ADVANT E CORP
Form 10QSB
August 14, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D. C. 20549

FORM 10-QSB

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2007

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**
For the transition period from ______ to ______

COMMISSION FILE NUMBER: 0-30983

ADVANT-E CORPORATION

(Exact name of small business issuer as specified in its charter)

DELAWARE	**88-0339012**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

2680 Indian Ripple Rd.

Dayton, Ohio 45440

(Address of principal executive offices)

(937) 429-4288

(Issuer s telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 14, 2007 the issuer had 6,875,015 outstanding shares of Common Stock, $.001 Par Value.

Transitional Small Business Disclosure Format: Yes ¨ No x

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

ADVANT-E CORPORATION AND SUBSIDIARY

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenue	$ 1,481,150	1,333,758	2,897,473	2,595,927
Cost of revenue	482,776	369,661	991,344	777,529
Gross margin	998,374	964,097	1,906,129	1,818,398
Marketing, general and administrative expenses	641,471	614,066	1,354,949	1,209,921
Operating income	356,903	350,031	551,180	608,477
Other income, net	32,587	15,414	55,255	32,389
Income before taxes	389,490	365,445	606,435	640,866
Income tax expense	147,917	134,590	233,717	242,305
Net income	$ 241,573	230,855	372,718	398,561
Basic earnings per share	$ 0.04	0.03	0.06	0.06
Diluted earnings per share	$ 0.04	0.03	0.06	0.06
Weighted average shares outstanding	6,478,714	6,403,174	6,478,714	6,403,174
Weighted average shares outstanding, assuming dilution	6,478,714	6,434,196	6,478,714	6,428,439

The accompanying notes are an integral part of the consolidated condensed financial statements.

ADVANT-E CORPORATION AND SUBSIDIARY

CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,639,780	2,209,782
Short-term investments	275,726	274,434
Accounts receivable, net	432,193	477,639
Prepaid expenses and deposit	32,758	28,339
Total current assets	3,380,457	2,990,194
Software development costs, net	235,130	247,621
Property and equipment, net	379,428	386,697
Total assets	$ 3,995,015	3,624,512
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 59,642	66,936
Accrued salaries and other expenses	177,455	157,802
Income taxes payable	110,066	109,642
Deferred income taxes	50,039	53,119
Deferred revenue	116,116	112,846
Total current liabilities	513,318	500,345
Deferred income taxes	150,596	165,784
Total liabilities	663,914	666,129
Shareholders equity:		
Common stock, $.001 par value; 20,000,000 shares authorized; 6,478,714 issued and outstanding	6,478	6,478
Paid-in capital	1,641,906	1,641,906
Retained earnings	1,682,717	1,309,999
Total shareholders equity	3,331,101	2,958,383
Total liabilities and shareholders equity	$ 3,995,015	3,624,512

The accompanying notes are an integral part of the consolidated condensed financial statements.

ADVANT-E CORPORATION AND SUBSIDIARY

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash flows from operating activities:		
Net income	$ 372,718	398,561
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	100,219	61,746
Amortization of software development costs	27,854	63,088
Loss on disposal of assets		24,221
Deferred income taxes	(18,268)	63,678
Purchases of trading securities	(107,507)	
Proceeds from sales of trading securities	125,968	
Net unrealized gain on trading securities	(6,376)	
Net realized gain on sale of securities	(13,377)	(9,005)
Increase (decrease) in cash arising from changes in assets and liabilities:		
Accounts receivable	45,446	(81,003)
Prepaid expenses	(4,419)	(15,217)
Accounts payable	(7,294)	16,171
Accrued salaries and other expenses	19,653	52,461
Income taxes payable	424	(359,833)
Deferred revenue	3,270	17,962
Net cash flows from operating activities	538,311	232,830
Cash flows from investing activities:		
Purchases of available-for-sale securities		(56,943)
Proceeds from sale of available-for-sale securities		59,242
Purchases of property and equipment	(92,950)	(154,468)
Software development costs	(15,363)	(137,049)
Net cash flows from investing activities	(108,313)	(289,218)
Net increase (decrease) in cash and cash equivalents	429,998	(56,388)
Cash and cash equivalents, beginning of period	2,209,782	1,763,435
Cash and cash equivalents, end of period	$ 2,639,780	1,707,047
Supplemental disclosures of cash flow items:		
Income taxes paid	$ 251,561	559,000

The accompanying notes are an integral part of the consolidated condensed financial statements.

ADVANT-E CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

June 30, 2007

Note 1: Basis of Presentation

The accompanying unaudited consolidated condensed financial statements include the accounts of Advant-e Corporation and its wholly-owned subsidiary Edict Systems, Inc. (the Company). Inter-company accounts and transactions are eliminated in consolidation.

The statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all of the information and notes to financial statements required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited consolidated condensed financial statements include all adjustments considered necessary for a fair presentation of financial position, results of operations, and cash flows for the interim periods.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Results of operations for the six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007. These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements, accounting policies, and financial notes thereto included in Advant-e Corporation s 2006 Form 10-KSB filed with the Securities and Exchange Commission.

Note 2: Subsequent Event

On July 2, 2007, the Company acquired all the outstanding common shares of Merkur Group, Inc., a Delaware corporation owned principally by the brother of the Company s CEO, in exchange for cash payments totaling $927,938 and the issuance of 396,301 unregistered shares of the Company s common stock. Merkur Group, Inc. sells software and professional services to help organizations streamline the document-intensive aspects of procure-to-pay and order-to-cash business processes. Merkur solutions provide multi-channel document delivery, receipt, capture, archive, and workflow capabilities that are tightly integrated with Supply Chain Management (SCM), Customer Relationship Management (CRM), financial, and ERP (Enterprise Resource Planning) systems such as Oracle, PeopleSoft, SAP, Baan, legacy, and many other business applications.

Note 3: Software Development Costs

Software development costs at June 30, 2007 and the changes during the six months then ended are summarized as follows:

	Cost	Accumulated Amortization	Net
Balance, January 1, 2007	$ 1,497,372	1,249,751	247,621
Additions	15,363		15,363
Amortization		27,854	(27,854)
Balance, June 30, 2007	$ 1,512,735	1,277,605	235,130

The unamortized costs relate exclusively to internal use software and costs associated with web site development and related enhancements. The additions in the first six months of 2007 relate to costs capitalized in connection with the development of a new hosted value-added application.

The ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic lives and changes in software and hardware technologies. Impairment of asset value is considered whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Note 4: Income taxes

Income tax expense consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Current expense	$ 187,218	106,635	251,985	178,627
Deferred expense (benefit)	(39,301)	27,955	(18,268)	63,678
Total income tax expense	$ 147,917	134,590	233,717	242,305

The following is a reconciliation of income tax at the federal statutory rate of 34% to the income tax expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Income taxes at federal statutory rate	$ 132,427	124,251	206,188	217,894
State income taxes	15,490	10,339	27,529	24,411
Income tax expense	$ 147,917	134,590	233,717	242,305

Note 5: Earnings per share

The reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations for the three months and the six months ended June 30, 2007 and 2006 follows:

	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Three months ended June 30, 2007			
Earnings per share:			
Net income available to shareholders	$ 241,573	6,478,714	$ 0.04
Three months ended June 30, 2006			
Basic and diluted earnings per share:			
Net income available to shareholders basic	$ 230,855	6,403,174	$ 0.03
Effect of potentially dilutive securities:			
Outstanding warrants		31,022	
Net income available to shareholders diluted	$ 230,855	6,434,196	$ 0.03

	Income (Numerator)	Average Shares (Denominator)	Per Share Amount
Six months ended June 30, 2007			
Earnings per share:			
Net income available to shareholders	$ 372,718	6,478,714	$ 0.06

Six months ended June 30, 2006				
Basic and diluted earnings per share:				
Net income available to shareholders basic	$	398,561	6,403,174	$ 0.06
Effect of potentially dilutive securities:				
Outstanding warrants			25,265	
Net income available to shareholders diluted	$	398,561	6,428,439	$ 0.06

At June 30, 2006 warrants for the purchase of 75,000 shares of the Company s common stock at $1.205 per share were outstanding; those warrants were exercised in December 2006 in exchange for a cash payment of $90,375.

Note 6: Comprehensive income

The components of comprehensive income, net of tax, were as follows:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net income	$ 241,573	230,855	372,718	398,561
Net unrealized gain on available-for-sale securities (net of taxes of $462 and $7,861)		842		12,839
Reclassification adjustment for net realized gains on sale of available-for-sale securities included in net income (net of taxes of $1,810 and $3,428)		(2,954)		(5,577)
Comprehensive income	$ 241,573	228,743	372,718	405,823

In the fourth quarter of 2006 management determined that it was appropriate to reclassify the short-term investments from available-for-sale securities to trading securities due to the active and frequent buying and selling of the securities. As a result, unrealized gains and losses are recognized in net income for periods beginning after September 30, 2006.

Note 7: Recently Issued Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2008, although earlier adoption is permitted. The Company did not elect to adopt early the provisions of SFAS No. 159, and the Company does not believe the adoption in 2008 of this Standard will have a material impact on the financial statements.

ITEM 2 - MANAGEMENT S DISCUSSION AND ANALYSIS

Forward Looking Statements

This Form 10-QSB contains forward-looking statements, including statements regarding the expectations of future operations. For this purpose, any statements contained in this Form 10-QSB that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as may, will, expect, believe, anticipate, estimate, or continue or comparable terminology a intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within the Company s control. These factors include, but are not limited to, economic conditions generally and in the industries in which the Company may participate, competition within the chosen industry, including competition from much larger competitors, technological advances, and the failure to successfully develop business relationships. In light of these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. This item should be read in conjunction with Item 1. Financial Statements and other items contained elsewhere in this report.

Products and Services

The Company, through its wholly-owned subsidiary Edict Systems, Inc., is a provider of business-to-business (B2B) electronic commerce (e-commerce) products and services, offering Electronic Data Interchange (EDI) based and proprietary solutions for businesses of all sizes. The Company develops, markets, and supports B2B e-commerce software products and provides Internet-based communication and data processing services that enable businesses to process transactions electronically.

The Company provides consultative services for its customers, generally small and medium sized suppliers of larger companies, where the Company interfaces between its customers and the buyers to facilitate the EDI connectivity required for document processing.

The following comprise the Company s three principal business products/services:

Web EDI	Internet-based supply chain solution for the grocery, automotive, consumer packaged goods, and other industries

EnterpriseEC® Internet-based Electronic Business Transaction Network Services

Value-Added Applications Internet-based solutions that enhance the value of electronic commerce capabilities
On July 2, 2007, the Company acquired all the outstanding common shares of Merkur Group, Inc., a Company that sells software and professional services to help organizations streamline the document-intensive aspects of procure-to-pay and order-to-cash business processes. Merkur solutions provide multi-channel document delivery, receipt, capture, archive, and workflow capabilities that are tightly integrated with Supply Chain Management (SCM), Customer Relationship Management (CRM), financial, ERP (Enterprise Resource Planning) systems such as Oracle, PeopleSoft, SAP, Baan, legacy, and many other business applications.

Critical Accounting Policies and Estimates

Revenue Recognition

The Company recognizes revenues in accordance with the Securities Exchange Commission Staff Accounting Bulletin 101 (SAB 101), which requires the Company to recognize revenue when, in addition to other criteria, delivery has occurred or services have been rendered.

Revenues from Internet-based products and services (Web EDI and EnterpriseEC, etc) are comprised of four components account activation and trading partner set-up fees, monthly subscription fees, usage based transactional fees and customer payments for the Company s development of applications designed to meet specific customer specifications.

Revenues earned from account activation and trading partner set-up fees are recognized after the Company performs consultative work required in order to establish an electronic trading partnership between the customer and their desired trading partners. Trading partnerships, once established, require no ongoing effort on the part of the Company and customers are able to utilize the electronic trading partnerships either directly with their customers or via a service provider other than the Company.

Revenue from monthly subscription fees is recognized over the period to which the subscription applies.

Revenue from usage-based transaction fees is recognized in the period in which the transactions are processed.

Revenue from customer payments for the Company s development of applications designed to meet specific customer specifications is recognized over the twelve-month to twenty-four-month contract period.

Software Development Costs

The Company accounts for the costs of computer software that it develops for internal use and costs associated with operation of its web sites in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Emerging Issues Task Force (EITF) No. 00-2 Accounting for Web Site Development Costs . Such capitalized costs repr-size:10pt;">

13,010

42,960

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SABRA HEALTH CARE REIT, INC

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma consolidated financial statements presented below have been prepared based on certain pro forma adjustments to the historical consolidated financial statements of Sabra Health Care REIT, Inc. (“Sabra” or the “Company”) in connection with the following transactions:

- the acquisition of Texas Regional Medical Center, a 70-bed acute care hospital located outside of Dallas, Texas (“Texas Regional Medical Center”), on May 3, 2011 by an indirect wholly owned subsidiary of the Company as reported by the Company in a Form 8-K filed with the Securities and Exchange Commission (the “SEC”) on May 5, 2011;
- the acquisition of Oak Brook Health Care Center, a 120-bed skilled nursing facility in Whitehouse, Texas (“Oak Brook Health Care Center”), on June 30, 2011 by an indirect wholly owned subsidiary of the Company as reported by the Company in a Form 8-K filed with the SEC on July 11, 2011;
- the acquisition by the Company of four skilled nursing facilities—Broadmeadow Healthcare, Capitol Healthcare, Pike Creek Healthcare and Renaissance Healthcare (the “Cadia Portfolio”)—on August 1, 2011 by an indirect wholly owned subsidiary of the Company as reported in a Form 8-K filed with the SEC on August 5, 2011;
- the offering of 11.7 million newly issued shares of the Company's common stock on August 1, 2011 pursuant to a registration statement filed with the SEC; and
- the other transactions described in the accompanying pro forma consolidated financial statements.

The unaudited pro forma consolidated balance sheet gives effect to the acquisition of the Cadia Portfolio and the equity offering as if they had occurred on June 30, 2011. The unaudited pro forma consolidated income statements give effect to the acquisitions of Texas Regional Medical Center, Oak Brook Health Care Center, the Cadia Portfolio, the Hillside Terrace Mortgage Note acquired by the Company on March 25, 2011 and the equity offering as if they had occurred on January 1, 2010. In addition to these transactions, the unaudited pro forma consolidated income statement for the year ended December 31, 2010 gives effect to the Company’s separation from Sun Healthcare Group, Inc. on November 15, 2010 and the issuance of the 8.125% senior notes due 2018 as if they had occurred on January 1, 2010. The historical financial information presented herein was derived from the Company’s consolidated financial statements that are included in its Annual Report on Form 10-K for the period ended December 31, 2010 and its Quarterly Report on Form 10-Q as of and for the period ended June 30, 2011.

The allocation of the purchase price for the acquisition transactions identified above is reflected in these unaudited pro forma consolidated financial statements based upon preliminary estimates of the fair value of assets acquired and liabilities assumed. A final determination of the fair values of assets acquired and liabilities assumed will be based on the actual valuation of the tangible and intangible assets and liabilities of each of Texas Regional Medical Center, Oak Brook Health Care Center and the Cadia Portfolio. Consequently, amounts preliminarily allocated to identifiable tangible and intangible assets and liabilities could change significantly from those used in the pro forma consolidated financial statements presented below and could result in a material change in depreciation or amortization of tangible and intangible assets and liabilities.

The historical financial information has been adjusted to give effect to events that are directly attributable to the transactions identified above that can be factually supported and, in the case of the unaudited pro forma consolidated income statement, that are expected to have a continuing impact. The unaudited pro forma consolidated financial statements are provided for informational purposes only. The unaudited pro forma consolidated financial statements do not purport to be and should not be assumed to be an indication of the results that would have been achieved had the transactions been completed as of the dates indicated or that may be achieved in the future. The completion of the valuation, the allocation of the purchase price, the impact of ongoing integration activities, and other changes in the tangible and intangible assets and liabilities of each of Texas Regional Medical Center, Oak Brook Health Care Center and the Cadia Portfolio could cause material differences in the information presented.

SABRA HEALTH CARE REIT, INC.
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
As of June 30, 2011
(dollars in thousands, except per share amounts)

	Sabra Health Care REIT Historical (a)	Adjustments Equity Offering (b)	Cadia Portfolio (c)	Pro Forma Total
Assets				
Real estate investments, net	$542,590	$—	$95,580	$638,170
Cash and cash equivalents	3,454	162,912	(99,968)	66,398
Restricted cash	5,524	—	—	5,524
Deferred tax assets	26,300	—	—	26,300
Prepaid expenses, deferred financing costs and other assets	17,934	—	1,920	19,854
Total assets	$595,802	$162,912	$(2,468)	$756,246
Liabilities and stockholders' equity				
Mortgage notes payable	$159,935	$—	$—	$159,935
Senior unsecured notes payable	225,000	—	—	225,000
Accounts payable and accrued liabilities	8,725	—	—	8,725
Tax liability	26,300	—	—	26,300
Total liabilities	419,960	—	—	419,960
Stockholders' equity:				
Preferred stock, $.01 par value; 10,000,000 shares authorized, zero shares issued and outstanding as of June 30, 2011	—	—	—	—
Common stock, $.01 par value; 125,000,000 shares authorized, 25,138,248 shares issued and outstanding, 36,868,248 pro forma shares issued and outstanding	251	117	—	368
Additional paid-in capital	180,300	162,795	—	343,095
Cumulative distributions in excess of net income	(4,709)	—	(2,468)	(7,177)
Total stockholders' equity	175,842	162,912	(2,468)	336,286
Total liabilities and stockholders' equity	$595,802	$162,912	$(2,468)	$756,246

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

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SABRA HEALTH CARE REIT, INC.
UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT
For the Six Months Ended June 30, 2011
(dollars in thousands, except per share amounts)

		Sabra Health Care REIT Historical (a)	Adjustments Texas Regional Medical Center (d)		Equity Offering (b)		Cadia Portfolio (c)		Other Transactions (e)		Pro Forma Total
Revenues:											
Rental income		$36,190	$2,234	(f)	$—		$5,289	(f)	$640	(f)	$44,353
Interest income		217	—		—		—		151	(g)	368
Total revenues		36,407	2,234		—		5,289		791		44,721
Expenses:											
Depreciation and amortization		12,377	676	(h)	—		1,238	(h)	138	(h)	14,429
Interest		15,103	—		—		—		—		15,103
General and administrative		5,592	(112	) (i)	—		(7	) (i)	(77	) (i)	5,396
Total expenses		33,072	564		—		1,231		61		34,928
Net income		$3,335	$1,670		$—		$4,058		$730		$9,793
Net income per common share, basic	(j)	$0.13									$0.27
Net income per common share, diluted	(j)	$0.13									$0.27
Weighted-average number of common shares outstanding, basic		25,140,781			11,730,000	(k)					36,870,781
Weighted-average number of common shares outstanding, diluted		25,210,575			11,730,000	(k)					36,940,575

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

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SABRA HEALTH CARE REIT, INC.
UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT
For the Year Ended December 31, 2010
(dollars in thousands, except per share amounts)

		Sabra Health Care REIT Historical (a)	Adjustments										Pro Forma Total
			Separation and Senior Note Issuance		Texas Regional Medical Center (d)		Equity Offering (b)		Cadia Portfolio (c)		Other Transactions (e)		
Revenues:													
Rental income		$8,781	$61,464	(l)	$6,593	(f)	$—		$10,578	(f)	$ 1,286	(f)	$88,702
Interest income		14	—		—		—		—		651	(g)	665
Total revenues		8,795	61,464		6,593		—		10,578		1,937		89,367
Expenses:													
Depreciation and amortization		3,134	20,783	(l)	1,801	(h)	—		2,476	(h)	302	(h)	28,496
Interest		3,859	26,464	(m)	—		—		—		—		30,323
General and administrative		1,553	7,875	(l)	—		—		—		—		9,428
Total expenses		8,546	55,122		1,801		—		2,476		302		68,247
Income before income taxes		249	6,342		4,792		—		8,102		1,635		21,120
Income tax expense		242	(242	) (n)	—		—		—		—		—
Net income		$7	$6,584		$4,792		$—		$8,102		$ 1,635		$21,120
Net income per common share, basic	(j)	$—											$0.57
Net income per common share, diluted	(j)	$—											$0.57
Weighted-average number of common shares outstanding, basic		25,110,936					11,730,000	(o)					36,840,936
Weighted-average number of common shares outstanding, diluted		25,186,988					11,730,000	(o)					36,916,988

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

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NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

You should read the unaudited pro forma consolidated financial statements in conjunction with Sabra's consolidated financial statements and the notes thereto included in Sabra's Annual Report on Form 10-K for the year ended December 31, 2010 and Sabra's Quarterly Report on Form 10-Q for the three and six months ended June 30, 2011.

(a) Historical financial information for the year ended December 31, 2010 is derived from Sabra's Annual Report on Form 10-K for the period ended December 31, 2010. Historical financial information as of and for the six months ended June 30, 2011 is derived from Sabra's Quarterly Report on Form 10-Q as of and for the six months ended June 30, 2011.

(b) Represents an issuance of 11.7 million shares of Sabra's common stock in connection with a public offering of Sabra common stock completed on August 1, 2011 and net proceeds to the Company from this offering of $162.9 million, of which $97.5 million was used to fund the Cadia Portfolio acquisition. The number of shares of Sabra's common stock issued in connection with this offering is valued as follows (in thousands, except share and per share data):

Number of shares issued	11,730,000
Price per share	$14.75
Gross proceeds	$173,018
Less: Underwriting discounts and commissions	(9,083)
Less: Expenses payable by us	(1,023)
Proceeds to us	$162,912

The total value of the assumed number of shares of common stock issued in this offering is allocated as follows (in thousands):

Par value, $0.01 per share	$117
Additional paid in-capital	162,795
	$162,912

(c) Represents the acquisition of the Cadia Portfolio, which the Company acquired on August 1, 2011. The purchase price of the Cadia Portfolio was $97.5 million and the Company funded the acquisition of the Cadia Portfolio with a portion of the proceeds from the Company's August 1, 2011 equity offering. In addition to the purchase price, the Company has incurred and expensed approximately $2.5 million of additional acquisition pursuit costs not incurred as of June 30, 2011 that are directly attributable to this transaction and are non-recurring; therefore, the anticipated impact on the results of operations was excluded from the pro forma consolidated statement of operations. Upon acquisition, the Company recorded the cost of tangible assets and identifiable intangibles (consisting of tenant origination and absorption costs and tenant relationship intangibles) acquired based on their estimated fair values. The cost of acquired tangible assets and identifiable intangibles are recorded under Real estate investments, net and Prepaid expenses, deferred financing costs and other assets, respectively, on the accompanying unaudited pro forma consolidated balance sheet. The purchase price allocation is preliminary and subject to change. Assuming a $1.0 million change in the allocation between tangible assets and identifiable intangibles, the annual depreciation and amortization would change by approximately $37,000.

(d) Represents the acquisition of the Texas Regional Medical Center at Sunnyvale, which the Company acquired on May 3, 2011. The purchase price of the Texas Regional Medical Center at Sunnyvale was $62.7 million and the Company funded the acquisition with available cash. The Company recorded the cost of tangible assets and identifiable intangibles (consisting of tenant origination and absorption costs and tenant relationship intangibles) acquired based on their estimated fair values. The purchase price allocation is preliminary and subject to change. Assuming a $1.0 million change in the allocation between tangible assets and identifiable intangibles, the annual depreciation and amortization would change by approximately $10,000.

(e)

Represents the acquisitions of Oak Brook Health Care Center and the Hillside Terrace Mortgage Note. The Company acquired Oak Brook Health Care Center on June 30, 2011. The purchase price of Oak Brook Health Care Center was $11.3 million and the Company funded the acquisition with available cash.The Company recorded the cost of tangible assets and identifiable intangibles (consisting of tenant origination and absorption costs and tenant relationship intangibles) acquired based on their estimated fair values. The purchase price allocation is preliminary and subject to change. Assuming a $1.0 million change in the allocation between tangible assets and identifiable intangibles, the annual depreciation and amortization would change by approximately $31,000. On March 25, 2011, the Company purchased, at a discount, for $5.3 million the Hillside Mortgage Terrace Note, which was in default and is secured by a combined assisted living, independent living and memory care facility located in Ann Arbor, Michigan. The monthly debt service payment for the Hillside Terrace Mortgage Note is $54,250.

(f) Represents base rental income (not reflected in Sabra's historical income statements) for the period.

(g) Represents interest income (not reflected in Sabra's historical income statements) for the period as a result of the Company's investment in the Hillside Terrace Mortgage Note on March 25, 2011.

(h) Represents depreciation and amortization expense (not reflected in Sabra's historical income statements) for the period. The cost of tangible assets and identifiable intangibles is amortized over their respective estimated useful lives. The estimated useful lives are as follows:

Building	40 years
Building improvements and fixtures	10 - 15 years
Tenant origination and absorption costs	15 - 23 years
Tenant relationship intangibles	25 - 33 years

(i) Represents adjustments to remove acquisition pursuit costs for the acquisitions of Texas Regional Medical Center at Sunnyvale, Oak Brook Health Care Center, the Cadia Portfolio and the Hillside Terrace Mortgage Note incurred during the six months ended June 30, 2011 that are assumed to have occurred on January 1, 2010.

(j) The calculations of basic and diluted net income per common share are as follows (dollars in thousands, except per share data):

	SIX MONTHS ENDED JUNE 30, 2011		YEAR ENDED DECEMEBR 31, 2010	
	SABRA HISTORICAL	SABRA PRO FORMA	SABRA HISTORICAL	SABRA PRO FORMA
Numerator				
Net income	$ 3,335	$ 9,793	$ 7	$ 21,120
Denominator				
Basic weighted average common shares	25,140,781	36,870,781	25,110,936	36,840,936
Dilutive stock options and restricted stock units	69,794	69,794	76,052	76,052
Diluted weighted average common shares	25,210,575	36,940,575	25,186,988	36,916,988
Basic earnings per common share	$ 0.13	$ 0.27	$ —	$ 0.57
Diluted earnings per common share	$ 0.13	$ 0.27	$ —	$ 0.57

(k) Represents the issuance of 11.7 million shares of Sabra's common stock on January 1, 2010 on a weighted-average basis for the six months ended June 30, 2011.

(l) Represents adjustments required to reflect a full year of Sabra's operations in place as of December 31, 2010.

(m) Represents adjustment to reflect interest expense and amortization of deferred financing fees related to the issuance of the Senior Notes.

(n)

Represents adjustment to remove Sabra's income tax expense since the Company assumed it would begin operating as a REIT as of January 1, 2010.

(o) Represents the issuance of 11.7 million shares of Sabra's common stock on January 1, 2010 on a weighted-average basis for the year ended December 31, 2010.