was a Managing Director with Cerberus Real Estate Capital Management, LLC, an affiliate of Cerberus Capital Management, L.P., a private investment firm. From 2003 to 2006, Ms. Nevo-Hacohen served as Senior Vice President Capital Markets and Treasurer for HCP, Inc., a healthcare REIT. Previously, from 1993 to 2003, Ms. Nevo-Hacohen worked for Goldman, Sachs & Co. where she was a Vice President in the investment banking and finance, operations and administration divisions. Prior to her affiliation with Goldman Sachs, she practiced architecture and was associated with several architectural firms in New York.

Corporate Governance Guidelines

The board of directors has adopted Corporate Governance Guidelines, which provide the framework for the governance of our company and represent the board s current views with respect to selected corporate governance issues considered to be of significance to our stockholders. The Corporate Governance Guidelines direct our board s actions with respect to, among other things, board composition and director qualifications, selection of the Chairman of the board and the Lead Independent Director, composition of the board s standing committees, stockholder communications with the board, succession planning and the board s annual performance evaluation. A current copy of the Corporate Governance Guidelines is posted in the About Sabra Governance Documents section of our website at *www.sabrahealth.com.*

Director Independence

Our Corporate Governance Guidelines require that a substantial majority of our board of directors qualify as independent directors under applicable rules of the NASDAQ Stock Market LLC (the NASDAQ rules). In considering the independence of each director, the board of directors reviews information provided by each director and considers whether any director has a relationship that would interfere with the director s exercise of independent judgment in carrying out his responsibilities as a director. Our board of directors has affirmatively determined that none of Messrs. Barbarosh, Ettl, Foster or Walters has a relationship that, in the opinion of the board of directors, would interfere with the director s exercise of independent judgment in carrying out his responsibilities as a director and that each such director is an independent director under the NASDAQ rules. Mr. Matros does not qualify as an independent director because he is employed as our President and Chief Executive Officer.

In making its affirmative determination that each of our non-employee directors is an independent director, the board of directors considered the fact that Messrs. Foster and Walters also serve on the board of directors of Sun. In serving on the board of directors of both Sun and Sabra, Messrs. Walters and Foster have an actual conflict of interest with respect to matters at Sabra involving Sun. In order to mitigate this conflict of interest, Sabra s Corporate Governance Guidelines prohibit Messrs. Walters and Foster from participating in board discussions at Sabra to the extent the discussions relate to negotiations, disputes or other material matters involving Sun. The board of directors may, in the future, also form committees of independent directors to discuss and act upon matters involving Sun. Aside from these matters, we do not expect to exclude Messrs. Walters and Foster from any other board business or company information.

Further, there are no family relationships between any of the individuals who serve as members of our board of directors and as our executive officers.

Committees of the Board of Directors

The standing committees of our board of directors include: Audit, Compensation, and Nominating and Governance. The members of these standing committees are appointed by and serve at the discretion of the board of directors. Current copies of the charters for each of these committees are posted in the About Sabra Governance Documents section of our website at *www.sabrahealth.com*.

Our Chief Executive Officer and Secretary expect to regularly attend meetings of our board committees when they are not in executive session, and to report on matters that are not addressed by other officers. In addition, our directors are encouraged to communicate directly with members of management regarding matters of interest, including matters related to risk, at times when meetings are not being held.

Audit Committee. The Audit Committee consists of Mr. Barbarosh (Chair), Mr. Foster and Mr. Walters. The board of directors has determined that each member of the Audit Committee is an independent director under the NASDAQ rules. In addition, each member of the Audit Committee is also independent under Rule 10A-3 under the Exchange Act, and satisfies the additional financial literacy requirements of the NASDAQ rules. The board has designated one member of the Audit Committee, Mr. Foster, as an audit committee financial expert as defined by SEC rules. Mr. Foster s biography is set forth above.

The Audit Committee is responsible for overseeing Sabra s accounting and financial reporting processes and the audit of Sabra s financial statements, including the integrity of Sabra s financial statements, the qualifications and independence of Sabra s independent registered public accounting firm and the performance of Sabra s independent registered public accounting firm and internal auditors. Among other things, the Audit Committee is responsible for the appointment, compensation and retention of Sabra s independent registered public accounting firm; pre-approval of all audit and non-audit services to be performed by the independent registered public accounting firm; review of Sabra s internal controls and disclosure controls and procedures; oversight of Sabra s internal audit function; oversight of Sabra s legal and regulatory compliance and risk assessment and risk management policies; and review and approval of any related party transactions. In performing its responsibilities, the Audit Committee meets regularly with management, Sabra s independent registered public accounting firm and Sabra s internal auditors.

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Compensation Committee. The Compensation Committee consists of Mr. Ettl (Chair), Mr. Barbarosh and Mr. Walters. The board of directors has determined that each member of the Compensation Committee is an independent director under NASDAQ rules.

The Compensation Committee oversees and determines the compensation of Sabra s Chief Executive Officer and other executive officers, including salaries, bonuses and awards of equity-based compensation, approves all employment and severance agreements for executive officers, makes recommendations to the Board with respect to the adoption or amendment of incentive compensation plans and stock-based benefit plans, administers Sabra s stock-based benefit plans and makes recommendations to the board of directors concerning the compensation of directors.

The Compensation Committee is solely responsible for making the final decisions on compensation for Sabra s executive officers. However, the Compensation Committee takes into account recommendations of Sabra s Chief Executive Officer in determining the compensation (including stock awards) of executive officers other than the Chief Executive Officer. Otherwise, Sabra s officers do not have any role in determining the form or amount of compensation paid to the executive officers of Sabra. In addition, the Compensation Committee retains the power to appoint and delegate matters to a subcommittee comprised of at least one member of the Compensation Committee, except that the Compensation Committee may not delegate to a subcommittee any power or authority required by any law, regulation or listing standard to be exercised by the Compensation Committee as a whole. The Compensation Committee does not currently intend to delegate any of its responsibilities to a subcommittee.

Pursuant to its charter, the Compensation Committee is authorized to retain compensation consultants to assist in the evaluation of compensation to Sabra s executive officers. As further described under Executive Compensation Compensation Discussion and Analysis below, in connection with Sabra becoming a separate publicly traded company, the Compensation Committee retained Frederic W. Cook & Company, Inc. (FWC), an independent compensation consultant, to prepare a recommended executive compensation program for Sabra to implement. Because the Separation and REIT Conversion Merger occurred late in 2010, many of the decisions with respect to the executive officers 2011 compensation amounts were made by the Compensation Committee in late 2010 based upon the recommendations provided by FWC in connection with the Separation and REIT Conversion Merger. FWC also advised on other aspects of executive compensation as requested by the Compensation Committee during 2011. FWC reports only to the Compensation Committee and does not perform services for us, except for executive compensation-related services on behalf of, and as instructed by, the Compensation Committee. All compensation decisions were made solely by our Compensation Committee or board of directors.

Nominating and Governance Committee. The Nominating and Governance Committee consists of Mr. Ettl (Chair), Mr. Foster and Mr. Walters. The board of directors has determined that each member of the Nominating and Governance Committee is an independent director under NASDAQ rules.

The Nominating and Governance Committee assists our board of directors in identifying individuals qualified to become board members and selecting the director nominees for each annual meeting of stockholders. The Nominating and Governance Committee also makes recommendations to the board of directors concerning the structure and operations of the board and its committees and is responsible for overseeing the Corporate Governance Guidelines, for developing and recommending to the board of directors any changes to