REHABCARE GROUP INC
Form 424B3
October 13, 2011
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-177166

PROSPECTUS

Kindred Healthcare, Inc.

Offer to Exchange any and all of our outstanding unregistered 8.25% Senior Notes due 2019

for $550,000,000 aggregate principal amount of our new 8.25% Senior Notes due 2019

that have been registered under the Securities Act of 1933, as amended (the Securities Act)

Terms of the Exchange Offer

We are offering to exchange any and all of our outstanding unregistered 8.25% Senior Notes due 2019 that were issued on June 1, 2011 (the Old Notes) for an equal amount of new 8.25% Senior Notes due 2019 (the New Notes, and together with the Old Notes, the notes).

The exchange offer expires at 5:00 p.m., New York City time, on November 10, 2011 (such date and time, the Expiration Date, unless we extend or terminate the exchange offer, in which case the Expiration Date will mean the latest date and time to which we extend the exchange offer).

Tenders of the Old Notes may be withdrawn at any time prior to the Expiration Date.

All Old Notes that are validly tendered and not validly withdrawn will be exchanged.

The exchange of the Old Notes for the New Notes will not be a taxable exchange for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The terms of the New Notes to be issued in the exchange offer are substantially the same as the terms of the Old Notes, except that the offer of the New Notes is registered under the Securities Act, and the New Notes have no transfer restrictions, registration rights or rights to additional interest.

The New Notes will not be listed on any securities exchange. A public market for the New Notes may not develop, which could make selling the New Notes difficult.

Each broker-dealer that receives the New 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 New Notes. The letter of transmittal accompanying this prospectus states that 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. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of the New Notes received in exchange for the Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. For a period of 120 days after the Expiration Date, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

Investing in the New Notes to be issued in the exchange offer involves certain risks. See Risk Factors beginning on page 9.

We are not making an offer to exchange the Old Notes in any jurisdiction where the offer is not permitted.

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 13, 2011.

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We have not authorized anyone to give any information or make any representation about the offering that is different from, or in addition to, that contained in this prospectus, the related registration statement or any of the materials that we have incorporated by reference into this prospectus. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-4 to register this exchange offer of the New Notes, which you can access on the SEC s website at *www.sec.gov*. This prospectus, which forms part of the registration statement, does not contain all of the information included in that registration statement. For further information about us and about the New Notes offered in this prospectus, you should refer to the registration statement and its exhibits. You may read and copy any materials we file with the SEC at the Public Reference Room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain further information about the operation of the SEC s Public Reference Room by calling the SEC at 1-800-SEC-0330. These materials are also available to the public from the SEC s website at *www.sec.gov*.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

We incorporate by reference into this prospectus certain information filed by Kindred Healthcare, Inc. with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus. Certain information that we subsequently file with the SEC will automatically update and supersede information in this prospectus and in our other filings with the SEC. We incorporate by reference the documents listed below, which we have already filed with the SEC, and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), after the date of the initial registration

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statement and prior to the termination of the exchange offer, except that we are not incorporating any information included in a Current Report on Form 8-K that has been or will be furnished (and not filed) with the SEC, unless such information is expressly incorporated herein by a reference in a furnished Current Report on Form 8-K or other furnished document:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed on February 23, 2011 (other than the financial statements therein, which have been superseded by the financial statements included in our Current Report on Form 8-K filed on October 4, 2011);

our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2011, filed on April 29, 2011 and ended June 30, 2011, filed on August 9, 2011 (other than the financial statements therein, which have been superseded by the financial statements included in our Current Report on Form 8-K filed on October 4, 2011); and

our Current Reports on Form 8-K, as filed on February 8, 2011 (regarding the RehabCare Acquisition (as defined below)), February 10, 2011, March 1, 2011, April 11, 2011, April 29, 2011, May 12, 2011, May 16, 2011, May 20, 2011, May 24, 2011, May 26, 2011 (as amended by Amendment No. 1 thereto filed on June 8, 2011), June 3, 2011 (as amended by Amendment No. 1 thereto filed on June 8, 2011 and Amendment No. 2 thereto filed on July 29, 2011 (other than the financial statements of RehabCare Group, Inc. as of and for the year ended December 31, 2010, which have been superseded by the financial statements included in our Current Report on Form 8-K filed on October 4, 2011)), August 11, 2011, September 2, 2011, September 28, 2011 and October 4, 2011.

Copies of these filings may be obtained at no cost by writing or calling us at the following address and telephone number:

Corporate Secretary

Kindred Healthcare, Inc.

680 South Fourth Street

Louisville, Kentucky 40202

Telephone: (502) 596-7300

To obtain timely delivery of any copies of filings requested, please write or call us no later than five business days before the Expiration Date of the exchange offer.

The above filings are also available to the public on our website *http://www.kindredhealthcare.com.* (We have included our website address as an inactive textual reference and do not intend it to be an active link to our website. Information on our website is not part of this prospectus.)

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SUMMARY

The following summary contains basic information about our Company and the offering. It does not contain all the information that may be important to you and is qualified in its entirety by more detailed information appearing elsewhere in, or incorporated by reference into, this prospectus. You should carefully read this entire prospectus, including the information set forth under Risk Factors before making an investment decision.

In this prospectus, unless we indicate otherwise or the context requires:

- *RehabCare refers to RehabCare Group, Inc. and its consolidated subsidiaries;*
- *Kindred, the issuer, the Company, we, our, ours, and us refer to Kindred Healthcare, Inc., the issuer of the notes, and its consolidated subsidiaries, excluding RehabCare for periods prior to the consummation of the RehabCare Acquisition (as defined below) and including RehabCare for periods following the consummation of the RehabCare Acquisition; and*
- *The combined company refers to the Company following the consummation of the RehabCare Acquisition.*

With respect to the discussion of the terms of the notes on the cover page, in the section entitled Summary Summary of the Exchange Offer, in the section entitled Summary Summary of the New Notes and in the section entitled Description of the Notes, references to we, us or our include only Kindred Healthcare, Inc. and not any other consolidated subsidiaries of Kindred Healthcare, Inc.

Company Overview

General

Our Company is a healthcare services company that through our subsidiaries operates long-term acute care (LTAC) hospitals, inpatient rehabilitation hospitals, nursing and rehabilitation centers, assisted living facilities and a contract rehabilitation services business across the United States. At June 30, 2011, our hospital division operated 120 LTAC hospitals (8,609 licensed beds) and five inpatient rehabilitation hospitals (183 licensed beds) in 26 states. Our nursing center division operated 224 nursing and rehabilitation centers and six assisted living facilities (27,585 licensed beds) in 27 states. Our rehabilitation division provided rehabilitative services primarily in hospital and long-term care settings in 46 states.

RehabCare Acquisition

On June 1, 2011, we completed the acquisition of RehabCare (the RehabCare Acquisition). Upon consummation of the RehabCare Acquisition, each issued and outstanding share of RehabCare common stock was converted into the right to receive 0.471 of a share of Kindred common stock and $26 per share in cash, without interest. We issued approximately 12 million shares of our common stock in connection with the RehabCare Acquisition. The purchase price totaled $963 million and was comprised of $662 million in cash and $301 million of our common stock at fair value. We also assumed $356 million of long-term debt in the RehabCare Acquisition, of which $345 million was refinanced on June 1, 2011.

At the RehabCare Acquisition date, we acquired 32 LTAC hospitals, five inpatient rehabilitation hospitals, approximately 1,200 rehabilitation therapy sites of service and 102 hospital-based inpatient rehabilitation units.

Corporate and Other Information

Our business is conducted through Kindred Healthcare, Inc., a Delaware corporation and the issuer of the New Notes offered hereby, and its consolidated subsidiaries. Our principal executive offices are located at 680 South

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Fourth Street, Louisville, Kentucky 40202 and our telephone number is (502) 596-7300. Our corporate website address is *www.kindredhealthcare.com*. We do not incorporate the information contained on, or accessible through, our corporate website into this prospectus, and you should not consider it part of this prospectus.

Recent Developments

On September 1, 2011, our subsidiary acquired the equity of Professional Healthcare, LLC (Professional) for a purchase price of $51 million in cash. Professional is a provider of home health, hospice, private duty nursing services and durable medical equipment. We used our operating cash flows and borrowings from our ABL Facility (as defined below) to finance the transaction. Professional had no outstanding long-term debt at closing.

Professional operates 27 locations in northern California, Arizona, Nevada and Utah that currently generate annualized revenues of approximately $53 million.

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Summary of the Exchange Offer

Background	On June 1, 2011, we issued $550 million aggregate principal amount of the Old Notes in an unregistered offering. In connection with that offering, we entered into a registration rights agreement on June 1, 2011, as supplemented and amended on June 1, 2011 by the joinder agreement to the registration rights agreement and on September 28, 2011 by the second joinder agreement to the registration rights agreement (the Registration Rights Agreement) in which we agreed, among other things, to complete this exchange offer. Under the terms of the exchange offer, you are entitled to exchange the Old Notes for the New Notes evidencing the same indebtedness and with substantially similar terms. You should read the discussion under the heading Description of the Notes for further information regarding the New Notes.
The Exchange Offer	We are offering to exchange, for each $1,000 aggregate principal amount of our Old Notes validly tendered and accepted, $1,000 aggregate principal amount of our New Notes in authorized denominations.
	We will not pay any accrued and unpaid interest on the Old Notes that we acquire in the exchange offer. Instead, interest on the New Notes will accrue (a) from the later of (i) the last interest payment date on which interest was paid on the Old Note surrendered in exchange for the New Note or (ii) if the Old Note is surrendered for exchange on a date in a period that includes the record date for an interest payment date to occur on or after the date of such exchange and as to which interest will be paid, the date of such interest payment date, or (b) if no interest has been paid, from and including June 1, 2011, the original issue date of the Old Notes.
	As of the date of this prospectus, $550 million aggregate principal amount of the Old Notes are outstanding.
Denominations of New Notes	Tendering holders of the Old Notes must tender the Old Notes in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. The New Notes will be issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on November 10, 2011, unless we extend or terminate the exchange offer in which case the Expiration Date will mean the latest date and time to which we extend the exchange offer.
Settlement Date	The settlement date of the exchange offer will be as soon as practicable after the Expiration Date of the exchange offer.
Withdrawal of Tenders	Tenders of the Old Notes may be withdrawn at any time prior to the Expiration Date.

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Conditions to the Exchange Offer	Our obligation to consummate the exchange offer is subject to certain customary conditions, which we may assert or waive. See Description of the Exchange Offer Conditions to the Exchange Offer.
Procedures for Tendering	To participate in the exchange offer, you must follow the automatic tender offer program (ATOP) procedures established by The Depository Trust Company (DTC) for tendering the Old Notes held in book-entry form. The ATOP procedures require that the exchange agent receive, prior to the Expiration Date of the exchange offer, a computer-generated message known as an agent s message that is transmitted through ATOP and that DTC confirm that: DTC has received instructions to exchange your Old Notes; and you agree to be bound by the terms of the letter of transmittal. For more details, please read Description of the Exchange Offer Terms of the Exchange Offer and Description of the Exchange Offer Procedures for Tendering. If you elect to have the Old Notes exchanged pursuant to this exchange offer, you must properly tender your Old Notes prior to the Expiration Date. All Old Notes validly tendered and not properly withdrawn will be accepted for exchange. The Old Notes may be exchanged only in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Consequences of Failure to Exchange	If we complete the exchange offer and you do not participate in it, then: your Old Notes will continue to be subject to the existing restrictions upon their transfer; we will have no further obligation to provide for the registration under the Securities Act of those Old Notes except under certain limited circumstances; and the liquidity of the market for your Old Notes could be adversely affected.
Certain Income Tax Consequences	The exchange pursuant to the exchange offer will not be a taxable event for U.S. federal income tax purposes. See Certain U.S. Federal Income Tax Consequences in this prospectus.
Use of Proceeds	We will not receive any cash proceeds from the issuance of the New Notes in this exchange offer.
Exchange Agent	Wells Fargo Bank, National Association is the exchange agent for the exchange offer.

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Summary of the New Notes

Issuer

Kindred Healthcare, Inc., a Delaware corporation.

Securities Offered

$550 million aggregate principal amount of 8.25% Senior Notes due 2019.

Maturity Date

June 1, 2019.

Interest Rate

8.25% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2011. Interest on the New Notes will accrue (a) from the later of (i) the last interest payment date on which interest was paid on the Old Note surrendered in exchange for the New Note or (ii) if the Old Note is surrendered for exchange on a date in a period that includes the record date for an interest payment date to occur on or after the date of such exchange and as to which interest will be paid, the date of such interest payment date, or (b) if no interest has been paid, from and including June 1, 2011, the original issue date of the Old Notes.

Optional Redemption

The New Notes will be redeemable at our option, in whole or in part, at any time on or after June 1, 2014, at the redemption prices set forth in this prospectus, together with accrued and unpaid interest, if any, to the date of redemption.

At any time prior to June 1, 2014, we may redeem up to 35% of the aggregate original principal amount of the New Notes with the proceeds of one or more equity offerings of our common shares at a redemption price of 108.25% of the principal amount of the New Notes, together with accrued and unpaid interest, if any, to the date of redemption.

At any time prior to June 1, 2014, we may also redeem some or all of the New Notes at a price equal to 100% of the principal amount of the New Notes plus accrued and unpaid interest plus a make-whole premium.

See Description of the Notes Optional Redemption.

Change of Control, Asset Sales

The occurrence of certain changes of control will require us to offer to purchase from you all or a portion of your New Notes at a price equal to 101% of their principal amount, together with accrued and unpaid interest, if any, to the date of purchase. See Description of the Notes Repurchase at the Option of Holders Change of Control.

Certain asset dispositions may require us, under certain circumstances, to use the proceeds from those asset dispositions to make an offer to purchase the New Notes at 100% of their principal amount, together with accrued and unpaid interest, if any, to the date of purchase. See Description of the Notes Repurchase at the Option of Holders Sales of Assets and Subsidiary Stock.

Guarantees

The New Notes will be fully and unconditionally guaranteed on a senior unsecured basis by all of our domestic 100% owned restricted subsidiaries that guarantee our indebtedness under our new credit facilities that we entered into in connection with the RehabCare Acquisition (the New Credit Facilities), which include a new $650 million senior secured asset-based revolving credit facility (the ABL Facility) and a new $700 million senior secured term loan facility (the Term Loan Facility). Certain non-100% owned restricted subsidiaries that guarantee the New Credit Facilities will not guarantee the New Notes. All future domestic 100% owned restricted subsidiaries that guarantee our indebtedness under the New Credit Facilities will also fully and unconditionally guarantee the New Notes. The guarantees will be released when the guarantees of our indebtedness under our New Credit Facilities are released and in certain other circumstances as described in Description of the Notes Subsidiary Guarantees.

The guarantees will be unsecured senior indebtedness of our guarantors and will have the same ranking with respect to indebtedness of our guarantors as the New Notes will have with respect to our indebtedness.

Ranking

The New Notes will:

- be our general unsecured senior obligations;
- rank equally in right of payment with all of our existing and future senior debt;
- be effectively junior in right of payment to our secured debt, including the New Credit Facilities, to the extent of the value of the assets securing such debt;
- be structurally subordinated to all of the existing and future liabilities (including trade payables) of each of our subsidiaries that do not guarantee the New Notes; and
- be senior in right of payment to all of our existing and future subordinated debt.

As of June 30, 2011, (1) the New Notes and related guarantees ranked effectively junior to approximately $890 million of senior secured indebtedness consisting solely of borrowings under the New Credit Facilities, (2) we had additional borrowing capacity under the ABL Facility of approximately $447 million (subject to a borrowing base and after giving effect to approximately $13 million of letters of credit outstanding on June 30, 2011) and (3) the New Notes ranked effectively junior to approximately $10 million of secured indebtedness of our non-guarantor subsidiaries, consisting of secured capital lease obligations and a bank note.

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Form and Denomination	The New Notes will be issued in fully-registered form. The New Notes will be represented by one or more global notes, deposited with Wells Fargo Bank, National Association, as trustee (the Trustee) as custodian for DTC and registered in the name of Cede & Co., DTC s nominee. Beneficial interests in the global notes will be shown on, and any transfers will be effective only through, records maintained by DTC and its participants.
	The New Notes will be issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Certain Covenants	The indenture governing the New Notes contains certain covenants that, among other things, limit our and our restricted subsidiaries ability to:
	incur, assume or guarantee additional indebtedness;
	issue redeemable stock and preferred stock;
	pay dividends, make distributions or redeem or repurchase capital stock;
	prepay, redeem or repurchase debt that is junior in right of payment to the notes;
	make loans and investments;
	grant or incur liens;
	restrict dividends, loans or asset transfers from our subsidiaries;
	sell or otherwise dispose of assets, including capital stock of subsidiaries;
	enter into transactions with affiliates; and
	consolidate or merge with or into, or sell substantially all of our assets to, another person.
Absence of Public Market for the New Notes	The New Notes are a new issue of securities and there is currently no established trading market for the New Notes. We do not intend to apply for a listing of the New Notes on any securities exchange or an automated dealer quotation system. Accordingly, there can be no assurance as to the development or liquidity of any market for the New Notes. The initial purchasers have advised us that they currently intend to make a market in the New Notes. However, they are not obligated to do so, and any market making with respect to

	the New Notes may be discontinued without notice.
Governing Law	The New Notes are governed by, and construed in accordance with, the internal laws of the State of New York.
Book-Entry Depository	The Depository Trust Company.

Trustee	Wells Fargo Bank, National Association.
Risk Factors	In evaluating an investment in the New Notes, prospective investors should carefully consider, along with the other information included in this prospectus, the specific factors set forth under Risk Factors for risks involved with an investment in the New Notes.

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RISK FACTORS

Investing in the New Notes involves risk. In addition to the other information included or incorporated by reference in this prospectus, including the matters addressed under Cautionary Statement Regarding Forward-Looking Statements, you should carefully consider the risks and uncertainties described below, as well as the risks discussed in our public filings with the SEC (including under the caption Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010), before deciding to participate in the exchange offer and to invest in the New Notes. The risks and uncertainties described below and incorporated by reference into this prospectus are not the only ones related to our business, the exchange offer or the New Notes. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially and adversely affect our business operations, results of operations, financial condition or prospects. The trading price of the New Notes could decline due to the materialization of any of these risks, and you may lose all or part of your original investment in the New Notes.

Risk Factors Relating to Our Indebtedness and the New Notes

Our indebtedness could adversely affect our cash flow and prevent us from fulfilling our obligations, including the New Notes.

We have a substantial amount of indebtedness. As of June 30, 2011, we had total indebtedness of approximately $1.4 billion in addition to availability of approximately $447 million (subject to a borrowing base and after giving effect to approximately $13 million of letters of credit outstanding on June 30, 2011) under our ABL Facility. Our substantial amount of indebtedness could have important consequences for you. For example it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, including with respect to the New Notes;
- increase our vulnerability to general adverse economic and industry conditions;
- expose us to fluctuations in the interest rate environment because the interest rates under the New Credit Facilities are variable;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions and other general purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, which may place us at a competitive disadvantage compared to our competitors that have less debt; and
- restrict us from exploiting business opportunities.

Our indebtedness may restrict our current and future operations, which could adversely affect our ability to respond to changes in our business and manage our operations.

The indenture governing the New Notes and the terms of the New Credit Facilities include a number of restrictive covenants that impose significant operating and financial restrictions on us and our restricted subsidiaries, including restrictions on our and our restricted subsidiaries ability to, among other things:

incur additional indebtedness;

create liens;

consolidate or merge;

- sell assets, including capital stock of our subsidiaries;
- engage in transactions with our affiliates;
- create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries;
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock or indebtedness; and
- make investments, loans, advances and acquisitions.

The terms of the New Credit Facilities also include certain additional restrictive covenants that impose significant operating and financial restrictions on us and our restricted subsidiaries, including restrictions on our and our restricted subsidiaries ability to, among other things:

- change the date on which our fiscal years or quarters end;
- engage in business other than relating to owning, operating or managing healthcare facilities;
- enter into sale and lease-back transactions;
- modify certain agreements;
- make or incur capital expenditures; and
- hold cash and temporary cash investments outside of collateral accounts.

In addition, the New Credit Facilities require us to comply with financial covenants, including a maximum leverage ratio and a minimum fixed charge coverage ratio.

Our ability to comply with these agreements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. These covenants could have an adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities. The breach of any of these covenants or restrictions could result in a default under the indenture governing the New Notes or the New Credit Facilities.

Our failure to comply with the agreements relating to our outstanding indebtedness, including as a result of events beyond our control, could result in an event of default that could materially and adversely affect our business, financial condition and results of operations.

If there were an event of default under any of the agreements relating to our outstanding indebtedness, including the New Credit Facilities and the indenture governing the New Notes, we may not be able to incur additional indebtedness under the New Credit Facilities and the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. Upon acceleration of certain of our other indebtedness, holders of the New Notes could declare all amounts outstanding under the New Notes immediately due and payable. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments if accelerated upon an event of default, which could have a material adverse effect on our ability to continue to operate as a going concern. Further, if we are unable to repay, refinance or restructure our secured debt, the holders of such debt could proceed against the collateral securing that indebtedness. In addition, any event of default or declaration of acceleration under one debt instrument could also result in an event of default

under one or more of our other debt instruments or under our master lease agreements with Ventas, Inc. and its affiliates (Ventas) (as amended, the Master Lease Agreements). In addition, counterparties to some of our contracts material to our business may have the right to amend or terminate those contracts if we have an event of default or a declaration of acceleration under certain of our indebtedness, which could adversely affect our business, financial condition or results of operations.

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We, including our subsidiaries, will have the ability to incur substantially more indebtedness, including senior secured indebtedness, which could further increase the risks associated with our leverage.

Subject to the restrictions in the New Credit Facilities and the indenture governing the New Notes, we, including our subsidiaries, may incur significant additional indebtedness. As of June 30, 2011:

- we had $550 million of senior unsecured indebtedness under the Old Notes;
- we had $890 million of senior secured indebtedness under the New Credit Facilities;
- we had approximately $447 million (subject to a borrowing base and after giving effect to approximately $13 million of letters of credit outstanding on June 30, 2011) available for borrowing under the ABL Facility which, if borrowed, would be senior secured indebtedness;
- subject to our compliance with certain covenants and other conditions, we had the option to incur additional incremental term loans under our Term Loan Facility or increase the asset-based revolving credit facility commitments under the ABL Facility by up to an aggregate of $200 million, which, if borrowed, would be senior secured indebtedness; and
- subject to our compliance with certain covenants and other conditions, we had the option to incur certain additional secured indebtedness and/or additional unsecured indebtedness which would rank pari passu with the New Notes.

Although the terms of the New Credit Facilities and the indenture governing the New Notes include restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of important exceptions, and indebtedness incurred in compliance with these restrictions could be substantial. If we incur significant additional indebtedness, the related risks that we face could increase.

If the New Notes are rated investment grade at any time by both Standard & Poor s (S&P) and Moody s, certain covenants included in the indenture will be suspended, and the holders of the New Notes will lose the protection of these covenants.

The indenture includes certain covenants that will be suspended and cease to have any effect from and after the first date when the New Notes are rated investment grade by both S&P and Moody s. See Description of the Notes Certain Covenants Suspension of Covenants. These covenants restrict, among other things, our ability to pay dividends, incur additional debt and to enter into certain types of transactions. Because we would not be subject to these restrictions at any time that the New Notes are rated investment grade, we would be able to make dividends and distributions and incur substantial additional debt without satisfying the terms of the suspended covenants. If after these covenants are suspended, S&P or Moody s were to downgrade their ratings of the New Notes to a non-investment grade level, the covenants would be reinstated and the holders of the New Notes would again have the protection of these covenants. However, any indebtedness incurred or other transactions entered into during such time as the New Notes were rated investment grade would be permitted.

We may not be able to generate sufficient cash to pay rents related to our leased properties and service all of our indebtedness, including the New Notes, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

A substantial portion of our cash flows from operations is dedicated to the payment of rents related to our leased properties as well as principal and interest obligations on our indebtedness, including the New Notes and borrowings under the New Credit Facilities. Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations could harm our business, financial condition and results of operations. Our ability to make payments on and to refinance our indebtedness, including the New Notes, and to fund working capital needs and planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control.

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If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness, including the New Notes, or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness, including the New Notes, on or before the maturity thereof, sell assets, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations. In addition, we may not be able to effect any of these actions, if necessary, on commercially reasonable terms or at all. The terms of existing or future debt instruments, including the New Credit Facilities and the indenture governing the New Notes, may limit or prevent us from taking any of these actions. Our ability to restructure or refinance our indebtedness, including the New Notes, will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, any failure to make scheduled payments of interest and principal on our outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on commercially reasonable terms or at all. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would have an adverse effect, which could be material, on our business, financial condition and results of operations, as well as on our ability to satisfy our obligations in respect of the New Notes.

If we are unable to meet our debt service obligations under the New Notes, the holders of the New Notes would have the right following a cure period to cause the entire principal amount of the New Notes to become immediately due and payable. If the amounts outstanding under these instruments are accelerated, we cannot assure you that our assets will be sufficient to repay in full the money owed to our debt holders, including holders of the New Notes.

In addition, our Master Lease Agreements and/or the New Credit Facilities:

- require us to dedicate a substantial portion of our cash flow to payments on our rent and interest obligations, thereby reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate activities;
- require us to pledge as collateral substantially all of our assets;
- require us to maintain a certain defined fixed coverage ratio above a specified level and a certain defined total indebtedness ratio below a specified level, thereby reducing our financial flexibility;
- require us to limit the amount of capital expenditures we can incur in any fiscal year and also limit the aggregate amount we can expend on acquisitions; and
- restrict our ability to discontinue the operation of any leased property despite its level of profitability and otherwise restrict our operational flexibility.

These provisions:

- could have a material adverse effect on our ability to withstand competitive pressures or adverse economic conditions (including adverse regulatory changes);
- could adversely affect our ability to make material acquisitions, obtain future financing or take advantage of business opportunities that may arise; and
- could increase our vulnerability to a downturn in general economic conditions or in our business.

Our failure to pay rent or otherwise comply with the provisions of any of our Master Lease Agreements could materially adversely affect our business, financial position, results of operations and liquidity.

As of June 30, 2011, we leased 38 of our hospitals and 159 of our nursing and rehabilitation centers from Ventas under our Master Lease Agreements. Our failure to pay the rent or otherwise comply with the provisions of any

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of our Master Lease Agreements would result in an event of default under such Master Lease Agreement and also could result in a default under the New Credit Facilities. Upon an event of default, remedies available to Ventas include, without limitation, terminating such Master Lease Agreement, repossessing and reletting the leased properties and requiring us to remain liable for all obligations under such Master Lease Agreement, including the difference between the rent under such Master Lease Agreement and the rent payable as a result of reletting the leased properties, or requiring us to pay the net present value of the rent due for the balance of the term of such Master Lease Agreement. The exercise of such remedies would have a material adverse effect on our business, financial position, results of operations and liquidity.

The New Notes will not be secured by any of our assets and therefore will be effectively junior to any secured indebtedness we may incur.

The New Notes will be general unsecured obligations ranking effectively junior in right of payment to all existing and future secured indebtedness to the extent of the collateral securing such indebtedness. Our obligations under the New Notes and our guarantors obligations under their guarantees of the New Notes are unsecured, but our obligations under the New Credit Facilities are secured by a security interest in substantially all of the assets of the combined company and subsidiary guarantors. As of June 30, 2011, we had $890 million of senior secured indebtedness outstanding, approximately $447 million (subject to a borrowing base and after giving effect to approximately $13 million of letters of credit outstanding on June 30, 2011) available to us under the ABL Facility which, if borrowed, would be senior secured indebtedness, and the option (subject to certain conditions) to incur additional incremental term loans under the Term Loan Facility or increase the asset-based revolving credit facility commitments under the ABL Facility by up to an aggregate of $200 million, which, if borrowed, would be senior secured indebtedness.

In the event that we are declared bankrupt, become insolvent or are liquidated or reorganized or if we default under the New Credit Facilities, the lenders could foreclose on the pledged assets to the exclusion of holders of the New Notes, even if an event of default exists under the indenture governing the New Notes at such time. Furthermore, if the lenders foreclose upon and sell the pledged equity interests in any note guarantor of the New Notes offered hereby, then that note guarantor will be released from its guarantee of the New Notes automatically and immediately upon such sale. In any such event, because the New Notes offered hereby will not be secured by any of our assets or the equity interests in the note guarantors, 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 satisfy your claims in full.

The New Notes will be structurally subordinated to all indebtedness of our existing subsidiaries that are not guarantors of the New Notes and our future subsidiaries that do not become guarantors of the New Notes.

The New Notes will not be guaranteed by any of our existing or future non-U.S. subsidiaries or any of our less than 100% owned U.S. subsidiaries. Certain of these non-guarantor subsidiaries will guarantee our obligations under the New Credit Facilities. As of June 30, 2011, the New Notes were structurally subordinated to the New Credit Facilities with respect to our non-guarantor subsidiaries that guarantee our obligations under the New Credit Facilities but not the New Notes and approximately $10 million of secured indebtedness of our non-guarantor subsidiaries, consisting of secured capital lease obligations and a bank note. Accordingly, claims of holders of the New Notes will be structurally subordinated to the claims of creditors of these non-guarantor subsidiaries, including trade creditors. All obligations of our non-guarantor subsidiaries will have to be satisfied before any of the assets of such subsidiaries would be available for distribution, upon a liquidation or otherwise, to us or a guarantor of the New Notes.

In addition, the indenture governing the New Notes permits, subject to some limitations, these non-guarantor subsidiaries to incur additional indebtedness and does not include any limitation on the amount of other liabilities, such as trade payables, that may be incurred by these subsidiaries.

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Repayment of our indebtedness, including the New Notes, is dependent on cash flow generated by our subsidiaries.

Our subsidiaries own a significant portion of our assets and conduct a significant portion of our operations. Accordingly, repayment of our indebtedness, including the New Notes, is dependent, to a significant extent, on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they are guarantors of the New Notes, our subsidiaries do not have any obligation to pay amounts due on the New Notes or to make funds available for that purpose. Certain of our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness, including the New Notes. Each subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While the indenture governing the New Notes limits the ability of our restricted subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to certain qualifications and exceptions. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness, including the New Notes.

An increase in interest rates would increase the cost of servicing our debt and could reduce our profitability.

Borrowings under the New Credit Facilities bear interest at variable rates. Interest rate changes will not affect the market value of any debt incurred under the New Credit Facilities, but could affect the amount of our interest payments, and accordingly, our future earnings and cash flows, assuming other factors are held constant. Pursuant to the terms of the New Credit Facilities, we plan to enter into an interest rate swap that involves the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility; however, this swap may not fully mitigate our interest rate risk. As a result, an increase in interest rates, whether because of an increase in market interest rates or an increase in our own cost of borrowing, would increase the cost of servicing our debt and could materially reduce our profitability. A change of one-eighth percent in the interest rates for the New Credit Facilities would increase or decrease annual interest expense by approximately $1 million.

Under certain circumstances a court could cancel the New Notes or the related guarantees under fraudulent conveyance laws. If that occurs, you may not receive any payments on the New Notes.

Federal and state fraudulent transfer and conveyance statutes may apply to the issuance of the New Notes and the incurrence of the guarantees. Under federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which may vary from state to state, the New Notes or guarantees could be voided as a fraudulent transfer or conveyance if we or any of the guarantors, as applicable: (1) issued the notes or incurred the guarantees with the intent of hindering, delaying or defrauding creditors or (2) received less than reasonably equivalent value or fair consideration in return for either issuing the notes or incurring the guarantees and, in the case of (2) only, one of the following is also true at the time thereof:

- we or any of the guarantors, as applicable, were insolvent or rendered insolvent by reason of the issuance of the notes or the incurrence of the guarantees;
- the issuance of the notes or the incurrence of the guarantees left us or any of the guarantors, as applicable, with an unreasonably small amount of capital to carry on the business;
- we or any of the guarantors intended to, or believed that we or such guarantor would, incur debts beyond our or such guarantor s ability to pay as they mature; or
- we or any of the guarantors was a defendant in an