

Kentucky Holdings I LLC  
Form 424B3  
October 15, 2012  
[Table of Contents](#)

Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-183878

[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, November 14, 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.

## Edgar Filing: Kentucky Holdings I LLC - Form 424B3

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All Old Notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer will be exchanged for the Exchange Notes.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 October 15, 2012.**

## Table of Contents

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.

## TABLE OF CONTENTS

	Page
<u>Summary</u>	1
<u>Risk Factors</u>	11
<u>The Exchange Offer</u>	26
<u>Use of Proceeds</u>	35
<u>Capitalization</u>	36
<u>Selected Financial Data</u>	37
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	58
<u>Business</u>	59
<u>Policies with Respect to Certain Activities</u>	70
<u>Management and Board of Directors</u>	74
<u>Director Compensation Fiscal 2011</u>	81
<u>Executive Compensation</u>	83
<u>Transactions with Related Persons</u>	100
<u>Security Ownership of Certain Beneficial Owners and Management</u>	101
<u>Description of Other Indebtedness</u>	104
<u>Description of Exchange Notes</u>	106
<u>U.S. Federal Income Tax Considerations</u>	153
<u>Plan of Distribution</u>	154
<u>Legal Matters</u>	155
<u>Experts</u>	155
<u>Where You Can Find More Information</u>	155
<u>Index to Consolidated Financial Statements</u>	F-1

**Table of Contents**

**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-looking statements contain these identifying words.

Our actual results may differ materially from those projected or contemplated by our forward-looking statements as a result of various factors, including among others, the following:

our dependence on Sun until we are able to further diversify our portfolio;

our dependence on the operating success of our tenants;

changes in general economic conditions and volatility in financial and credit markets;

the dependence of our tenants on reimbursement from governmental and other third-party payors;

the significant amount of and our ability to service our indebtedness;

covenants in our debt agreements that may restrict our ability to make acquisitions, incur additional indebtedness and refinance indebtedness on favorable terms;

increases in market interest rates;

our ability to raise capital through equity financings;

the relatively illiquid nature of real estate investments;

competitive conditions in our industry;

the loss of key management personnel or other employees;

## Edgar Filing: Kentucky Holdings I LLC - Form 424B3

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.

**Table of Contents**

**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](http://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.

---

**Table of Contents**

**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](http://www.sabrahealth.com). **None of the information contained on our website or on websites linked to our website is part of this prospectus.**

## Table of Contents

### **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	<p>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.</p> <p>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.</p> <p>You may tender your outstanding Old Notes for Exchange Notes by following the procedures described under the heading "The Exchange Offer."</p>
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on November 14, 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.



## **Table of Contents**

### 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.

**Table of Contents**

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.

## Edgar Filing: Kentucky Holdings I LLC - Form 424B3

### 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.

**Table of Contents**

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	<p>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:</p> <p>(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</p> <p>(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</p> <p>(c) any holder notifies us that:</p> <p>it is not permitted under law or SEC policy to participate in the exchange offer;</p> <p>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;</p> <p>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</p> <p>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).</p>

## Table of Contents

### **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	<p>The Exchange Notes and the guarantees thereof will be our and the guarantors' senior unsecured obligations and will rank:</p> <p>senior to all existing and future indebtedness that by its terms is expressly subordinated to the Exchange Notes;</p> <p><i>pari passu</i> with all existing and future senior unsecured indebtedness, including the existing 2018 notes; and</p> <p>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.</p>
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

## Edgar Filing: Kentucky Holdings I LLC - Form 424B3

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.

## **Table of Contents**

Optional Redemption	<p>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.</p>
Optional Redemption After Equity Offering	<p>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.</p>
Change of Control Offer	<p>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.</p> <p>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.</p>
Restrictive Covenants	<p>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:</p> <ul style="list-style-type: none"> <li data-bbox="683 1356 1099 1388">incur or guarantee additional indebtedness;</li> <li data-bbox="683 1455 1075 1486">incur or guarantee secured indebtedness;</li> <li data-bbox="683 1554 1426 1585">pay dividends or distributions on, or redeem or repurchase, our capital stock;</li> <li data-bbox="683 1652 935 1684">make certain investments;</li> <li data-bbox="683 1751 930 1782">create liens on our assets;</li> <li data-bbox="683 1850 1043 1881">enter into transactions with affiliates;</li> </ul>

## Edgar Filing: Kentucky Holdings I LLC - Form 424B3

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.



**Table of Contents**

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.**

**Table of Contents****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.

	<b>Twelve Months Ended June 30, 2012 (unaudited)</b>	<b>Six Months Ended June 30, 2012 (unaudited)</b>	<b>2011 (unaudited)</b>	<b>Year Ended December 31, 2011</b>
			(dollars in thousands)	
<b>Operating Data:</b>				
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
<b>Balance Sheet Data (at period end):</b>				
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 <sup>(1)</sup>	424,880	424,880	384,426	382,898
Net debt <sup>(2)</sup>	421,770	421,770	380,972	340,648
Total stockholders' equity	316,425	316,425	175,842	326,573
<b>Other Financial Data (unaudited):</b>				
FFO <sup>(3)</sup>	\$ 48,909	\$ 25,188	\$ 15,712	\$ 39,433
AFFO <sup>(3)</sup>	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.



**Table of Contents**

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,		Year Ended December 31, 2011
		2012	2011	
Net income	\$ 19,835	\$ 10,328	\$ 3,335	\$ 12,842
Depreciation and amortization	29,074	14,860	12,377	26,591
<b>FFO</b>	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
<b>AFFO <sup>(1)</sup></b>	\$ 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.

	Period from November 15, 2010	
Six Months Ended	Year Ended	through
June 30, 2012	December 31, 2011	December 31, 2010
1.06x <sup>(1)</sup>	1.42x <sup>(1)</sup>	1.65x <sup>(1)</sup>

- (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.

## **Table of Contents**

### **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

## **Table of Contents**

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;

## Edgar Filing: Kentucky Holdings I LLC - Form 424B3

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

Making investments or other restricted payments;

Entering into transactions with affiliates;

## **Table of Contents**

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;





## **Table of Contents**

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



## **Table of Contents**

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.

## **Table of Contents**

*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.

## **Table of Contents**

***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

## **Table of Contents**

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

---

**Table of Contents**

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



## **Table of Contents**

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.

## **Table of Contents**

### **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.

## **Table of Contents**

***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.

## **Table of Contents**

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.

## **Table of Contents**

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.

**Table of Contents**

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.

**Table of Contents**

**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);