RTI INTERNATIONAL METALS INC
Form DEF 14A
March 13, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
þ Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

RTI INTERNATIONAL METALS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

Notice of Annual Meeting of
Shareholders and Proxy Statement

April 24, 2009
1:00 p.m. Eastern Daylight Time

Hyatt Regency
Pittsburgh International Airport
Pittsburgh, Pennsylvania
USA

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

The following proxy materials are available for you to review online at www.proxydocs.com/rti:

This Proxy Statement

Form of Company Proxy Card

The Company s 2008 Annual Report to Shareholders
(which is not deemed to be part of the official proxy soliciting materials)

Any amendments to these materials required to be furnished to our shareholders

This website is designed to provide complete anonymity with respect to a shareholder accessing the website, consistent with the Securities and Exchange Commission rules.

Table of Contents

Westpointe Corporate Center One, 5th Floor
1550 Coraopolis Heights Road
Pittsburgh, Pennsylvania 15108-2973

March 13, 2009

Dear RTI Shareholder:

You are cordially invited to attend our 2009 Annual Meeting of Shareholders on April 24, 2009, at the Hyatt Regency Hotel located at the Pittsburgh International Airport.

The meeting will begin promptly at 1:00 p.m. Eastern Daylight Time with a report on Company operations. We will then elect directors and seek ratification of the appointment of our independent registered public accounting firm and approval of our employee stock purchase plan.

You have a choice of voting your proxy via the Internet, by telephone or by completing and returning the enclosed proxy card. Whether or not you plan to attend the meeting, it is important that you vote your shares and we encourage you to do so as soon as possible.

We look forward to seeing as many of you as possible at the 2009 Annual Meeting.

Sincerely,

Robert M. Hernandez
Chairman of the Board

Dawne S. Hickton
Vice Chairman & Chief Executive Officer

Table of Contents

Table of Contents

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS OF
RTI INTERNATIONAL METALS, INC.

Time:
1:00 p.m. Eastern Daylight Time

Date:
April 24, 2009

Place:
The Hyatt Regency
Pittsburgh International Airport
1111 Airport Boulevard
Pittsburgh, Pennsylvania 15231

Purpose:

Elect directors

Ratify the appointment of independent registered public accounting firm

Approve the Company s Employee Stock Purchase Plan

Conduct other business if properly raised

Your vote is important. Please vote promptly by following the instructions on the next page and on the enclosed proxy card.

Chad Whalen
Secretary

March 13, 2009

Only shareholders of record on February 27, 2009 may vote at the meeting.

Table of Contents

PROXY STATEMENT

General Information

Who may vote?

Shareholders of RTI as of the close of business on the record date, February 27, 2009, are entitled to vote at the Annual Meeting.

What may I vote on?

You may vote on:

(1) the election of nominees to serve on our Board of Directors,

(2) the ratification of the appointment of our independent registered public accounting firm for 2009,

(3) the approval of the Employee Stock Purchase Plan, and

(4) any other matters that may be properly presented at the meeting.

Voting recommendations

The Board recommends that you vote:

FOR each of the nominees presented in this proxy statement;

FOR the ratification of the appointment of PricewaterhouseCoopers as our independent registered public accounting firm for 2009; and

FOR the approval of the Company s Employee Stock Purchase Plan.

Solicitation

This proxy statement is being furnished by RTI to its shareholders in connection with the solicitation of proxies to be voted at the Annual Meeting. RTI intends to first mail this proxy statement to shareholders on or about March 13, 2009.

How do I vote?

You may vote in any one of the following three ways:

(1) By Internet: Go to the website shown on the enclosed proxy card (www.cesvote.com) and follow the instructions.

(2)

By Telephone: Call the toll-free number shown on the enclosed proxy card (1-888-693-8683) and follow the voice prompts using a touch-tone telephone.

(3) By Mail: Sign and date each proxy card you receive and return it in the envelope provided. If you return a signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted FOR all proposals.

You have the right to revoke your proxy at any time before the meeting by sending a written notice of revocation or a later-dated proxy card to RTI s Secretary, by voting subsequently through the Internet or by telephone, or by voting in person at the meeting.

Table of Contents

CORPORATE GOVERNANCE

Business Ethics and Corporate Governance

Business Conduct and Ethics

RTI is committed to conducting business ethically, as well as legally. Ethical and legal conduct in all of the Company s business affairs is essential to the Company s future. The Company s Code of Ethical Business Conduct, adopted by the Board of Directors, applies to all directors and employees of the Company, including all of our executive and other officers. The Code of Ethical Business Conduct is intended to comply with the requirements of the New York Stock Exchange and Securities and Exchange Commission regulations.

The Code of Ethical Business Conduct is posted on the RTI website, www.rtiintl.com, and is also available in print without charge to any shareholder who makes a written request to the corporate Secretary at the address set forth under the caption *Other Information* on the last page of this proxy statement. Any amendments as well as waivers of the application of the Code of Ethical Business Conduct to directors or executive officers will be disclosed promptly on the RTI website.

Corporate Governance Guidelines

The Company s Corporate Governance Guidelines were adopted by the Board of Directors to promote sound corporate citizenship and are intended to comply with the requirements of the New York Stock Exchange. The Guidelines, taken together with the charters of the various committees of the Board of Directors, provide the framework for the corporate governance of the Company. The Corporate Governance Guidelines cover a number of topics, including: the size and role of the Board of Directors; non-employee director executive sessions; attendance at Board of Directors meetings; access to senior management and advisors; compensation of the Board of Directors; independence, composition and membership criteria of the Board of Directors; self-assessment of the Board of Directors; retirement age; and process for nominations to the Board of Directors.

The Company s Corporate Governance Guidelines are posted on the RTI website, www.rtiintl.com, and are also available in print without charge to any shareholder who makes a written request to the corporate Secretary at the address set forth under the caption *Other Information* on the last page of this proxy statement.

Director Education

The Company encourages its directors to attend educational seminars and conferences to enhance his or her knowledge of the role and responsibilities of directors. Any director who attends an educational seminar or conference may receive reimbursement from RTI for the costs incurred in connection with his or her attendance. Four directors attended director education seminars or programs during 2008, two of which were accredited by the RiskMetrics Group. Educational presentations are also made at Board meetings from time to time.

The Board of Directors

The business and affairs of RTI are under the general direction of the Board of Directors. The Board presently consists of eleven members, nine of whom are neither officers nor employees of RTI or its subsidiaries. The Board of Directors has determined that Craig R. Andersson, Daniel I. Booker, Donald P. Fusilli, Jr., Ronald L. Gallatin, Charles C. Gedeon, Robert M. Hernandez, Edith E. Holiday, Bryan T. Moss, and James A. Williams all meet the New York Stock Exchange rules and listing standards relating to independence generally and for all committees on which they serve. None of the independent directors has a relationship with the Company that is material.

The Board met 10 times during 2008. All of the directors, with the exception of Mr. Moss, attended more than 75% of the total number of meetings of the Board and of the committees on which they serve. Mr. Moss was elected to the Board on June 1, 2008 and attended 100% of the meetings subsequent to his election. The Chairman of the Board chairs the regularly-scheduled executive sessions of the non-management directors. In the Chairman s absence, the chairperson of the Nominating/Corporate Governance Committee chairs the meeting.

It is the policy of the Nominating/Corporate Governance Committee to consider recommendations by shareholders, directors, officers, employees, and others for nominees for election as director. Recommendations, together with the nominee s qualifications and consent to be considered as a nominee, should be sent to the corporate Secretary of RTI for presentation to the Committee. Board Membership criteria considered by the Committee is discussed below under the caption *Nominating/Corporate Governance Committee* and is set forth in the Company s Corporate Governance Guidelines, available free of charge on the RTI website, www.rtiintl.com, or by sending a written request to the corporate Secretary at the address set forth under the caption *Other Information* on the last page of this proxy statement.

There are four principal committees of the Board of Directors. Committee membership, the functions of each committee and the number of meetings held during 2008 are described below.

Audit Committee

The members of the Audit Committee are James A. Williams (Chairman), Donald P. Fusilli, Jr., Ronald L. Gallatin and Robert M. Hernandez. All of the members of this Committee meet the New York Stock Exchange s rules and listing standards for audit committee independence. The Board has determined that Messrs. Fusilli, Gallatin, Hernandez and Williams are each qualified as an audit committee financial expert within the meaning of Securities and Exchange Commission regulations and that each of the members of the Audit Committee has accounting or financial management expertise within the meaning of the listing standards of the New York Stock Exchange.

The Audit Committee assists the Board in overseeing RTI s financial reporting process and systems of internal accounting control, RTI s compliance with legal and regulatory requirements and qualifications, and the independence and performance of RTI s internal auditors and independent registered public accounting firm. The Committee has direct responsibility for the appointment, compensation, retention and oversight of RTI s independent registered public accounting firm. The Committee has adopted, and the Board has approved, the Committee charter, which is available free of charge on the RTI website, www.rtiintl.com, or by sending a written request to the corporate Secretary at the address set forth under the caption *Other Information* on the last page of this proxy statement.

The Audit Committee held 5 meetings in 2008.

The Compensation Committee

This Committee discharges the Board s duties concerning executive compensation.

The members of the Compensation Committee are Daniel I. Booker (Chairman), Craig R. Andersson, Charles C. Gedeon, Edith E. Holiday, and Bryan T. Moss. All of the members of this Committee meet the New York Stock Exchange s rules and listing standards for independence for purposes of this Committee.

The Compensation Committee is responsible for review and approval of RTI s compensation philosophy; executive compensation programs, plans and awards (see *Compensation Discussion and Analysis* on page 18 for further information); policies, principles and procedures for selection and performance review of the CEO and other top management; and for establishing the CEO and other top management s compensation levels based on the Committee s evaluation of their performance. The Committee also administers RTI s long-term incentive plans and stock or stock-based plans. The Committee is also tasked with the review of management s Compensation Discussion and

Analysis (CD&A) and submits the Compensation Committee Report contained in this proxy statement. The Committee has adopted, and the Board has approved, a Committee charter, which is available free of charge on the RTI website, www.rtiintl.com, or by sending a written request to the corporate Secretary at the address set forth under the caption *Other Information* on the last page of this proxy statement.

Table of Contents

The Compensation Committee held 7 meetings in 2008.

Nominating/Corporate Governance Committee

The members of the Nominating/Corporate Governance Committee are Edith E. Holiday (Chair), Daniel I. Booker and Robert M. Hernandez. All of the members of this Committee meet the New York Stock Exchange s rules and listing standards for independence for purposes of this Committee.

The Nominating/Corporate Governance Committee is responsible for identifying individuals qualified to serve as directors; recommending to the Board candidates for election at the Annual Meeting of Shareholders or by the Board to fill vacancies occurring on the Board; and also reviewing and evaluating RTI s director compensation from time to time. The Committee considers director candidates submitted by directors, officers, employees, shareholders and other constituencies. The Committee is also responsible for developing and recommending to the Board corporate governance principles applicable to RTI as well as conducting periodic reviews of such principles. The Committee has adopted, and the Board has approved, a Committee charter, which is available free of charge on the RTI website, www.rtiintl.com, or by sending a written request to the corporate Secretary at the address set forth under the caption *Other Information* on the last page of this proxy statement.

The Nominating/Corporate Governance Committee annually reviews the skills and attributes of Board members within the context of the current make-up of the full Board. Board members should have individual backgrounds that, when combined, provide a portfolio of experience and knowledge that well serve RTI s governance and strategic needs. Board candidates are typically suggested by members of the Committee but the Committee will also consider Board candidates recommended or identified by other directors, management, shareholders, and others, and will be considered on the basis of a range of criteria including the current composition of the Board, broad-based business knowledge and contacts, prominence, diversity of talents and background and sound reputation in their fields as well as a global business perspective and commitment to corporate citizenship. See *Shareholder Proposals* on page 41 of this proxy statement for additional information regarding procedures to be followed by shareholders in submitting recommendations. Additional information concerning director candidates is contained in RTI s Corporate Governance Guidelines, available free of charge on the RTI website at www.rtiintl.com, or by sending a written request to the corporate Secretary at the address set forth under the caption *Other Information* on the last page of this proxy statement.

The Nominating/Corporate Governance Committee held 5 meetings in 2008.

Executive Committee

The members of the Executive Committee are Robert M. Hernandez (Chairman), Craig R. Andersson, Daniel I. Booker, Dawne S. Hickton and Michael C. Wellham.

The Executive Committee assists the Board in the discharge of its responsibilities and may act on behalf of the Board when emergencies or scheduling make it difficult to convene the Board. All actions taken by the Committee must be reported at the Board s next meeting. The Executive Committee held no meetings during 2008.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

RTI s directors are elected for one-year terms. Non-employee directors may not stand for election after age seventy-two. Employee directors leave the Board when they retire from RTI. The Board has the ability to extend the retirement age for a particular director.

The Board has nominated eleven directors for election. With the exception of Mr. Moss, all of the nominees for election have previously been elected by the shareholders. Mr. Moss was elected to the Board effective June 1, 2008 by vote of the Board members. Of the eleven individuals who are nominees for election, two are current RTI officers and the remaining nine are high-level executives with professional experience. If any nominee is unable to stand for election, your proxy may be voted for another nominee designated by the Board.

NOMINEES FOR DIRECTOR

CRAIG R. ANDERSSON	Age: 71
Retired Vice-Chairman	Director since 1990
Aristech Chemical Corporation	
(chemical producer)	

Mr. Andersson retired as a director and Vice-Chairman of Aristech Chemical Corporation on April 30, 1995. Previously, he was President and Chief Operating Officer, a position he had held since December, 1986. He is a past director of Albermarle Corporation and Duquesne University. He is a member of the American Institute of Chemical Engineers and Alpha Chi Sigma (a professional chemical society) and has served on the boards and executive committees of The Society of the Chemical Industry, the Chemical Manufacturers Association, the Pennsylvania Business Roundtable and the Greater Pittsburgh Chamber of Commerce. He has a bachelor s degree in chemical engineering from the University of Minnesota and did graduate work in the same discipline at the University of Delaware.

DANIEL I. BOOKER	Age: 61
Partner,	Director since 1995
Reed Smith LLP	
(law firm)	

Mr. Booker is a partner of the law firm of Reed Smith LLP. From 1992 until December 31, 2000 he was Managing Partner, or chief executive, of Reed Smith. He received an undergraduate degree from the University of Pittsburgh and a law degree from the University of Chicago. He is a member of the District of Columbia, Pennsylvania and U.S. Supreme Court bars. Mr. Booker is a director of Océ USA Holding, Inc.; a director of the Allegheny Conference on Community Development; and a director of other community and professional organizations.

DONALD P. FUSILLI, JR.	Age: 57
Business Consultant	Director since 2003

Mr. Fusilli is the owner of The Telum Group, a privately-held consulting firm focusing on strategic planning, business development, program/project management and selected recruiting. Mr. Fusilli was President and Chief Executive Officer of Michael Baker Corporation from April 25, 2001 to September 12, 2006. He joined Michael Baker in 1973 and spent six years in the engineering department before obtaining his law degree in 1979. He became General

Counsel in 1984, Executive Vice President Administration of the Energy Group in 1994 and Executive Vice President and General Manager of the Group in 1995. He was elected President and Chief Operating Officer in March 2000. Mr. Fusilli is a Civil Engineering graduate of Villanova University and holds a juris doctor degree from Duquesne University School of Law. He also attended the Advanced Management Program at the Harvard University Business School. Mr. Fusilli is also a Director of Sterling Construction Company, Inc. and Merrick & Company.

Table of Contents

RONALD L. GALLATIN Age: 63
Retired Managing Director Director since 1996
Lehman Brothers Inc.
(investment banking firm)

Mr. Gallatin served as a Managing Director of Lehman Brothers Inc., where he was a member of the Firm s Operating Committee and its Director of Corporate Strategy and Product Development until his retirement on December 31, 1995. During his 24 years with Lehman, Mr. Gallatin had various senior roles in both its investment banking and capital markets divisions and was responsible for a series of financial innovations, most notably Zero Coupon Treasury Receipts, Money Market Preferred Stock and Targeted Stock. A graduate of New York University, and both Brooklyn and New York University Law Schools, Mr. Gallatin has bachelor s, juris doctor and master of law (taxation) degrees and is a Certified Public Accountant.

CHARLES C. GEDEON Age: 68
Retired Businessman Director since 1991

Mr. Gedeon joined United States Steel Corporation in 1986 as Vice President Raw Materials and President of U.S. Steel Mining Co., Inc. He was promoted to Senior Vice President Related Resources in 1988 and advanced to the position of President, U.S. Diversified Group in 1990. He became Executive Vice President Raw Materials and Transportation of U.S. Steel in 2003. He retired from this position on June 30, 2003. From 1983 until he joined U.S. Steel, Mr. Gedeon had been Vice President Operations of National Steel Corporation.

ROBERT M. HERNANDEZ Age: 64
Chairman of the Board of the Company Director since 1990

On December 31, 2001, Mr. Hernandez retired as Vice Chairman and Chief Financial Officer and director of USX Corporation. He was elected to this position on December 1, 1994. Mr. Hernandez had been elected Executive Vice President, Accounting & Finance and Chief Financial Officer and director of USX on November 1, 1991. He was Senior Vice President, Finance & Treasurer of USX from October 1, 1990, to October 31, 1991. Mr. Hernandez was President, U.S. Diversified Group of USX from June 1, 1989, to September 30, 1990, and in such role had responsibilities for USX s businesses not related to energy and steel. From January 1, 1987, until May 31, 1989, he was Senior Vice President and Comptroller of USX. Mr. Hernandez has his undergraduate degree from the University of Pittsburgh and his masters of business administration from the Wharton Graduate School of the University of Pennsylvania. He is Chairman of the Board of Trustees of BlackRock Open End Equity & Long-Term Bond Funds; lead director of American Casualty Excess (ACE) Limited; a director of Eastman Chemical Company; and a director of Tyco Electronics Corporation.

DAWNE S. HICKTON Age: 51
Vice Chairman and Chief Executive Officer Director since 2007

Ms. Hickton has served as the Vice Chairman and Chief Executive Officer of the Company since 2007. Since June 2005, she served as Senior Vice President of Administration and Chief Administrative Officer. In this capacity she managed the accounting, treasury, tax, business information systems, personnel and legal functions of the Company. From April 1997 until June 2004, Ms. Hickton was Vice President and General Counsel. She holds a bachelor s degree from the University of Rochester and a juris doctor degree from the University of Pittsburgh. She is also a director of F.N.B. Corporation and a member of the Board of Trustees of the University of Pittsburgh.

EDITH E. HOLIDAY Age: 57
Attorney Director since 1999

Ms. Holiday was elected a director on July 29, 1999. She served as Assistant to the President and Secretary of the Cabinet in the White House from 1990 to 1993. Prior to that, she held several senior positions in the United States Treasury Department including General Counsel. She is a director of Hess Corporation; White Mountains Insurance Group, Ltd.; Canadian National Railway Company and H.J. Heinz Company. She is also a director or trustee of a number of investment companies in the Franklin Templeton Group of Funds. She has bachelor s and juris doctor degrees from the University of Florida.

BRYAN T. MOSS Age: 69
Retired Businessman Director since June 2008

Mr. Moss was elected a director effective June 1, 2008, when the size of the Board was increased to eleven. He served as President Emeritus of Gulfstream Aerospace (a subsidiary of General Dynamics Corporation) from April 2007 until his retirement in March 2008, and prior to that served for four years as President of Gulfstream Aerospace and Executive Vice President, Aerospace Group, General Dynamics Corporation. Mr. Moss is currently serving as a consultant to General Dynamics and has served on the U.S.-Japan Business Council, the U.S.-China Business Council, and the U.S.-Hong Kong Business Council. He is also a member of the Georgia Tech Advisory Board and the Savannah College of Art and Design Board of Visitors.

MICHAEL C. WELLHAM Age: 43
President and Chief Operating Officer Director since 2007

Mr. Wellham has served as the President and Chief Operating Officer of the Company since 2007. Since 2002, he has served as Senior Vice President in charge of the Company s Fabrication & Distribution Group, responsible for 14 RTI locations in seven countries. He came to RTI in 1998 with the acquisition of New Century Metals. Prior to that, Mr. Wellham was President of Advanced Aerospace Metals Corporation, a full line metals distributor that he led through the start-up phase. He holds a bachelor s degree from the University of Phoenix and a masters of business administration from the University of Tennessee.

JAMES A. WILLIAMS Age: 63
Retired Partner Director since 2005
Ernst & Young
(accounting firm)

Mr. Williams retired as a Partner at Ernst & Young on September 30, 2003. He has over 37 years experience working with large multi-location clients and served in numerous leaderships roles, including Pittsburgh Office Managing Partner, Area Managing Partner, and Partner in Charge-Audit. He is a Certified Public Accountant and has a bachelor s degree from Miami University.

Vote Required

Each share of RTI s Common Stock is entitled to one vote per share. Under Ohio law and the Company s Code of Regulations, the eleven director candidates receiving the greatest number of votes for election will be elected to the Company s Board of Directors. Common Shares represented by properly executed and returned forms of proxy or properly authenticated voting instructions recorded through the Internet or by telephone will be voted for the election of the Board of Directors nominees unless authority to vote for one or more of the nominees is withheld. Common Shares as to which the authority to vote is withheld will not be counted toward the election of the individual nominees specified on the form of proxy.

THE BOARD RECOMMENDS A VOTE FOR EACH OF THE LISTED NOMINEES.

PROPOSAL NO. 2

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP (PwC) has served as the independent registered public accounting firm for RTI and its predecessors for a number of years. For 2008, PwC rendered professional services in connection with the audit of the financial statements of RTI and its subsidiaries, including review of quarterly reports and filings with the Securities and Exchange Commission and provided tax services. They are knowledgeable about RTI s operations and accounting practices and are well qualified to act as the independent registered public accounting firm, and the Audit Committee has selected PwC as such for 2009.

Audit Fees

The aggregate fees billed for professional services rendered by PwC for the audit of RTI s annual financial statements and review of financial statements in RTI s Quarterly Reports on Form 10-Q in 2008 and 2007 were $1,792,580 and $2,117,053, respectively.

Audit-Related Fees

The aggregate fees billed for assurance and related services rendered by PwC that were related to the services described above were $21,000 in both 2008 and 2007. These services include certain agreed upon procedures related to compliance requirements.

Tax Fees

The aggregate fees billed for services rendered by PwC for tax services in 2008 and 2007 were $115,000 and $55,101, respectively. The services comprising these fees include federal and state tax return compliance, international tax consulting projects and assistance with new tax pronouncements.

All Other Fees

Other than fees disclosed above, there was a payment of $2,400 related to licensing fees in each of 2008 and 2007.

The Audit Committee preapproves the Audit Plan on an annual basis along with the estimated fees for the plan. At each regularly scheduled, quarterly meeting, the Audit Plan and fees incurred to date are reviewed, and any fees above the estimate are reviewed and approved or disapproved at the meeting. In addition, the Chairman of the Audit Committee has been delegated authority by the full Committee to preapprove additional audit and non-audit fees between meetings, subject to review by the full Committee at the next regularly scheduled meeting. For 2008 and 2007, 100% of PwC s fees were preapproved.

Representatives of PwC will be present at the Annual Meeting, will have an opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

Vote Required

Ratification of the appointment of the independent registered public accounting firm requires the favorable vote of a majority of the votes cast. Each share of RTI s Common Stock is entitled to one vote per share and only votes for or against the proposal count. Abstentions and broker non-votes do not count for voting purposes, but are counted for purposes of establishing a quorum. Broker non-votes occur when a broker returns a proxy but does not have authority from the beneficial owner to vote on a particular proposal.

THE BOARD RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS RTI S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2009.

PROPOSAL NO. 3

APPROVAL OF THE RTI INTERNATIONAL METALS, INC. EMPLOYEE STOCK PURCHASE PLAN

On January 30, 2009, the Board approved the RTI International Metals, Inc. Employee Stock Purchase Plan, which we refer to as the ESPP, and directed that the ESPP be submitted to the shareholders for approval. The following is a summary of the ESPP and is qualified by reference to the full text of the ESPP. A copy of the ESPP is attached to this Proxy Statement as Annex A. The terms of our ESPP are summarized below.

The purpose of the ESPP is to encourage employee stock ownership to better align employees interests with those of our shareholders. The ESPP provides employees of RTI and certain designated subsidiaries (i.e., those subsidiaries designated as eligible to participate in the ESPP) with an opportunity to purchase shares of our common stock through accumulated payroll deductions. By participating in the ESPP eligible employees are able to purchase shares of our stock at a 5% discount to the fair market value. The maximum number of shares to be issued under the ESPP is 2,000,000. The shares to be sold to participants under the plan may, at our election, be newly issued shares, treasury shares or shares acquired in the open market or otherwise. If approved by the shareholders, the ESPP is anticipated to become effective following compliance by the Company with the rules and regulations set forth by the Securities and Exchange Commission and New York Stock Exchange.

Eligibility. All persons employed by us or a designated subsidiary are eligible to participate in the ESPP so long as their customary employment with the Company or designated subsidiary is at least twenty (20) hours per week and more than five (5) months in any calendar year. Eligible employees must enroll by completing a subscription agreement indicating the percentage of compensation to be withheld for each pay period. Participation by employees in the ESPP will be strictly voluntary. Employees who elect to participate in the ESPP are called participants.

When a participant has a separation from service or otherwise becomes ineligible to participate, ESPP participation will end. The participant will be treated as having withdrawn from the ESPP and accumulated payroll deductions for the period will be returned.

Based on our current headcount, we expect that approximately 1,300 U.S. employees will be eligible to participate in the ESPP initially, with an additional 300 non-U.S. employees at some point in the future.

Operation of the Plan. Participant contributions to the ESPP will be made by after-tax payroll deduction, also called a deferral percentage, up to approximately $1,980 per pay period (assuming monthly pay periods). For purposes of the ESPP, compensation generally includes all cash compensation from RTI or a designated subsidiary that is subject to federal income tax. Participants may not purchase stock with a fair market value exceeding $25,000 in the aggregate in any calendar year. Since the fair market value cannot exceed $25,000 and the purchase price of the stock is discounted 5% under the ESPP, the maximum dollar amount that may be deferred in any calendar year is $23,750.

The right to defer compensation under the ESPP to purchase stock will be considered an offer . Each calendar quarter is an offering period . During each offering period, amounts are withheld from each ESPP participant s compensation based on the designated deferral percentage. The quarterly deferral amount will be used to purchase stock.

A participant s payroll contributions will be used to purchase shares for the participant s ESPP account on the last trading day of the quarterly offering period. Shares will be purchased at 95% of the fair market value (which is defined in the ESPP as the closing sales price of our common stock as quoted New York Stock Exchange (NYSE), or in the absence of the NYSE, the stock exchange with the greatest volume of trading in common stock on the last market trading day prior to the determination) of a share of our common stock on the last trading day of the quarterly purchase period. Whole shares will be purchased. Any remaining funds will be retained in the participant s

Table of Contents

account for the following offering period. A book entry account for each ESPP participant will be maintained to record the number of shares accumulated and the deferral amount for the offering period.

A participant may elect to terminate participation prior to the commencement of an offering period. The participant may request to participate again in future offering periods by submitting a new subscription agreement. Participants will not receive interest on the dollars contributed to, or withdrawn from, the ESPP.

A participant may sell all or a portion of the ESPP shares at any time, but a participant cannot sell, assign or transfer payroll deductions credited to a participant s account or any rights with regard to the exercise of an option or to receive shares under the ESPP, other than by will or the laws of descent and distribution. Options are exercisable only on the last day of the offering period, and they do not vest.

Administration of the Plan. The ESPP will be administered by the Board or a designated committee of members of the Board. Initially, the Board has designated the Company s existing Retirement Board as responsible for administering the ESPP, with full discretion and exclusive power to make eligibility determinations under the ESPP.

The ESPP will be effective for a period of ten years from the date of the first monthly offering period. The Board reserves the right to amend or terminate the ESPP; however, no amendment can be made to increase the total number of shares that we may issue under the ESPP without shareholder approval.

In the event that our stock is changed by reason of a change in capitalization or the dissolution, liquidation, merger or sale of assets (collectively a corporate transaction) in which we are the surviving corporation, or similar changes to our capital structure, the plan administrator will appropriately adjust the number of shares of stock subject to the ESPP, the number of shares of stock to be purchased pursuant to an option, and the price per share of common stock covered by an option, and other relevant provisions of the ESPP.

In the event of a corporate transaction in which we are not the surviving corporation, the plan administrator may take such actions with respect to the ESPP that the plan administrator deems appropriate, which could be a determination that each option issued under the ESPP will be assumed by, or an equivalent option substituted by, the successor company or its affiliates, that the purchase date will be accelerated, or that all outstanding options will terminate and accumulated payroll deductions will be refunded.

We will pay the administrative expenses for the ESPP, including any expenses associated with the purchase of stock. However, we will not pay any other fees, such as the broker fees associated with a participant selling stock.

Restrictions on resale of the shares purchased under the ESPP. If approved by the shareholders, we will register the shares of stock that may be issued under the ESPP. Any restrictions on the sale of common stock that is acquired under the ESPP depends upon whether a participant is our affiliate . Affiliates generally include persons or entities who control, who are controlled by or who are under common control with our Company, such as officers, directors and 10% shareholders. Participants who are not affiliates may resell the common stock purchased under the ESPP without restriction. Affiliates may resell common stock purchased under the ESPP only as allowed under the provisions of Rule 144 of the Securities Act of 1933 or pursuant to a separate registration for sale of the shares.

Federal income tax consequences. The following generally describes the United States federal income tax consequences of ESPP participation for participants who are citizens or residents of the United States. State, local and foreign tax consequences are not addressed. The following description does not address any individual s specific tax situation. The description is based on current federal income tax laws, and is subject to change when such laws change.

The ESPP is not intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Code. This means that the special income tax benefits of a Section 423 Plan are

Table of Contents

not available under our plan. Payroll deductions under the ESPP are made on an after-tax basis, which means that applicable federal and state tax withholding is applied to a participant s pay before ESPP contributions are deducted. Shares purchased under the ESPP will be treated, for tax purposes, as though it had been acquired under a nonstatutory stock option. A participant will not recognize income by virtue of participating in the plan, but instead will recognize ordinary compensation income for federal income tax purposes at the time of each purchase. Taxable income will be measured by the excess, if any, in the value of the shares at the time of purchase over the purchase price. The compensation income recognized at the time of purchase will be treated as wages and will be subject to tax withholding and reporting by RTI.

Upon a resale of the ESPP shares by the participant, any difference between the sales price and the purchase price (plus any compensation income recognized with respect to such shares) will generally be a capital gain or loss and will qualify for long-term capital gain or loss treatment if the shares have been held for more than one year.

Federal Income Tax Consequences to Us. Since this plan is not intended to comply with Code Section 423, the Company will generally treat the excess of the value of the shares over the amount paid by the employee as compensation. Such compensation will be deductible in accordance with the same general laws that apply to cash compensation, and will similarly be subject to withholding and payroll taxes at that time.

Vote Required

Approval of the RTI Employee Stock Purchase Plan requires the favorable vote of a majority of the votes cast. Each share of RTI s Common Stock is entitled to one vote per share and only votes for or against the proposal count. Abstentions and broker non-votes do not count for voting purposes, but are counted for purposes of establishing a quorum. Broker non-votes occur when a broker returns a proxy but does not have authority from the beneficial owner to vote on a particular proposal.

THE BOARD RECOMMENDS A VOTE FOR APPROVAL OF THE EMPLOYEE STOCK PURCHASE PLAN.

Table of Contents

COMMITTEE REPORTS

Audit Committee Report

The Committee met with management, PricewaterhouseCoopers LLP, and representatives of the Internal Audit group (which is outsourced to Ernst & Young LLP) frequently throughout the year to review and consider the adequacy of RTI s internal control over financial reporting and the objectivity of its financial reporting, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002. We also discussed with RTI s management and PricewaterhouseCoopers LLP the process used for certifications by RTI s chief executive officer and principal financial officer that are required for certain of RTI s filings with the Securities and Exchange Commission. We have reviewed and discussed RTI s 2008 audited financial statements with management and with PricewaterhouseCoopers LLP. The Committee also discussed with PricewaterhouseCoopers LLP the matters required to be communicated by Statement on Auditing Standards (SAS) No. 61 as amended by SAS No. 90 (Communications With Audit Committees).

In addition, the Committee received from PricewaterhouseCoopers LLP the written disclosures required by the Public Company Accounting Oversight Board s (PCAOB) Rule 3256, *Communication with Audit Committees Concerning Independence,* and have discussed their independence with them. We have considered whether the provision by PricewaterhouseCoopers LLP of the professional services described above was compatible with the maintenance by PricewaterhouseCoopers LLP of its independent status and have determined that it was.

Based on these reviews and discussions, we recommended to RTI s Board of Directors, and the Board has approved, that the Audited Financial Statements be included in RTI s Annual Report on Form 10-K for the year ended December 31, 2008 for filing with the Securities and Exchange Commission.

James A. Williams *(Chairman)*
Donald P. Fusilli, Jr.
Ronald L. Gallatin
Robert M. Hernandez

Compensation Committee Report

The Compensation Committee (Committee) discharges the Board s duties concerning executive compensation and prepares the report on such compensation required by the Securities and Exchange Commission.

The Committee met with management to review and discuss the Compensation Discussion and Analysis. Based on their reviews and discussions, the Committee recommended to RTI s Board of Directors that the Compensation Discussion and Analysis be included in the Company s annual report on Form 10-K and this proxy statement.

Daniel I. Booker *(Chairman)*
Craig R. Andersson
Charles C. Gedeon
Edith E. Holiday
Bryan T. Moss

Table of Contents

SECURITY OWNERSHIP

Security Ownership of Certain Beneficial Owners

The following table sets forth each person or entity known to us that may be deemed to have beneficial ownership of more than five percent of the outstanding Common Stock of RTI based on information publicly available as of March 1, 2009.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Barclays Global Investors, NA 400 Howard Street San Francisco, CA 94105	1,653,847 (1)	7.2 %
Franklin Resources, Inc. One Franklin Parkway San Mateo, CA 94403	1,539,200 (2)	6.7 %
Luxor Capital Group, LP 767 Fifth Avenue, 19th Floor New York, NY 10153	2,043,685 (3)	8.9 %

(1) This information is based solely on the Schedule 13G filed with the SEC on February 5, 2009, by Barclays Global Investors, NA, Barclays Global Fund Advisors, Barclays Global Investors, Ltd, and Barclays Global Investors (Deutschland) AG. Such filing indicates that Barclays Global Investors (Deutschland) AG has sole dispositive power over all such shares and sole voting power over 1,269,511 such shares; Barclays Global Investors, NA has sole dispositive power over 619,527 such shares and sole voting power over 511,817 such shares; Barclays Global Fund Advisors has sole dispositive power over 1,019,037 such shares and sole voting power over 757,234 such shares; and Barclays Global Investors, Ltd has sole dispositive power over 15,283 such shares and sole voting power over 460 such shares.

(2) This information is based solely on the Schedule 13G filed with the SEC on February 9, 2009, by Franklin Resources, Inc. and the following members of its affiliated group: Charles B. Johnson; Rupert H. Johnson, Jr.; Franklin Advisory Services, LLC;. Such filing indicates that the shares are beneficially owned by one or more open- or closed-end investment companies or other managed accounts that are investment management clients of investment managers that are direct and indirect subsidiaries of Franklin Resources, Inc. Investment management contracts grant to the investment management subsidiaries all investment and/or voting power over the shares.

(3) This information is based solely on the Schedule 13G filed with the SEC on February 17, 2009, by Luxor Capital Group, LP, Luxor Management, LLC, LCG Holdings, LLC, Christian Leone and various investment funds controlled and managed by the Luxor Capital Group. Such filing indicates shared dispositive and voting power over such shares as follows: Luxor Capital Group, LP, Luxor Management LLC and Christian Leone, 2,043,685 shares; LCG Holdings, LLC, 588,467 shares; Luxor Capital Partners, LP, 478,166 shares; LCG Select, LLC, 97,246 shares; Luxor Spectrum, LLC, 13,055 shares; Luxor Capital Partners Offshore, Ltd., 830,086 shares; LCG Select Offshore, Ltd., 447,714 shares; and Luxor Spectrum Offshore, Ltd., 86,552.

Table of Contents

Security Ownership of Directors and Executive Officers

The following table sets forth information concerning the beneficial ownership of our common stock by each director and nominee, by each executive officer named in the Summary Compensation Table, and by all directors and executive officers as a group. Beneficial ownership is a concept which takes into account shares that may be acquired within 60 days (such as by exercising vested stock options) and shares as to which the named person has or shares voting and/or investment power. Information is provided as of March 1, 2009. Absence of an entry in the Percent of Class column indicates beneficial ownership of less than 1%.

Name	Amount and Nature of Beneficial Ownership (1)	Percent of Class (2)
Craig R. Andersson	35,658	
Daniel I. Booker	22,406	
Donald P. Fusilli	7,651	
Ronald L. Gallatin	80,000	
Charles C. Gedeon	15,203	
Stephen R. Giangiordano	54,829	
Robert M. Hernandez	59,268	
Dawne S. Hickton	113,899	
Edith E. Holiday	12,983	
William T. Hull	34,181	
Bryan T. Moss	1,160	
William F. Strome	20,443	
Michael C. Wellham	33,163(3)	
James A. Williams	5,845	
All directors and executive officers as a group (15 persons)	510,368	2.2 %

(1) Includes the following number of shares of common stock subject to stock options exercisable within 60 days for the following persons: Craig R. Andersson: 6,000; Stephen R. Giangiordano: 23,433; Dawne S. Hickton: 32,668; William T. Hull: 17,199; William F. Strome: 3,333; Michael C. Wellham: 6,903.

(2) There were 23,087,394 shares outstanding as of March 1, 2009. In accordance with the rules and regulations of the Securities Exchange Commission, in computing the percentage ownership for each person listed, any shares which the listed person had the right to acquire within 60 days are deemed outstanding, however, shares which any other person had the right to acquire within 60 days are disregarded in the calculation. Therefore, the denominator used in calculating beneficial ownership among the persons listed may differ for each person. No percentage is shown for ownership of less than one percent.

(3) Excludes an indeterminate number of shares underlying units in a unitized stock fund, which is an available investment option under RTI s defined contribution employee savings plan. As of March 1, 2009, Mr. Wellham had 14,868.35 units under such plan.

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

A. Overview and Pay Philosophy

For the 2008 executive compensation detailed in the tables that follow this discussion and analysis, our Board of Directors empowered the Compensation Committee (the Committee or the Compensation Committee) to discharge the Board s duties concerning executive compensation and to advise the Board on the Company s compensation philosophy, programs, and objectives. Specifically, the Committee makes decisions regarding compensation of our named executive officers in accordance with the Committee s Charter and in accordance with the Company s compensation philosophy. The Committee is responsible for the review and approval of the Company s compensation philosophy including executive compensation programs, plans and awards; for policies, principles and procedures for the selection of performance objectives of the CEO and other named executive officers; for establishing compensation levels for the named executive officers based on the Committee s evaluation of performance; and for recommending CEO compensation levels to the Board based on the Committee s evaluation of performance.. The Committee also administers RTI s stock-based compensation plans (including the shareholder-approved 2004 Stock Plan) through which long-term incentive compensation awards are granted to our named executive officers and other managers and employees.

Consistent with the Committee s mandate, RTI has adopted a comprehensive statement entitled Pay Philosophy and Guiding Principles Governing Officer Compensation (the Pay Philosophy). The overall philosophy related to our officer compensation programs set out in the Pay Philosophy is as follows:

To promote achievement of the Company s business objectives and reinforce its strategies;

To align the interests of the Company s officers with those of its shareholders;

To provide pay that is externally competitive and internally equitable; and

To promote retention of officers and non-officer executives who perform well.

The Company s compensation programs, as outlined in the Pay Philosophy, are managed to help communicate desired results and promote decisions and actions that produce those results. Specifically, the Pay Philosophy states that the Company s compensation programs should be characterized by:

Variability a large portion of total compensation will be based on Company performance recognizing the highly cyclical nature of the business and the need to maintain conservative compensation levels during business downturns. Salaries will generally be maintained at competitive levels with the major opportunities for significant upward shifts in total compensation to be provided from performance-based bonus and long-term incentives;

Clarity performance objectives for bonuses and long-term incentive programs will be clearly articulated;

Communicability officers will be made aware of and fully understand their earnings potential for a given year and what specific actions and results are necessary to achieve those earnings; and

Strategic Emphasis   compensation programs will include recognition of the roles of various elements of pay in attracting, retaining and motivating employees, the aspects of performance that each element is best suited to reward, and the characteristics of the Company and its officers that point to emphasis on specific elements of pay.

B. Elements of Named Executive Officer Compensation

The Company s comprehensive compensation program consists of the following elements for our named executive officers:

Salary: Executive salary addresses current compensation and is paid to attract and retain qualified personnel and to provide a guaranteed level of income regardless of performance as well as recognition of consistent excellent performance over a number of years. An individual s salary may fall anywhere in a pre-determined range, the midpoint of which for each position will be maintained near the median of that for similar positions at appropriate comparator companies with a maximum near the seventy-fifth percentile of the comparator group. However, individual salaries and salary adjustments will reflect a variety of factors including the responsibilities and scope of the position, relevant experience, time in position and individual performance as measured by the executive s annual performance review.

Bonuses: The major role of annual incentive compensation (i.e., annual bonuses) is to motivate officers through the recognition of attainment of specific key short-term objectives and/or other strategic milestones or operational goals. The bonus award opportunity guidelines set forth in the Pay Philosophy call for annual bonuses for target performance as a percentage of base salary to be established near the median of that for similar positions at appropriate comparator companies.

No bonus will be paid to an officer whose individual performance is judged to be unacceptable regardless of the level of corporate performance. Likewise, the Compensation Committee may, in order to retain valued executives, pay bonuses to recognize exceptional individual performance regardless of the level of corporate performance.

Long-term Incentives: Long-term incentive awards are designed specifically to reward increases in shareholder wealth as measured by the price of the Company s common stock as well as improvement in earnings per share. They also align the compensation of our executives with the interests of our shareholders. Long-term incentive grants are currently made pursuant to the Company s 2004 Stock Plan and may be made in a combination of stock (which, under the 2004 Stock Plan, may be awards of restricted shares, performance shares, phantom stock or non-restricted shares) and stock options.

- Our stock options are designed to align management s interest with that of our shareholders and have value only if our stock price increases over time. Options are granted at fair market value on the date of grant and vest ratably over three years.

- Because it is important to us to provide compensation that is externally competitive and to retain our executive officers, we utilize time-based restricted share awards that vest ratably over five years. Grants of restricted stock also build the ownership of our new executive team and provide stability to the program when markets are down.

- Our executives who are granted performance share awards will earn shares of our common stock in amounts ranging from 0% to 200% of a target number of shares based upon the total shareholder return of RTI as compared to our peers over a three-year performance period.

The Committee intends to cause approximately 40% of the value of long-term incentives to be in the form of performance share awards for each named executive officer. The remaining long-term incentives are split, with approximately 40% consisting of restricted shares and 20% consisting of stock options for our CEO and COO and split approximately 35% consisting of restricted shares and 25% consisting of stock options for our other named executive officers.

Stock Ownership Guidelines: In October of 2008, our Board of Directors approved stock ownership guidelines applicable to certain executive officers of the Company. Under the guidelines, each participating officer has been asked to achieve certain stock ownership levels

Table of Contents

based on a percent of base salary (calculated by award price or cost basis of the shares, as applicable). The current guidelines call for the following stock ownership goals:

Chief Executive Officer	5 times base salary
Chief Operating Officer	4 times base salary
Executive and Senior Vice Presidents	3 times base salary
Certain Vice Presidents	2 times base salary

Under the guidelines, participants will be given a five-year period to accumulate sufficient equity through various means (including open market purchases, ESPP purchases (if approved), restricted stock ownership and shares owned through 401(k) or Company savings plans), after which Board discretion will be used to address situations where the applicable guidelines have not been achieved.

Health and Welfare Benefits: We provide certain health and welfare benefits to our named executive officers which are not tied to any individual or corporate performance objectives and are intended to be part of an overall competitive compensation program. Our named executive officers participate in these plans on the same terms as other eligible employees, subject to any regulatory limits on amounts that may be contributed by or paid to the named executive officers under such health and welfare plans.

Perquisites: In November 2008 our Board of Directors moved to restrict the issuance of perquisites to only those that are deemed to serve legitimate business functions. To that end, tax preparation and financial planning advice, certain business-related club memberships that are utilized by the Company as a whole, and annual executive medical exams were retained while personal club memberships, automobile allowances and other perquisites were eliminated. Perquisites are discussed in greater detail in the footnotes to and narrative disclosure following the Summary Compensation Table.

Post-Employment Compensatory Arrangements:

- *Pension Plan.* We have a qualified defined benefit plan that covers each of our current named executive officers except for Mr. Wellham and Mr. Strome. The benefits are based on a formula which includes a percentage of the participant s average monthly base salary multiplied by continuous years of service. See *Retirement Benefits* for a description of our defined benefit plan.

- *Supplemental Pension Program.* Our named executive officers also participate in the Supplemental Pension Program, a non-qualified defined benefit plan. It entitles the executives to specified annual benefits based upon average annual bonuses and years of service if they retire after age 60 or prior to age 60 with 30 years of service with RTI s consent. See *Retirement Benefits* for a description of our supplemental pension program.

- *401(k) Plan.* Mr. Wellham and Mr. Strome, who do not participate in the defined benefit pension plan, may participate in the Company-wide 401(k) defined contribution plan in which the Company contributes 50% of the first 8% of an executive s base salary and bonus contributed by the executive, subject to applicable Internal Revenue Code limits. Other named executive officers may participate in the 401(k) plan up to applicable Internal Revenue Code limits but the Company does not match their contributions.

- *Change in Control Severance Policy.* Each named executive officer is eligible to participate in our executive change in control severance policy, which entitles our CEO to a benefit equal to 2.5 times her annual base salary and bonus and each other named executive officer to a benefit equal to 2 times their annual base salary and bonus, in each case if the executive s employment with the Company is terminated by the Company other than for cause, death or disability, or by the executive for good reason within 24 months after a change in control of the Company. Also, upon such event the executives will be entitled to accelerated vesting of previously unvested stock-based long-term incentive awards, the continuation of life, disability and health insurance benefits for a specified period, and a gross-up payment in certain circumstances if the executive is subject to excise taxes because of these provisions.

° *Non-Change in Control Severance Policy.* Each named executive officer is also eligible to participate in our executive non-change in control severance policy. It entitles the named executive officers to certain severance benefits in the event that the Company terminates the executive s employment other than for cause, death or disability outside of the context of a change of control, if the Company breaches the executive s employment agreement in certain circumstances or if the Company reduces the executive s base salary without the executive s consent. In such event, our CEO will be entitled to a benefit equal to 2 times her annual base salary and bonus, the COO will be entitled to 1.5 times his annual base salary and bonus and each other named executive officer will be entitled to a benefit equal to 1 times their annual base salary and bonus. Participants are also entitled to the continuation of life, disability and health insurance benefits for a specified period.

Tax Considerations

The Committee considers the impact of the applicable tax laws with respect to executive compensation. In certain circumstances, applicable tax laws impose potential penalties on compensation or result in a loss of deduction to RTI for such compensation.

Participation in and compensation paid under our plans, contracts and compensation arrangements may result in the deferral of compensation that is subject to the requirements of Section 409A of the Internal Revenue Code. While we intend for our plans, contracts and compensation arrangements to be structured and administered in a manner that complies with the requirements of Section 409A, to the extent that our plans, contracts and compensation arrangements fail to meet certain requirements under Section 409A, compensation earned thereunder may be subject to immediate taxation and tax penalties.

With certain exceptions, Section 162(m) of the Internal Revenue Code limits the deductibility of compensation in excess of $1 million paid to certain covered employees. Compensation paid to covered employees is not subject to the deduction limitation if it is considered qualified performance-based compensation. The Committee reserves the right to provide both market and performance-based compensation to covered employees. Certain awards, such as stock options, are intended to qualify for deduction under Section 162(m). Other types of awards, such as restricted shares and performance share awards, however, may not qualify for the performance-based exception and therefore may not be deductible under Section 162(m). While the Committee considers the tax impact of any compensation arrangement, it reserves the right to approve non-deductible compensation that is consistent with the overall pay philosophy of the Company.

If a change in control of the Company results in the payment of severance or the accelerated vesting of equity-based awards, a disqualified individual could, in some cases, be considered to have received parachute payments within the meaning of Sections 280G and 4999 of the Internal Revenue Code. A disqualified individual can be subject to a 20% excise tax on excess parachute payments and the Company can be denied a tax deduction. Our executive change in control severance policy discussed above provides that if it is determined any payment or benefit thereunder would constitute an excess parachute payment, the Company will pay a gross-up payment, subject to certain limitations, such that the net amount retained by the disqualified person after the application of any excise taxes will be equal to such payments or distributions. Gross-up payments will not be deducted by the Company.

C. Overview of the Decision Making Process

In January 2008, with input from the individual executives as well as the Chairman of the Board of Directors, Ms. Hickton established specific performance-based objectives for each member of the

Table of Contents

executive team, based upon various factors including the immediate past performance of the Company and its reporting segments, the projected market conditions in the industry, and the short and long-term strategic plan of the Company as established by the Board. At the same time, and using the same general factors, the Compensation Committee and the Chairman of the Board established specific performance-based objectives for Ms. Hickton. Each performance-based objective is reviewed by the Compensation Committee and approved by the Board of Directors. Executive performance against the objectives is evaluated and monitored throughout the year.

In October, the CEO reviewed the performance of the other named executive officers for the purpose of setting base salary for the following year and bonus and incentive compensation for the year then ending. She reviewed the RTI stock price during the year; the Company earnings per share and return on invested capital (each determined in accordance with Company accounting policy) as compared to the Company s annual business plan; and individual performance for each of the named executive officers as compared against their personal and team objectives set the prior year, and discussed these factors with members of the Compensation Committee and the Chairman of the Board.

After discussions concerning executive compensation at its regular October meeting, the Compensation Committee reconvened in early December with the CEO and discussed the current financial condition of the Company and the elements of compensation for the named executive officers. Members of the Committee made recommendations to Ms. Hickton for her to consider in preparing final recommendations to the Committee. Using this information, with input from the Chair of the Compensation Committee and the Chairman of the Board, basic information regarding trends in executive salaries in the manufacturing industry, and market data on comparator companies, the CEO made recommendations as to the compensation of the other named executive officers. The recommendations, along with tally sheets summarizing each executive s current compensation and aggregate stock holdings and benefits were distributed to the Compensation Committee in advance of the January 2009 Committee meeting. The overall purpose of the tally sheets is to bring together, in one place, all the elements of compensation so that the Committee may analyze both the individual elements of compensation (including the compensation mix) as well as total compensation.

In January 2009, the Committee reviewed and considered the recommendations of the CEO with respect to the other executive officers and then, with the assistance of the Chairman of the Board, reviewed the performance of the CEO in the same manner that the CEO evaluated the other executive officers. The Committee then made the final determination as to base salaries for the new year and any bonus and incentive compensation for the immediate past year s performance based upon each individual s status and performance, in each case consistent with the Pay Philosophy set forth above. Awards of long-term, equity-based compensation were granted at this January meeting.

D. Analysis of Compensation Awards for Our Named Executive Officers

Beginning in late 2007 and through January 2008, in order to determine base salaries for 2008, the Compensation Committee reviewed the compensation practices among peer companies to ensure the appropriateness of the Company s compensation program design and compensation levels. Towers Perrin, a national benefits consulting firm, was engaged to report directly to the Compensation Committee as its independent compensation consultant to advise on compensation matters. The consultant participated in Committee meetings throughout 2007, 2008 and 2009 and was engaged to advise on compensation trends and best practices, plan design and the reasonableness of individual compensation awards.

The consultant employed a benchmarking process as an assessment tool that compares elements of RTI s compensation programs with those of other companies that have similar characteristics. The purpose of the benchmarking process is to:

Understand the competitiveness of current pay levels relative to peer companies with similar revenues and business characteristics;

Table of Contents

Understand the alignment between executive compensation levels and Company performance; and

Serve as a basis for developing salary adjustments and incentive awards for the Compensation Committee s approval.

When advising the Compensation Committee on 2008 base salary and incentive compensation, the consultant used both market compensation data from reputable compensation surveys (Towers Perrin, Mercer, and Watson Wyatt) representing general industry companies and a more specific analysis of proxy disclosures from publicly-owned peer companies. The peer group was developed based on a set of characteristics that include:

Annual revenues that range from $100 million to $2.0 billion;

Relevant Global Industry Classification System (GICS) codes; and

Asset-intensive companies similar to RTI.

The following 2008 compensation peer group was established in October 2007:

Aeroflex Inc.	Dril-Quip Inc.	Kaydon Corp.	Olympic Steel Inc.
AMCOL International Corp.	Ducommun Inc.	LMI Aerospace Inc.	Steel Technologies Inc.
Brush Engineered Materials Inc.	Eagle Materials Inc.	Myers Industries Inc.	Texas Industries Inc.
Carpenter Technology Corp.	Easterline Technologies Corp.	NN Inc.	Titanium Metals Corp.
Castle (AM) & Co.	Intermagnetics General Corp.	Northwest Pipe Company	Triumph Group Inc.

Peer group pay practices for each pay element were analyzed for base salary, target annual bonus opportunities and long-term incentives. The peer group data was supplemented by broader general industry data from compensation surveys to facilitate the evaluation of compensation levels and design.

Towers Perrin presented the Compensation Committee with ranges of base salary, target annual bonus as a percentage of salaries and target long-term incentives as a percentage of salaries for each of our named executive officers. In January 2008, the Compensation Committee reviewed these ranges and determined changes to the base salaries and incentive targets for each named executive officer as described below. In making this determination, the Committee considered each executive officer s experience in the position, the amount of the increase of the salary level over the current compensation and relative internal positioning. In the case of each of our named executives, the base salaries used for 2008 were below the median of the ranges determined by the peer group and the broader industry surveys. The Compensation Committee believed this was appropriate as each executive was new to their respective positions in 2007 and due to the performance of the Company.

Based upon the Towers Perrin recommendations, the Committee established base compensation and target bonus amounts for 2008 as follows:

	Base Salary	Target Bonus
Dawne S. Hickton	$ 525,000	75% of Salary
Michael C. Wellham	$ 380,000	60% of Salary

Stephen R. Giangiordano	$ 300,000	50% of Salary
William T. Hull	$ 275,000	50% of Salary
William Strome	$ 260,000	50% of Salary

To adjust for the elimination of certain perquisites as discussed above, a one-time adjustment was made to the base salaries of the executive officers effective November 1, 2008: Ms. Hickton s base salary was increased to $537,000; Mr. Wellham s base salary was increased to $396,836; Mr. Giangiordano s salary was increased to $316,272; Mr. Hull s base salary was increased to $287,000; and Mr. Strome s base salary was increased to $280,652.

The Company maintains a discretionary annual cash bonus program not tied to specific formulas. In January 2009, when reviewing the performance of the named executive officers for purposes of determining if bonuses and long-term incentive compensation should be awarded for 2008, the

Table of Contents

Committee took into consideration RTI s operating and financial performance as well as the change in share price during the year. The Committee noted that the Company s earnings, earnings per share, return on invested capital, and cash flow were each considerably under the Company s annual plan. The Committee also noted that RTI s share price declined from December 31, 2007 to December 31, 2008 by approximately 79%. It was noted that the peer group showed an aggregate decline during the period of approximately 53% and the S&P 500 declined by approximately 38%. While these results clearly indicate that the Company and thus the executives did not meet the stated financial and stock performance goals, the Committee did recognize that to some degree this performance was outside the control of our CEO and named executives and is attributable to the global economic recession and liquidity crisis and delays in the anticipated Boeing 787 project. Notwithstanding the industry and worldwide slowdown, sales for the year were recorded at the second highest amount in Company history and operating income was the third highest in Company history. The Committee also noted the fact that the Company successfully refinanced its credit facility during the year with attractive terms to the Company notwithstanding the global credit crises thus leaving the Company with strong cash flow and a strong balance sheet.

Each of the executive officers is also responsible for five team objectives, including implementing the Company s strategic plan, aiding in the announced capital expansion projects with respect to a new sponge plant and mill facility, meeting Company safety goals for reportable incidents during the year and budgeting and forecasting. All of the team objectives were met during the year.

The Committee also measures executive performance against pre-determined personal objectives. Specific objectives for 2008 for Ms. Hickton were to develop a succession planning process for levels immediately below the executive officer level, lead industry efforts to support legislation concerning military procurement of specialty metals, continue to drive the strategic planning process throughout the Company, develop and strengthen relationships with key customers and suppliers, support objectives to improve operating results in the Company s Fabrication Group, and achieve a new collective bargaining agreement for the work force at the Company s Niles Ohio facility. Certain of the other named executive officers shared some of Ms. Hickton s objectives and were tasked with other goals and objectives specific to their individual tasks and responsibilities.

The following chart summarizes the achievement of each of the named executive officer s personal objectives:

	Number of Personal Objectives	**Number of Personal Objectives Achieved**
Dawne S. Hickton	6	5
Michael C. Wellham	4	3
Stephen R. Giangiordano	4	3
William T. Hull	4	3.5
William Strome	6	5.5

The personal objective that Ms. Hickton did not meet was a goal to improve operating results in the Fabrication Group, which was significantly impacted by the announced delays in the Boeing 787 program.

After considering the Company s overall performance, each executive s performance against their personal objectives, and the performance of the executive management team as a whole and the general economic conditions, the Committee decided to award cash bonuses at less than the target amount for our CEO and each of the other named executive officers. The main reason for this decision was the failure of the Company and the executives to achieve the stated financial goals and stock performance goals. Specifically, Ms. Hickton and Mr. Hull received bonuses in the amount of approximately 75% of the targeted amount. Mr. Wellham and Mr. Giangiordano received bonuses in amounts of approximately 70% of their respective targeted amounts. Mr. Strome was awarded a bonus at 80% of his targeted amount. The variation in the percentage of target amount awarded was primarily in relation to the achievement by each individual of his or her personal objectives.

Table of Contents

Long-term incentive awards were granted to the named executive officers approximately at target levels (based on base salaries in place prior to any adjustments made in connection with the Company s elimination of certain perquisites). Ms. Hickton s awards included time-based awards (restricted shares and stock options) and performance awards in aggregate at a value of approximately 200% of her base salary. Mr. Wellham received such long-term incentives at a value of approximately 110% of his base salary. Mr. Giangiordano s long-term incentives were granted in an aggregate amount of approximately 100% of his base salary and each of Mr. Hull and Mr. Strome were granted such awards in aggregate amounts of approximately 80% of their respective salaries. In each case, these awards were made at the targeted amounts established at the beginning of the year. The Committee believes that awards of the long-term incentives at target levels are appropriate for several reasons. Each named executive s performance was at least at the expected level. The overall compensation program is based on peer group data and is designed to keep compensation in-line with the Company s peers and to put 60% or more of long-term incentive awards (performance shares and stock options) at risk if future performance is not achieved. And despite the performance of the Company s stock and the overall market during 2008, the Company achieved the second highest sales and third highest operating income in the Company s history.

E. Changes in Compensation for 2009

In light of the Company s disappointing stock performance, the general state of the global economy, and the uncertainties in the Company s markets heading into 2009, the Committee determined to maintain base salaries at 2008 levels and to forgo any annual increases for our CEO and each of the named executive officers except for Mr. Strome. The Committee believes the salary freeze is appropriate and prudent despite benchmark data that would support increases and will best prepare the Company to be competitive in the coming year, which is expected to remain difficult. The freeze in salaries is also partially a result of the failure of the Company and the executives to meet the stated financial goals for 2008. Mr. Strome s base salary increased to $306,659 to bring him closer in line with the median salary for similar positions within the peer group and to account for the increased responsibilities taken on during 2008.

Summary Compensation Table

Name and ncipal Position (1)	Year	Salary	Bonus (2)	Stock Awards (3)	Option Awards (3)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings (4)	All Other Compensation (5)	Total
yne S. Hickton e Chairman and	2008	$ 518,667	$ 294,000	$ 762,821	$ 160,680	N/A	$ 111,140	$ 29,124	$ 1,876,4
ef	2007	375,003	300,000	391,544	145,718	N/A	97,749	130,626	1,440,6
cutive Officer	2006	259,000	250,000	213,826	103,492	N/A	56,291	39,226	921,8
hael C. Wellham	2008	378,223	160,000	300,538	80,955	N/A	35,906	28,978	984,6
ident and Chief	2007	273,755	190,000	147,119	84,055	N/A	49,095	21,978	766,0
rating Officer	2006	158,000	125,000	34,311	32,826	N/A		7,004	357,1
hen R. ngiordano	2008	298,546	105,000	245,015	80,930	N/A	120,604	19,899	869,9

cutive Vice									
ident	2007	224,089	150,000	161,719	94,645	N/A	132,259	12,814	775,5
echnology and									
ovation	2006	164,000	130,000	51,673	58,160	N/A	96,378	10,208	510,4
iam T. Hull	2008	274,917	103,000	237,766	83,071	N/A	25,736	15,135	739,6
or Vice President									
	2007	238,755	140,000	208,376	124,702	N/A	24,120		735,9
ef Financial Officer	2006	205,000	150,000	110,401	122,662	N/A	17,154	20,315	625,5
iam F. Strome	2008	263,447	104,000	174,333	163,470	N/A	1,601	29,644	736,4
or Vice President -	2007	31,516		10,405	14,513	N/A			56,4
tegic Planning	2006					N/A			
Finance									

(1) Ms. Hickton and Messrs. Wellham, Giangiordano and Hull were promoted to their current positions effective April 27, 2007. Mr. Strome was hired November 19, 2007.

(2) Represents the cash bonus paid to the named executive officers for their performance during 2008.

(3) Represents the proportionate amount of the total fair value of restricted stock, performance shares, and option awards recognized by the Company as an expense in 2008 for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to the service-based vesting conditions. The fair values of these awards and the amounts expensed in 2008 were determined in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). The awards for which expense is shown in this table include the awards described in the Grants of Plan-Based Awards table of this Proxy Statement, as well as awards granted in 2004, 2005, 2006, and 2007, for which we continued to recognize expense in 2008. The assumptions used in determining the grant date fair values of these awards are set forth in Note 13 to the Company s Consolidated

Table of Contents

Financial Statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC.

(4) Reflects the increase during 2008 in actuarial present values of each named executive officer s accumulated benefits under our Pension Plan for Eligible Salaried Employees and our Supplemental Pension and Excess benefit plans.

(5) Represents the aggregate incremental cost to the Company with respect to the perquisites and other personal benefits provided to the named executive officer in 2008.

All Other Compensation Table

The following table describes each component of the All Other Compensation column in the Summary Compensation Table:

Name	Year	Perquisites (1)	Tax Reimbursements	Insurance Premiums	Company Contributions to DC Plans (2)	Severance Payments/ Accruals	Change in Control Payments/ Accruals	Total
Dawne S. Hickton	2008	$ 29,124	N/A	N/A	$	N/A	N/A	$ 29,124
	2007	130,626	N/A	N/A		N/A	N/A	130,626
	2006	39,226	N/A	N/A		N/A	N/A	39,226
Michael C. Wellham	2008	21,228	N/A	N/A	7,750	N/A	N/A	28,978
	2007	14,228	N/A	N/A	7,750	N/A	N/A	21,978
	2006		N/A	N/A	7,004	N/A	N/A	7,004
Stephen R. Giangiordano	2008	19,899	N/A	N/A		N/A	N/A	19,899
	2007	12,814	N/A	N/A		N/A	N/A	12,814
	2006	10,208	N/A	N/A		N/A	N/A	10,208
William T. Hull	2008	15,135	N/A	N/A		N/A	N/A	15,135
	2007		N/A	N/A		N/A	N/A	
	2006	20,315	N/A	N/A		N/A	N/A	20,315
William F. Strome	2008	21,894	N/A	N/A	7,750	N/A	N/A	29,644
	2007		N/A	N/A		N/A	N/A	
	2006		N/A	N/A		N/A	N/A	

(1) Represents the aggregate incremental costs to the Company in 2008 for all perquisites and personal benefits for the listed individuals. Perquisites and personal benefits for 2008 consisted of (i) usage of Company-owned automobiles and related expenses or automobile allowances for each named executive officer, (ii) country and city club membership dues for Messrs. Giangiordano, Wellham, Strome, and Ms. Hickton, (iii) annual tax preparation and advisory services for Messrs. Wellham, Giangiordano, Hull, and Strome, and (iv) annual executive physical examination and diagnostic services at a designated medical facility for Ms. Hickton and Messrs. Giangiordano, Hull, and Wellham. Effective November 1, 2008, the principal perquisite programs that

may be utilized by the named executive officers include tax preparation and annual executive medical exams. Unless a dollar amount is included in this footnote, none of these benefits individually exceeded the greater of $25,000 or 10% of the total amount of these benefits for the listed individuals.

(2) Represents the Company s 401(k) matching contribution for the named executive officer. Mr. Wellham and Mr. Strome are the only named executive officers in the Company s defined contribution 401(k) plan who received a matching contribution.

Grants of Plan-Based Awards Table

	Grant Date	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold	Target	Maximum	Non-Equity Rights (#)	Estimated Future Payouts Under Equity Incentive Plan Awards (1) Threshold	Target	Maximum	All Other Stock Awards: Number of Shares of Stock or Units (2)	All Other Option Awards: Number of Securities Underlying Options (3)	Exercise or Base Price of Option Awards (4)	Closing Price of Stock on Date of Grant
	1/25/2008	1/25/2008					3,750	7,500	15,000				
	1/25/2008	1/25/2008									9,000	$ 51.17	$ 51.74
	1/25/2008	1/25/2008								11,200			
	1/25/2008	1/25/2008					1,550	3,100	6,200				
	1/25/2008	1/25/2008									3,700	51.17	51.74
	1/25/2008	1/25/2008								4,700			
o	1/25/2008	1/25/2008					1,100	2,200	4,400				
	1/25/2008	1/25/2008									3,300	51.17	51.74
	1/25/2008	1/25/2008								3,000			
	1/25/2008	1/25/2008					900	1,800	3,600				
	1/25/2008	1/25/2008									2,600	51.17	51.74
	1/25/2008	1/25/2008								2,400			
	1/25/2008	1/25/2008					900	1,800	3,600				
	1/25/2008	1/25/2008										51.17	51.74
	1/25/2008	1/25/2008											

(1) Represents the number of performance share awards granted in 2008 to the named executive officers. Performance shares awards earn shares of the Company s Common Stock in amounts ranging from 0% to 200% of the target number of shares

based upon the total shareholder return of the Company compared to a designated peer group over a pre-determined performance period.

(2) Represents the number of shares of restricted stock awards granted in 2008 to the named executive officers. These awards vest ratably in five equal annual installments beginning one year after the grant date.

(3) Represents the number of shares underlying stock option awards granted in 2008 to the named executive officers. These awards vest ratably in three equal annual installments beginning one year after the grant date.

(4) Represents the exercise price for the stock options granted, which is determined based on the average of the high and low market prices on the date of grant.

(5) Represents the grant date fair value of the award determined in accordance with SFAS 123(R). The grant date fair value for restricted stock awards is based on the average of the high and low market prices on the date of grant. The grant date fair value for stock option awards is based on the Black-Scholes option pricing model. The actual value, if any, that a named executive officer may realize upon exercise of stock options will depend on the excess of the stock price over the base value on the date of exercise. As such, there is no assurance that the value realized by a named executive officer will be at or near the value estimated by the Black-Scholes model. The fair value of the performance share awards granted was calculated using a Monte Carlo Model which incorporates the market-based performance conditions within the grant. The assumptions used in determining the grant date fair values of these awards are set forth in the Note 13 to the Company s Consolidated Financial Statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC.

The tables above summarize the total compensation paid to or earned by each of named executive officers for the fiscal year ended on December 31, 2008. The narrative below describes current employment agreements and material employment terms with each of our named executive officers, as applicable, and provides additional description with respect to the compensation components set forth in the above tables.

Employment Agreements

The Company entered into amended and restated letter agreements with each named executive officer on December 31, 2008. These amended and restated letter agreements superseded any previous agreements in place between the executives and the Company with respect to their employment.

Except as described below, each of the five letter agreements are identical. In each case the named executive will be employed by the Company for an initial three-year term. Each executive s employment will be automatically extended for additional one year periods until the executive attains age 65 unless either the Company or the executive gives prior notice that the agreement will not be renewed. The Company may terminate an agreement at any time for any reason including cause as defined in the agreement. If an executive s employment is terminated for cause he or she will be entitled to no further compensation except for any base salary accrued and unpaid on the date of termination. If the Company terminates the executive s employment other than for cause and not in connection with a change in control of the Company as defined, the provisions of the Company s Executive Non-Change in Control Severance Policy, as described on page 38 of this proxy statement, will be effective. If the Company terminates the executive s employment other than for cause and in connection with a change in control of the Company as defined, the provisions of the Company s Executive Change in Control Severance Policy, as described on page 37 of this proxy statement, will be effective.

Each executive who is party to a letter agreement has agreed not to do any of the following during the period equal to the longer of 12 months (24 months in the case of Ms. Hickton) after termination of employment or the period during which the executive is receiving any severance benefits: compete with the Company or be involved with any business that has as its principal business the production of titanium; solicit the business of any Company customer, supplier or licensee; or induce or attempt to influence any employee of the Company or its affiliates to terminate his or her employment with the Company or its affiliate.

Under the terms of the letter agreements, each executive officer will be paid the annual salary set forth therein, subject to increases from time to time in the sole discretion of the Company. In addition to base salaries, each executive is eligible to receive bonuses as the Board of Directors of the Company may determine under the Company s Pay Philosophy and Guiding Principles Governing Officer Compensation, which is discussed under *Compensation Discussion and Analysis* on page 18, and will be eligible to participate in the Company s stock incentive plan. Each executive is also entitled to paid vacation and other benefits in accordance with the Company s existing policies and existing and future applicable employee benefit programs including RTI s Supplemental Pension and Excess Benefit plans, as may be amended from time to time. For further information regarding RTI s Supplemental Pension Plan, see page 31 of the proxy statement.

Awards under the 2004 Stock Plan

The Company s 2004 Stock Plan permits the granting of awards, which may be made in a combination of stock (which, under the plan, may be awards of restricted shares, performance shares, phantom stock or non-restricted shares) and stock options. Historically, the Company has utilized a mix of incentive stock options and restricted share awards, with each vesting over time. Stock options are granted at fair market value on the date of grant and vest ratably over three years. Restricted share awards are also granted by the Company, and vest ratably over five years. See page 39 of the proxy statement for additional information regarding awards issued under the Company s 2004 Stock Plan.

Incentive Bonus Awards

Consistent with the Company s Pay Philosophy, annual bonuses for target performance against short-term objectives and/or other strategic milestones or operational goals are established near the median of that for similar positions at appropriate comparator companies. The Compensation Committee has discretion to pay or not pay a bonus to a particular officer, based on his individual performance, regardless of the level of corporate performance. See page 18 of this proxy statement under *Compensation Discussion and Analysis* for additional information regarding the Company s payment of bonus awards.

Perquisites and Other Compensation

Certain perquisites are provided to our named executive officers that the Company believes are competitive with other similar companies and consistent with the Company s compensation philosophy, as discussed under *Compensation Discussion and Analysis* . Through October 2008, the principal perquisite programs that were available to the named executive officers include tax preparation and financial planning advice, use of a Company automobile or automobile allowance, business-related club memberships, and annual executive medical exams. Effective November 1, 2008, the Board moved to eliminate automobile-related perquisites and most club memberships. With the exception of Ms. Hickton, the base salary of each executive officer was increased through a one-time adjustment to reflect the elimination of such perquisites. Ms. Hickton s base salary was adjusted to reflect the elimination of her automobile allowance and she maintained her business-related club memberships, which are used by the Company as a whole.

The Company currently also has in place a 401(k) defined contribution plan in which the Company contributes 50% of the first 8% of an executive s base salary and bonus contributed by the executive, subject to applicable Internal Revenue Code limits, for those named executive officers that do not participate in the defined benefit pension plan, which is discussed below. Mr. Wellham and Mr. Strome are the only named executive officers for whom the Company is making matching contributions. Other named executive officers may participate in the 401(k) plan up to applicable Internal Revenue Code limits but the Company does not match their contributions.

Post-Employment Compensatory Arrangements

The Company currently has in place a Pension Plan for Eligible Salaried Employees, a Supplemental Pension Program and an Excess Pension Plan that may be utilized by some or all of the named executive officers. The Company s pension plan is a qualified defined benefit plan that covers each of the Company s current named executive officers except for Mr. Wellham and Mr. Strome. The benefits are based on a formula which includes a percentage of the participant s average monthly base salary multiplied by the number of continuous years of service. The named executive officers also participate

28

Table of Contents

in the supplemental pension program, a non-qualified defined benefit plan, which entitles the executive to specified annual benefits based upon average annual bonuses and years of service if they retire after age 60 or prior to age 60 with 30 years of service with RTI s consent. The Company also maintains the RTI International Metals, Inc. Excess Benefits Plan for certain highly-compensated employees, which is an unfunded excess benefit plan , and provides additional retirement income in an amount equal to the difference between benefits that would have been received under the Pension Plan but for certain tax limitations imposed by the Internal Revenue Code and amounts actually payable under the Pension Plan. See *Retirement Benefits* on page 30 of the proxy statement for additional detail regarding the Company s pension plans.

Outstanding Equity Awards at Fiscal Year End Table

The following table provides information on the current holdings of stock option, restricted stock, and performance share awards by the named executive officers. This table includes vested and unvested option awards as well as unvested restricted stock awards. Each equity grant is shown separately for each named executive officer.

		Option Awards					Stock Awards			
Name	Grant Date of Award	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)(2)	Market Value of Shares of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#)(4)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)
Dawne S. Hickton										
	1/25/2008		9,000		$ 51.17	1/25/18	11,200	$ 160,272	3,750	$ 53,663
	1/26/2007	1,666	3,334		76.85	1/26/17	5,824	83,341		
	1/27/2006	4,666	2,334		45.09	1/27/16	4,050	57,956		
	1/28/2005	8,000			21.50	1/28/15	2,250	32,198		
	1/30/2004	5,335			14.96	1/30/14	750	10,733		

1/31/2003	6,000		10.22	1/31/13				
Michael C. Wellham								
1/25/2008		3,700	51.17	1/25/18	4,700	67,257	1,550	22,181
1/26/2007	1,166	2,334	76.85	1/26/17	2,992	42,816		
1/27/2006	1,666	834	45.09	1/27/16	550	7,871		
1/28/2005	837		21.50	1/28/15	525	7,513		
1/30/2004			14.96	1/30/14	300	4,293		
Stephen R. Giangiordano								
1/25/2008		3,300	51.17	1/25/18	3,000	42,930	1,100	15,741
1/26/2007	1,166	2,334	76.85	1/26/17	3,077	44,032		
1/27/2006	2,666	1,334	45.09	1/27/16	907	12,979		
1/28/2005	4,000		21.50	1/28/15	612	8,758		
1/30/2004	4,000		14.96	1/30/14	262	3,749		
1/31/2003	8,000		10.22	1/31/13				
William T. Hull								
1/25/2008		2,600	51.17	1/25/18	2,400	34,344	900	12,879
1/26/2007	1,166	2,334	76.85	1/26/17	3,088	44,189		
1/27/2006	2,666	1,334	45.09	1/27/16	2,040	29,192		
8/1/2005	10,000		34.90	8/1/15				
Willam F. Strome								
1/25/2008							900	12,879
11/19/2007	3,333	6,667	68.10	11/19/17	2,000	28,620		

(1) These stock option awards vest ratably in three equal annual installments beginning one year after the grant date.

(2) Represents time-based restricted stock awards that vest in five equal annual installments beginning one year after the grant date, except for Mr. Strome s 2007 award, which vests in 3 equal annual installments.

(3) The market value of restricted stock awards and performance share awards is based on the closing market price of RTI stock as of December 31, 2008, which was $14.31.

(4) Represents the number of shares of common stock payable under performance share awards based on achieving threshold performance goals.

Option Exercises and Stock Vested During 2008

The following table provides information for the named executive officers on (1) stock option exercises during 2008, including the number of shares acquired upon exercise and the value realized and (2) the number of shares acquired upon the vesting of restricted stock awards and the value realized, before payment of any applicable withholding tax and broker commissions.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized Upon Exercise ($)(1)	Number of Shares Acquired Upon Vesting	Value Realized Upon Vesting ($)
Dawne S. Hickton		$	6,626	$ 343,927
Michael C. Wellham			1,833	95,080
Stephen R. Giangiordano			2,112	109,209
William T. Hull			2,572	107,619
William F. Strome			1,000	9,500

(1) Value realized represents the excess of the fair market value of the shares at the time of exercise over the exercise price of the options.

Retirement Benefits

Pension Benefits Table

The following table sets forth information with respect to each plan that provides for payments or other benefits at, following, or in connection with retirement.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefits ($)(1)	Payments During Last Fiscal Year ($)
Dawne S. Hickton	Pension Plan	11	167,404	
	Supplemental Pension Program	11	220,372	
	Excess Benefits Plan	11	78,959	
Michael C. Wellham	Supplemental Pension Program	13	85,001	
Stephen R. Giangiordano	Pension Plan	25	479,066	
	Supplemental Pension Program	25	321,909	
	Excess Benefits Plan	25	35,705	

William T. Hull	Pension Plan	3	45,345
	Supplemental Pension Program	3	23,324
	Excess Benefits Plan	3	3,566
William F. Strome	Supplemental Pension Program	1	1,601

(1) The present value has been calculated assuming the earliest time at which the named executive officer may retire without any benefit reduction. The remaining assumptions used are consistent with the assumptions as described in the Company s Consolidated Financial Statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC. As described in the financial statements, the discount rate assumption is 6.70%.

The following narrative describes each plan set forth in the above table.

Pension Plan

RTI s Pension Plan for Eligible Salaried Employees (the Pension Plan) is a tax-qualified defined benefit plan which first became effective at Reactive Metals, Inc. (a predecessor of RTI International Metals, Inc.) in 1964. The Pension Plan recognizes, for pension benefits, services and compensation with RTI, RMI Titanium Company, RMI Company, Reactive Metals, Inc., United States Steel Corporation, USX Corporation, Quantum Chemical Corporation, or subsidiaries of each. The amounts payable under the Pension Plan will be paid monthly after a participant retires. The benefits are based on a formula which provides, under normal retirement, amounts equal to 1.25% of the average monthly earnings multiplied by continuous years of service up to and including 30 years; plus 1.35% of the average monthly earnings multiplied by continuous years of service in excess of 30 years average annual eligible earnings in the five consecutive years in the ten years prior to retirement in which such earnings are highest. Eligible earnings include only base salary. Incentive awards and similar benefits are excluded, although the amount of such benefits is included in the Summary Compensation Table. Benefits payable under the Pension Plan, and amounts reflected in the tables below, are subject to offsets for certain pensions payable under the U.S. Steel and the Quantum pension plans. Effective January 1, 2006 the Plan was closed to new participants. In order to comply with the limitations of the Internal Revenue Code, when pension payments exceed the amounts permitted to be paid from federal income tax qualified plan, the excess pension benefits will be paid directly by RTI under the Excess Benefits Plan.

Excess Benefits Plan

The Internal Revenue Code imposes limits on the amount of annual eligible compensation under tax-qualified pension plans. For 2008, annual compensation in excess of $230,000 cannot be taken into account in determining qualified plan benefits. The Company maintains the RTI International Metals, Inc. Excess Benefits Plan (the Excess Benefits Plan) for certain highly-compensated employees who participate in RTI s tax-qualified pension plans and would otherwise be limited by such tax limits. The Excess Benefits Plan is an unfunded excess benefit plan within the meaning of Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended. It provides additional retirement income in an amount equal to the difference between benefits that would have been received under the Pension Plan but for the limitations imposed by the Internal Revenue Code and amounts actually payable under the Pension Plan. Participants must be designated by the Board of Directors; at this time only Ms. Hickton, Mr. Giangiordano, and Mr. Hull have been so designated.

Supplemental Pension Program

Officers participating in the Company s annual incentive compensation programs (i.e., annual bonuses) are also eligible for the RTI Supplemental Pension Program. If they retire or otherwise terminate employment after age 60, or prior to age 60 with a minimum of 30 years service and with RTI consent, they will be entitled to receive the benefits shown in the table below based on bonuses paid as annual incentive compensation under the Pay Philosophy and Guiding Principles.

As of December 31, 2008, Ms. Hickton had 11 credited years of service, Mr. Wellham had 13 years of service, Mr. Giangiordano had 25 years of service, Mr. Hull had 3 years of credited service, and Mr. Strome had 1 year of credited service. Average annual bonuses as of December 31, 2008, for purposes of the pension benefits under the RTI Supplemental Pension Program for each of the following named executive officers are as follows: Ms. Hickton, $230,800; Mr. Wellham, $112,000; Mr. Giangiordano, $103,000; Mr. Hull, $93,600; and Mr. Strome, $20,800.

The benefits shown above are based on a formula whereby the average annual bonuses for the highest five years in the preceding ten year period are multiplied by a factor. The factor is determined by multiplying 1.5% for each year of continuous service. The Supplemental Pension is paid as a lump sum distribution based on the present value of the amounts payable. The plan provides for surviving spouse benefits at a reduced rate under certain conditions described in the Plan.

Potential Payments Upon Termination or Change in Control

The tables below reflect the estimated amount of compensation to be paid, and/or benefits to be provided, to each of the named executive officers, in the event of termination of such executive s employment as of December 31, 2008 under the different scenarios captioned in the tables. Actual amounts are tied to the day of termination and can only be finally determined following such date. The following tables should be read in conjunction with the narrative following the tables, as well as the table and narrative related to retirement benefits on page 30 of this proxy statement.

The following tables include payments under the Company s 401(k) Savings Plan. The Savings Plan payments estimated for Ms. Hickton, Mr. Hull and Mr. Giangiordano consist solely of employee

Table of Contents

(Potential Payments Upon Termination or Change in Control Continued)

contributions as these executives have not received any matching contributions by the Company. Mr. Wellham and Mr. Strome do receive a match of 50% of their first 8% contribution to the Plan and they are not participants in the Pension Plan. Finally, as estimates for any potential excise tax imposed by Section 4999 of the Internal Revenue Code are tied to an executive s recent historical compensation, which can vary for events beyond the control of the Company (such as exercises of stock options or other transactions in Company securities), the estimates for 2008 may not be indicative of actual payments in future periods.

Dawne S. Hickton

Component	For Cause Termination	Voluntary Termination	Death	Disability (3)	Retirement	Involuntary Not For Cause Termination	Involuntary Not For Cause or Employee for Good Reason Termination (Change-In-Control)
Severance & Short-Term Compensation							
Bonus Earned In Year of Termination	$	$ 294,000	$ 294,000	$ 294,000	$ 294,000	$	$ 294,000
Cash Severance & Short-Term Incentive			134,250	134,250		1,074,000	2,251,289
Long-Term Incentive							
Stock Options (Unexercisable)							
Time-Based Restricted Stock							344,499
Performance-Based Restricted Stock				53,663	53,663		107,325
Other Benefits							
Savings Plan	114,823	114,823	114,823	114,823	114,823	114,823	114,823
Pension Plan (1)	29,045	29,045	4,189	29,045	29,045	29,045	29,045
Supplemental Pension Program (2)							
Excess Benefits Plan (2)		84,189	29,944	14,364	84,189	84,189	84,189
Change-In-Control Retirement Benefit Enhancement	N/A	N/A	N/A	N/A	N/A	N/A	57,524
						25,842	32,303

Health & Welfare Benefits Life, LTD, Supplemental LTD and Insurance						15,246	19,058
Excise Tax and Related Gross-Up	N/A	N/A	N/A	N/A	N/A	N/A	
Total	$ 143,868	$ 522,057	$ 577,206	$ 640,145	$ 575,720	$ 1,343,145	$ 3,334,055

(1) All benefits shown are annual benefits based on a 50% joint and survivor form of payment. The death benefit is an annual benefit that would be payable immediately to the spouse as a life annuity.

(2) For payments other than disability, amounts are based upon a lump sum form of payment payable immediately. For disability, the benefit shown is the annual accrued benefit that would not be payable until age 65 based on years of service at termination date.

(3) Participants retiring on Disability Retirement (with at least 15 years of continuous service) under Section 5.03(e) of the Pension Plan for Eligible Salaried Employees would continue to accrue service until age 65 while receiving benefits under the Company s long-term disability insurance. The benefit shown is the annual accrued benefit that would be payable as a lump sum at age 65.

Table of Contents

(Potential Payments Upon Termination or Change in Control Continued)

Michael C. Wellham

Component	For Cause Termination	Voluntary Termination	Death	Disability (3)	Retirement	Involuntary Not For Cause Termination	Involuntary Not For Cause or Employee for Good Reason Termination (Change-In-Control)
Severance & Short-Term Compensation							
Bonus Earned In Year of Termination	$	$ 160,000	$ 160,000	$ 160,000	$ 160,000	$	$ 160,000
Cash Severance & Short-Term Incentive			99,209	99,209		595,254	1,304,171
Long-Term Incentive							
Stock Options (Unexercisable)							
Time-Based Restricted Stock							129,749
Performance-Based Restricted Stock				22,181	22,181		44,361
Other Benefits							
Savings Plan	153,975	153,975	153,975	153,975	153,975	153,975	153,975
Pension Plan (1)							
Supplemental Pension Program (2)							
Excess Benefits Plan (2)							
Change-In-Control Retirement Benefit Enhancement	N/A	N/A	N/A	N/A	N/A	N/A	
Health & Welfare Benefits						19,382	25,842
Life, LTD, Supplemental LTD and Insurance						3,732	4,976
Excise Tax and Related Gross-Up	N/A	N/A	N/A	N/A	N/A	N/A	659,704

Total	$ 153,975	$ 313,975	$ 413,184	$ 435,365	$ 336,156	$ 772,343	$ 2,482,778

(1) All benefits shown are annual benefits based on a 50% joint and survivor form of payment. The death benefit is an annual benefit that would be payable immediately to the spouse as a life annuity.

(2) For payments other than disability, amounts are based upon a lump sum form of payment payable immediately. For disability, the benefit shown is the annual accrued benefit that would not be payable until age 65 based on years of service at termination date.

(3) Participants retiring on Disability Retirement (with at least 15 years of continuous service) under Section 5.03(e) of the Pension Plan for Eligible Salaried Employees would continue to accrue service until age 65 while receiving benefits under the Company s long-term disability insurance. The benefit shown is the annual accrued benefit that would be payable as a lump sum at age 65.

Table of Contents

(Potential Payments Upon Termination or Change in Control Continued)

Stephen R. Giangiordano

Component	For Cause Termination	Voluntary Termination	Death	Disability (3)	Retirement	Involuntary Not For Cause Termination	Involuntary Not For Cause or Employee for Good Reason Termination (Change-In-Control)
Severance & Short-Term Compensation							
Bonus Earned In Year of Termination	$	$ 105,000	$ 105,000	$ 105,000	$ 105,000	$	$ 105,000
Cash Severance & Short-Term Incentive			79,068	79,068		316,272	1,047,238
Long-Term Incentive							
Stock Options (Unexercisable)							
Time-Based Restricted Stock							112,447
Performance-Based Restricted Stock				15,741	15,741		31,482
Other Benefits							
Savings Plan	321,097	321,097	321,097	321,097	321,097	321,097	321,097
Pension Plan (1)	53,689	53,689	26,845	53,689	53,689	53,689	53,689
Supplemental Pension Program (2)			302,310	38,501			
Excess Benefits Plan (2)		25,891	33,531	4,270	25,891	25,891	25,891
Change-In-Control Retirement Benefit Enhancement	N/A	N/A	N/A	N/A	N/A	N/A	29,900
Health & Welfare Benefits						12,941	25,842
Life, LTD, Supplemental LTD and Insurance						2,463	4,926
Excise Tax and Related Gross-Up	N/A	N/A	N/A	N/A	N/A	N/A	

Total	$ 374,786	$ 505,677	$ 867,851	$ 617,366	$ 521,418	$ 732,353	$ 1,757,512

(1) All benefits shown are annual benefits based on a 50% joint and survivor form of payment. The death benefit is an annual benefit that would be payable immediately to the spouse as a life annuity.

(2) For payments other than disability, amounts are based upon a lump sum form of payment payable immediately. For disability, the benefit shown is the annual accrued benefit that would not be payable until age 65 based on years of service at termination date.

(3) Participants retiring on Disability Retirement (with at least 15 years of continuous service) under Section 5.03(e) of the Pension Plan for Eligible Salaried Employees would continue to accrue service until age 65 while receiving benefits under the Company s long-term disability insurance. The benefit shown is the annual accrued benefit that would be payable as a lump sum at age 65.

Table of Contents

(Potential Payments Upon Termination or Change in Control Continued)

William T. Hull

Component	For Cause Termination	Voluntary Termination	Death	Disability (3)	Retirement	Involuntary Not For Cause Termination	Involuntary Not For Cause or Employee for Good Reason Termination (Change-In-Control)
Severance & Short-Term Compensation							
Bonus Earned In Year of Termination	$	$ 103,000	$ 103,000	$ 103,000	$ 103,000	$	$ 103,000
Cash Severance & Short-Term Incentive			71,750	71,750		287,000	865,086
Long-Term Incentive							
Stock Options (Unexercisable)							
Time-Based Restricted Stock							107,726
Performance-Based Restricted Stock				12,879	12,879		25,758
Other Benefits							
Savings Plan	59,925	59,925	59,925	59,925	59,925	59,925	59,925
Pension Plan (1)							
Supplemental Pension Program (2)							
Excess Benefits Plan (2)							
Change-In-Control Retirement Benefit Enhancement	N/A	N/A	N/A	N/A	N/A	N/A	93,160
Health & Welfare Benefits						12,941	25,842
Life, LTD, Supplemental LTD and Insurance						2,448	4,896
	N/A	N/A	N/A	N/A	N/A	N/A	

Excise Tax and Related Gross-Up							
Total	$ 59,925	$ 162,925	$ 234,675	$ 247,554	$ 175,804	$ 362,314	$ 1,285,393

(1) All benefits shown are annual benefits based on a 50% joint and survivor form of payment. The death benefit is an annual benefit that would be payable immediately to the spouse as a life annuity.

(2) For payments other than disability, amounts are based upon a lump sum form of payment payable immediately. For disability, the benefit shown is the annual accrued benefit that would not be payable until age 65 based on years of service at termination date.

(3) Participants retiring on Disability Retirement (with at least 15 years of continuous service) under Section 5.03(e) of the Pension Plan for Eligible Salaried Employees would continue to accrue service until age 65 while receiving benefits under the Company s long-term disability insurance. The benefit shown is the annual accrued benefit that would be payable as a lump sum at age 65.

Table of Contents

(Potential Payments Upon Termination or Change in Control Continued)

William F. Strome

Component	For Cause Termination	Voluntary Termination	Death	Disability (3)	Retirement	Involuntary Not For Cause Termination	Involuntary Not For Cause or Employee for Good Reason Termination (Change-In-Control)
Severance & Short-Term Compensation							
Bonus Earned In Year of Termination	$	$ 104,000	$ 104,000	$ 104,000	$ 104,000	$	$ 104,000
Cash Severance & Short-Term Incentive			70,165	70,165		280,659	721,795
Long-Term Incentive							
Stock Options (Unexercisable)							
Time-Based Restricted Stock							28,620
Performance-Based Restricted Stock				12,879	12,879		25,758
Other Benefits							
Savings Plan	22,474	22,474	22,474	22,474	22,474	22,474	22,474
Pension Plan (1)							
Supplemental Pension Program (2)							
Excess Benefits Plan (2)							
Change-In-Control Retirement Benefit Enhancement	N/A	N/A	N/A	N/A	N/A	N/A	
Health & Welfare Benefits						12,921	25,842
Life, LTD, Supplemental LTD and Insurance						2,488	4,976
	N/A	N/A	N/A	N/A	N/A	N/A	

Excise Tax and Related Gross-Up							
Total	$ 22,474	$ 126,474	$ 196,639	$ 209,518	$ 139,353	$ 318,542	$ 933,465

(1) All benefits shown are annual benefits based on a 50% joint and survivor form of payment. The death benefit is an annual benefit that would be payable immediately to the spouse as a life annuity.

(2) For payments other than disability, amounts are based upon a lump sum form of payment payable immediately. For disability, the benefit shown is the annual accrued benefit that would not be payable until age 65 based on years of service at termination date.

(3) Participants retiring on Disability Retirement (with at least 15 years of continuous service) under Section 5.03(e) of the Pension Plan for Eligible Salaried Employees would continue to accrue service until age 65 while receiving benefits under the Company s long-term disability insurance. The benefit shown is the annual accrued benefit that would be payable as a lump sum at age 65.

Letter Agreements

Each of the letter agreements currently in place for Ms. Hickton and Messrs. Wellham, Giangiordano, Hull, and Strome provide that if the executive is terminated for cause , regardless of whether there is a change in control, he or she will be entitled to no further compensation except for any base salary accrued and unpaid on the date of termination. If the Company terminates the executive s employment other than for cause, the provisions of the Executive Severance Policies described below will be effective. Cause is defined in the letter agreements as (i) any material breach by the Executive of their Letter Agreement, (ii) the Executive s gross misconduct, (iii) the Executive s gross neglect of their duties with the Company, insubordination or failure to follow the lawful directives of the Board of Directors of the Company, in each case after a demand for substantial performance is delivered to the Executive that identifies the manner in which the Company believes that Executive has not acted in accordance with requirements and the Executive has failed to resume substantial performance of their

Table of Contents

duties within fourteen (14) days of receiving such demand, (iv) the Executive s commission, indictment, conviction, guilty plea, or plea of *nolo contendre* to or of any felony, a misdemeanor which substantially impairs the Executive s ability to perform his or her duties with the Company, act of moral turpitude, or intentional or willful securities law violation including Sarbanes-Oxley law violations, (v) the Executive s act of theft or dishonesty which is injurious to the Company, or (vi) the Executive s violation of any Company policy, including any substance abuse policy.

Executive Change in Control Severance Policy

The Executive Change in Control Severance Policy (the Change in Control Policy) that the Board of Directors adopted is applicable to each of Ms. Hickton, Mr. Wellham, Mr. Giangiordano, Mr. Hull, and Mr. Strome. It will also be applicable to any successor to these individuals should any of them leave the position they each hold pursuant to their letter agreement and to any other executive officer who is informed in writing by the Company of participation.

The Change in Control Policy provides that if the employment of an executive to whom the policy is applicable is terminated by the Company other than for cause (as defined below), death or disability, or if the executive s employment is terminated by the executive for good reason (as defined below) in each case within 24 months following a change in control of the Company, the executive will receive the following severance benefits:

Provided the executive does not violate his or her duty to maintain strict confidence and does not disclose any confidential information or disseminate any false and/or defamatory information pertaining to the Company or its stockholders, a lump sum payment payable on the first day following the six month anniversary of the executive s termination of employment equal to a multiple of the sum of the executive s base salary in effect immediately prior to the circumstances giving rise to the termination and the executive s annual bonus as calculated under the terms of the Change in Control Policy. The multiple is 2.5 for the Chief Executive Officer and 2.0 for all other executives,

The immediate and irrevocable vesting of any previously granted but unvested stock options and restricted stock grants,

The immediate vesting of any outstanding performance shares or other performance-based awards representing a right to receive shares of common stock or their equivalent,

Subject to limitations and caps specified in the Change in Control Policy, a payment payable on the first day following the six month anniversary of the executive s termination of employment equal to an amount, if any, necessary to gross-up the total benefits payable to the executive under the Change in Control Policy for any excise tax imposed by Section 4999 of the Internal Revenue Code and for any income or other taxes due on the payment of the gross-up payment,

Continuation for up to 24 months (30 months in the case of the CEO) (the Payment Period) of life, disability, accident and health insurance benefits similar to those the executive was receiving immediately prior to the termination of employment but subject to reduction to the extent that the executive receives comparable benefits from other employment during such period, and

An amount equal to the difference in the amount of pension benefits that the executive would have received assuming he or she had continued to be employed through the Payment Period and assuming the methods of calculations set forth in the Change of Control Policy, and the pension benefits actually payable as of the executive s termination of employment, in each case under RTI s Pension Plan and the RTI Supplemental Pension Plan.

The definition of a change in control provides, in summary, that a change in control will have occurred if:

- Any person not affiliated with RTI acquires 30 percent or more of the voting power of our outstanding securities,

Table of Contents

The board of directors no longer has a majority made up of (1) individuals who were directors on February 22, 2007 and (2) new directors (other than directors who join the Board in connection with an election contest) approved by two-thirds of the directors then in office who (a) were directors on February 22, 2007 or (b) were themselves previously approved by the Board in this manner,

RTI merges with another company and RTI s shareholders end up with less than 60 percent of the voting power of the new entity,

The RTI shareholders approve a plan of complete liquidation of RTI; or

RTI sells all or substantially all of RTI s assets.

The definition of cause under the policy mirrors the definition set forth on page 36 of this proxy statement.

Good reason is defined under the policy as, without the Executive s express written consent, the occurrence after a Change in Control of the Company of any one or more of the following: (A) The assignment of duties inconsistent with the Executive s position immediately prior to the Change in Control; (B) A material reduction or alteration in the nature of Executive s position, duties, status or responsibilities from those in effect immediately prior to the Change in Control; (C) failure by the Company to continue any of the Company s employee benefit programs or practices in which Executive participates (or substantially equivalent successors to such programs or practices) or failure to continue Executive s participation on substantially the same basis as existed immediately prior to the Change in Control; (D) The failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform Executive s letter agreement; (E) Any purported termination of Executive s employment not effected pursuant to the Executive s letter agreement; or (F) requiring Executive to be based at a location in excess of fifty (50) miles from the location where Executive is based immediately prior to the Change in Control.

Executive Non-Change in Control Severance Policy

The Executive Non-Change in Control Severance Policy (the Non-Change in Control Policy) that the board of directors adopted is applicable to the same executives and on the same dates as the Change in Control Policy. It provides that if the employment of an executive to whom the policy is applicable is terminated prior to the expiration of the employment period specified in the executive s letter agreement by the Company other than for cause (using the definition set forth on page 38 of this proxy statement), death or disability, by the executive within 90 days of a material breach by the Company of the executive s letter agreement, or by the executive due to the reduction in the executive s base salary without the consent of the executive, the executive will receive the following severance benefits:

Monthly payments in the amount of a multiple of the executive s monthly base salary in effect immediately prior to the termination of employment for up to 24 months in the case of the Chief Executive Officer, 18 months in the case of the Chief Operating Officer, and 12 months for the other applicable executives. In each case, such payments are subject to reduction to the extent that the executive receives comparable compensation from other employment during such period. The multiple is 2.0 for the Chief Executive Officer, 1.5 for the Chief Operating Officer and 1.0 for the other applicable executives. No monthly payments will be made until the first day following the six month anniversary of the executive s separation from service on which date the first seven monthly installments shall be paid with successive monthly installments paid on the monthly anniversaries thereafter; and

Continuation for up to 24 months for the Chief Executive Officer, 18 months for the Chief Operating Officer and 12 months for the other applicable executives, of life, disability, accident and health insurance benefits similar to those the executive was receiving immediately prior to the termination of employment but subject to reduction to the extent that the executive receives comparable benefits from other employment during such period.

Table of Contents

If an executive is entitled to payments or benefits under the Change in Control Policy then the executive shall not be entitled to payments or benefits under the Non-Change in Control Policy. If the Company elects not to extend the employment period of an executive s letter agreement such that the employment period terminates, the non-extension shall not be treated for purposes of the Non-Change in Control Policy as an involuntary termination by the Company that would entitle the executive to benefits under such policy.

2004 Stock Plan

Under the Company s 2004 Stock Plan, any unvested restricted stock awards or stock options automatically terminate in the event that the executive is terminated for cause, is terminated without cause, voluntarily terminates employment or becomes permanently disabled, and any vested but unexercised stock options are immediately forfeited. In the event that an executive retires (which is deemed to occur only under conditions which entitle the executive to an immediately receivable pension and not a deferred vested pension) or dies, stock options may continue to be exercised for three years following retirement or death; provided, however, that the Compensation Committee may cause the immediate forfeiture of unvested shares where an executive retires before the age of 65 or after the executive retires at any age if the Committee deems such forfeiture to be in the best interests of the Company.

Director Compensation Table

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)(2)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)	Grant Date Fair Value of 2008 Awards ($)(4)
Craig R. Andersson	$ 62,000	$ 59,987	$	$	$	$	$ 121,987	$ 60,000
Daniel I. Booker	69,500	59,987					129,487	60,000
Donald P. Fusilli, Jr.	61,000	59,987					120,987	60,000
Ronald L. Gallatin	62,000	59,987					121,987	60,000
Charles C. Gedeon	62,000	59,987					121,987	60,000
Robert M. Hernandez	92,000	89,981					181,981	90,000
Edith E. Holiday	69,500	59,987					129,487	60,000
Bryan T. Moss	37,000	31,500					68,500	49,500
James A. Williams	82,000	59,987					141,987	60,000

(1) Represents the proportionate amount of the total fair value of stock awards recognized by the Company as an expense in 2008 for financial accounting purposes. The fair values of these awards and the amounts expensed in

2008 were determined in accordance with SFAS 123(R). The assumptions used in determining the grant date fair values of these awards are set forth in the Note 13 to the Company s Consolidated Financial Statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC.

(2) As of December 31, 2008, each non-employee director had the following aggregate number of common share ownership: Craig R. Andersson: 29,658; Daniel I. Booker: 22,406; Donald P. Fusilli: 7,651; Ronald L. Gallatin: 80,000; Charles C. Gedeon: 15,203; Robert M. Hernandez: 59,268; Edith E. Holiday: 12,983; Bryan T. Moss: 1,160 ;James A. Williams: 5,845.

(3) As of December 31, 2008, each non-employee director had the following aggregate number of vested options outstanding: Craig R. Andersson: 6,000.

(4) Represents the grant date fair value of awards granted to each non-employee director during 2008.

RTI employees receive no extra pay for serving as a director. For 2008, non-employee directors (except for the Chairman) received an annual retainer for their service on the Board of $120,000 and Mr. Hernandez received an annual retainer of $180,000 as non-employee Chairman of the Board. One-half of these retainers are paid in cash and one-half through awards of restricted stock under the 2004 Stock Plan. In addition, the Audit Committee Chairperson received an annual cash retainer of $20,000, the Nominating/Corporate Governance Committee Chairperson and Compensation Committee Chairperson each received an annual cash retainer of $7,500. No fees are paid for Board or committee meetings attended except that if, in the opinion of the Chairman of the Board, circumstances require that an extraordinary number of Board meetings be held, non-employee directors will

Table of Contents

receive a meeting fee of $1,000 for attending such meetings. Two such meetings occurred during 2008.

Director Stock Ownership. The Board of Directors has adopted a policy that each non-employee director is expected to own, at a minimum, shares of common stock equal to three times their annual retainer.

TRANSACTIONS WITH RELATED PARTIES

We are aware of no transactions with the Company involving over $120,000 since the beginning of 2008 in which any of our directors, executive officers, five percent shareholders, or certain of their relatives (related parties) had or will have a direct or indirect material interest. We recognize that transactions between the Company and its related parties can present potential or actual conflicts of interest and may create the appearance that decisions may not be based on considerations in the best interests of the Company. As a general matter, and in accordance with the Company s Code of Ethical Business Conduct and its Conflicts of Interest Policy (both of which are available on our website at www.rtiintl.com), the Company s preference is to avoid such transactions. Nevertheless, we recognize that there are situations where such transactions may be in, or may not be inconsistent with, the best interests of RTI. We monitor the potential for such transactions and ask our directors and executive officers to confirm, at least annually, that they are not aware of any related-party transactions. In the event that recent transactions are entered into or potential transactions are being contemplated, it is our unwritten policy to discuss the merits of such transactions with the disinterested members of the Board of Directors and seek ratification or approval for any such transaction.

OTHER INFORMATION

Other business at the Annual Meeting

We do not expect any business to come up for shareholder vote at the meeting other than the items described in the Notice of Annual Meeting. If other business is properly raised, your proxy card authorizes the people named as proxies to vote as they think best.

Outstanding shares

On March 1, 2009, 23,087,394 shares were outstanding. Restricted stock awards, whether vested or unvested, are included in shares outstanding.

How we solicit proxies

In addition to this mailing, RTI employees may solicit proxies personally, electronically or by telephone. RTI pays the costs of soliciting this proxy. We also reimburse brokers and other nominees for sending these materials to you and getting your voting instructions.

Shareholder proposals

The deadline for the submission of shareholder proposals that are intended to be considered for inclusion in the Company s proxy statement for next year s meeting is November 13, 2009. Additionally, the Board-appointed proxies will have discretionary authority to vote on any proposals presented by shareholders at the annual meeting from the floor unless notice of the intent to make such proposal is received on or before January 27, 2010.

Shareholders wishing to recommend candidates in writing to serve as directors for the consideration of the Nominating/Corporate Governance Committee should send such recommendations in writing to the corporate Secretary, RTI International Metals, Inc., Westpointe Corporate Center One, 1550 Coraopolis Heights Road, Pittsburgh, PA 15108-2973.

Shareholder and other interested party communications

Shareholders and any other interested parties, who wish to communicate with the Chairman, one or more of the other non-management directors, or the non-management directors as a group should mark the communication Personal and Confidential and address it to the Chairman, RTI International Metals Inc., Westpointe Corporate Center One, 1550 Coraopolis Heights Road, Pittsburgh, PA 15108-2973.

Board Attendance at Annual Meeting

RTI Board members are expected to attend RTI s Annual Meetings of Shareholders. All of the candidates for election at the 2008 Annual Meeting attended such meeting.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee currently consists of Messrs. Andersson, Booker, Gedeon and Moss and Ms. Holiday. None of the current members of the Committee has ever been an officer or employee of ours or any of our subsidiaries. None of our executive officers serve or have served as a member of the board of directors, compensation committee or other board committee performing equivalent functions of any entity that has one or more executive officers serving as one of our directors or on our Compensation Committee.

Section 16(a) Beneficial Ownership Reporting Compliance

Officers and Directors of RTI are required by Section 16(a) of the Securities Exchange Act of 1934 to report certain transactions in the Company s securities, typically within two business days of the

Table of Contents

transaction. Based upon a review of filings with the Securities Exchange Commission, written representations that no other reports were required, and on RTI s records, the Company believes that all such reports were timely filed for transactions that occurred in 2008.

Available Information

Copies of RTI s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and this proxy statement, as filed with the Securities Exchange Commission, are available to shareholders. A shareholder may obtain a copy of the Form 10-K or this proxy statement free of charge on RTI s website (www.rtiintl.com), on the Securities Exchange Commission s website (www.sec.gov) or by sending a written request to the corporate Secretary, RTI International Metals, Inc., Westpointe Corporate Center One, 1550 Coraopolis Heights Road, Pittsburgh, PA 15108-2973. Such requests may also be made by sending an email to request@rtiintl.com or by calling 1-800-869-6304. For written requests, a copy of the Form 10-K and proxy statement will be furnished free of charge. Copies of any requested exhibits thereto will be furnished upon payment of a reasonable charge limited to RTI s costs of providing such copies.

By Order of the Board of Directors

Chad Whalen
Secretary

Dated: March 13, 2009

Annex A

RTI INTERNATIONAL METALS, INC.
EMPLOYEE STOCK PURCHASE PLAN

There is hereby established the Employee Stock Purchase Plan of RTI International Metals, Inc.

1. *Purpose*. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. This Plan document is an omnibus document which may include, in addition to the Plan, separate sub-plans (Non-Statutory Plans) that permit offerings of grants to employees of certain Designated Subsidiaries. Offerings under the Non-Statutory Plans may be made to achieve desired tax or other objectives in particular locations outside the United States of America or to comply with local laws applicable to offerings in such foreign jurisdictions. The total number of shares of Common Stock authorized to be issued under the Plan applies in the aggregate to both the Plan and the Non-Statutory Plans, subject to adjustments as permitted under Section 19. The Administrator shall determine from time to time the method for allocating the number of such total Shares to be offered under the Plan and any Non-Statutory Plan.

2. *Definitions*.

(a) *Administrator* shall mean the Board of Directors of the Company, any committee of the Board that may be appointed by the Board of Directors or a third party authorized by the Board of Directors, with such authority and power as the Board of Directors may determine, to administer the Plan.

(b) *Code* shall mean the Internal Revenue Code of 1986, as amended.

(c) *Common Stock* shall mean the common stock of the Company.

(d) *Company* shall mean RTI International Metals, Inc. and any Designated Subsidiary of the Company.

(e) *Compensation* shall mean total gross earnings, including overtime, bonuses, commissions, but excluding severance pay, reimbursements or other expense allowances, fringe benefits (both cash and noncash), moving expenses, welfare benefits, or deferred compensation paid after termination of employment.

(f) *Designated Subsidiary* shall mean any Subsidiary, unless otherwise determined by the Board of Directors, eligible to participate in the Plan.

(g) *Employee* shall mean any individual who is an Employee of the Company or a Designated Subsidiary as set forth on the payroll records of the Company or Designated Subsidiary. For purposes of the Plan only, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company or Subsidiary. Where the period of leave exceeds 90 days and the individual s right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(h) *Enrollment Date* shall mean the first Trading Day of each Purchase Period.

(i) *Exercise Date* shall mean the last Trading Day of each Purchase Period.

(j) *Fair Market Value* shall mean, as of any date, the closing sales price of Common Stock as quoted on the New York Stock Exchange (NYSE), or in the absence of the NYSE, the stock exchange with the greatest volume of trading in Common Stock in the last market trading day prior to the determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable.

(k) *Offering Periods* shall mean the periods of approximately three (3) months at the end of which an option granted pursuant to the Plan will be exercised, commencing on the first Trading Day on or after each period and terminating on the last Trading Day in the periods ending three (3) months later. Offering periods will generally be: January 1 to March 31; April 1 to June 30; July 1 to September 30; and October 1 to December 31. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan; provided, however, that any change will not be implemented if the options granted hereunder would become subject to Code Section 409A. The first Offering Period will commence as determined and communicated by the Administrator, following such time as the Company has complied with all applicable rules and requirements of the Securities and Exchange Commission and the New York Stock Exchange.

(l) *Participant* means an eligible Employee who has elected to participate in the Plan in accordance with Section 5.

(m) *Plan* shall mean this RTI International Metals, Inc. Employee Stock Purchase Plan.

(n) *Purchase Period* shall mean the approximately three (3) month period commencing after one Exercise Date and ending with the next Exercise Date.

(o) *Purchase Price* shall mean ninety-five percent (95%) of the Fair Market Value of a share of Common Stock on the Exercise Date; provided however, that the Purchase Price may be adjusted by the Administrator pursuant to Section 20.

(p) *Reserves* shall mean the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(q) *Subsidiary* shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary;

(r) *Trading Day* shall mean a day on which the NYSE is open for trading.

3. *Eligibility*.

(a) Any employee whose customary employment with the Company or Designated Subsidiary is at least twenty (20) hours per week and more than five (5) months in any calendar year on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Notwithstanding any provisions of the Plan to the contrary, no Employee shall be granted an option under the Plan to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) worth of stock (determined at the Fair Market Value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. *Offering Periods*. The Plan shall be implemented by consecutive Offering Periods with a new Offering Period commencing on an Enrollment Date, or on such other date as the Administrator shall determine, and continuing thereafter until terminated in accordance with Section 20 hereof. The Administrator shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings.

5. *Participation*. An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in a form approved by the Company and filing it with the Company s benefits department (or other designee) prior to the applicable Enrollment Date. Such subscription agreement shall remain in

effect for subsequent Offering Periods unless (i) sooner terminated by the participant as provided in Section 10 hereof or (ii) participant ceases to be eligible pursuant to Section 3 hereof. Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. *Payroll Deductions*.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not exceeding $1,979.16 per pay period (assuming a monthly pay period) of the Compensation which he or she receives on each pay day during the Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages and whole dollars only. A participant may not make any additional payments into such account.

7. *Grant of Option*. On the Enrollment Date of each Purchase Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on the Exercise Date during such Purchase Period (at the applicable Purchase Price) up to a number of shares of the Company s Common Stock determined by dividing such Employee s payroll deductions accumulated prior to such Exercise Date and retained in the Participant s account as of the Exercise Date by the applicable Purchase Price (subject to any adjustment pursuant to Section 18); and provided that such purchase shall be subject to the limitations set forth in Sections 6(a) and 12 hereof. The Administrator may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of the Company s Common Stock an Employee may purchase during each Purchase Period of such Offering Period. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period and is not subject to vesting.

8. *Exercise of Option*.

(a) Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on each Exercise Date of a Purchase Period, and the maximum number of full shares subject to the option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares shall be purchased, any payroll deductions accumulated in a participant s account which are not sufficient to purchase a full share shall be retained in the participant s account for the subsequent Offering Period, or if not enrolled in the subsequent Offering Period, refunded to the participant within a reasonable time. Any other monies left over in a participant s account after a given Exercise Date shall be returned to the participant. During a participant s lifetime, a participant s option to purchase shares hereunder is exercisable only by him or her.

(b) If the Administrator determines that, on a given Exercise Date, the number of shares with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Enrollment Date of the applicable Purchase Period, or (ii) the number of shares available for sale under the Plan on such Exercise Date, the Administrator may in its sole discretion (x) provide that the Company shall make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect, or (y) provide that the Company shall make a pro-rata allocation of the shares available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 20 hereof. The Company may make pro rata allocation of the shares available on the Enrollment Date of any applicable Purchase Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company s stockholders subsequent to such Enrollment Date.

9. *Delivery*. As promptly as practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange for: (i) the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his or her option or (ii) the allocation of such number of shares into a designated employee brokerage account or (iii) the allocation of shares into a custodial account designated by the Company on behalf of, and for the benefit of, participants in the Plan. Delivery shall occur no later than 60 days following the Exercise Date.

10. *Withdrawal or Change in Deduction Amount*. A participant may withdraw from, or change the amount contributed to the Plan with respect to the next commencing Offering Period only; no changes may be made during an Offering Period, except under extraordinary circumstances as determined in the Administrator s sole discretion. A participant who wishes to withdraw or alter his or her contribution amount with respect to the next commencing Offering Period may do so by giving written notice to the Administrator in a form approved by the Administrator no later than five (5) business days prior to the beginning of the applicable Offering Period. Any of the participant s payroll deductions credited to his or her account with respect to the next commencing Offering Period shall be paid to such participant within a reasonable time without interest after receipt of notice of withdrawal for the next commencing Offering Period, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume unless the participant delivers to the Company a new subscription agreement, in which case deductions shall commence at the beginning of the next Offering Period. The Administrator may, in its discretion, limit the total number of withdrawals or changes permitted under the Plan. A participant s withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws. A participant s subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in this Section 10 hereof.

11. *Termination of Employment*. Upon a participant s ceasing to be an Employee for any reason, he or she shall be irrevocably deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant s account during the Offering Period but not yet used to exercise the option shall be returned to such participant, and such participant s option shall be automatically and irrevocably forfeited and terminated. The Plan does not, directly or indirectly, create in any Employee or class of Employees any right with respect to the continuation of employment by the Company or any Subsidiary and it shall not be deemed to interfere in any way with the Company s or any Subsidiary s right to terminate or otherwise modify, an Employee s employment at any time. Whether an eligible Employee has terminated employment will be determined based on all of the facts and circumstances and in accordance with the guidance issued under Section 409A of the Code.

12. *Interest*. No interest shall accrue or be paid on the payroll deductions of a participant in the Plan.

13. *Stock*. Subject to adjustment upon changes in capitalization of the Company as provided in Section 18 hereof, the maximum number of shares of the Company s Common Stock which shall be made available for sale under the Plan shall be two million (2,000,000) shares or such lesser amount determined by the Administrator. The Common Stock issued under the Plan may be authorized but unissued shares, treasury shares or shares acquired in the open market or otherwise. The participant shall have no interest or voting right in shares covered by his option until such option has been exercised. Shares to be delivered to a participant under the Plan shall be registered in the name of the participant or, if elected, in the name of the participant and his or her spouse.

14. *Administration*.

(a) The Plan shall be administered by the Administrator, which shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Administrator shall, to the full extent permitted by law, be final and binding upon all parties. The Plan may be administered using electronic or other media where appropriate.

(b) The authority of the Administrator will specifically include, without limitation, the power to make any changes to the Plan with respect to the participation of Employees of any Designated Subsidiary when the Administrator deems such changes to be necessary or appropriate to achieve a desired tax treatment in such foreign jurisdiction or to comply with the laws applicable to such Designated Subsidiary. Such changes may include, without limitation, the exclusion of particular Designated Subsidiaries from participation in the Plan; modifications to eligibility criteria, maximum number or value of Shares that may be purchased in a given period, or other requirements set forth herein; and procedural or administrative modifications. Any modification relating to offerings to a particular Designated Subsidiary will apply only to such Designated Subsidiary, and will apply equally to all similarly situated employees of such Designated Subsidiary.

15. *Non-Transferability*. Neither payroll deductions credited to a participant s account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred or otherwise disposed of in any way (other than by will or by the laws of descent and distribution) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

16. *Use of Funds*. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. *Reports*. Individual accounts shall be maintained for each participant in the Plan. Statements of account shall be given to participating Employees at least quarterly or, at the Administrator s sole discretion, by the Exercise Date for a particular Purchase Period, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

18. *Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Asset Sale*.

(a) *Changes in Capitalization*. Subject to any required action by the stockholders of the Company, the Reserves, the maximum number of shares each participant may purchase each Offering Period (pursuant to Section 7), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan that has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been effected without receipt of consideration . Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) *Dissolution or Liquidation*. In the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the New Exercise Date), and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Administrator. The New Exercise Date shall be before the date of the Company s proposed dissolution or liquidation. The Administrator shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant s option has been changed to the New Exercise Date and that the participant s option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation (a Corporate Transaction), each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, any Purchase Periods then in progress shall be shortened by setting a new Exercise Date (the New Exercise Date) and any Offering Periods then in progress shall end on the New Exercise Date. The New Exercise Date shall be before the date of the Company s proposed sale or merger. The Administrator shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant s option has been changed to the New Exercise Date and that the participant s option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

For purposes of this Section 18, an option granted under the Plan shall be deemed to be assumed, without limitation, if at the time of issuance of the stock or other consideration upon a Corporate Transaction, each holder of an option under the Plan would be entitled to receive upon exercise of the option the same number and kind of shares of stock or the same amount of property, cash or securities as such holder would have been entitled to receive upon the occurrence of the Corporate Transaction if the holder had been, immediately prior to the Corporate Transaction, the holder of the number of shares of Common Stock covered by the option at such time (after giving effect to any adjustments in the number of shares covered by the option as provided in this Section 18); provided, however, that if the consideration received in the Corporate Transaction is not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Common Stock in the Corporate Transaction.

19. *Amendment or Termination*.

(a) The Administrator may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Administrator on any Exercise Date if the Administrator determines that the termination of the Offering Period or the Plan is in the best interests of the Company and its stockholders. Except as provided in Section 18 and this Section 19 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. The Company shall obtain stockholder approval of such amendments in such a manner and to such a degree as required under applicable law.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been adversely affected, the Administrator (and the Company s Board of Directors if it elects) shall be entitled to change the Offering Period or Purchase Period, limit the frequency and/or number of changes in the amount withheld during an Offering Period or Purchase Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company s processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant s Compensation, and establish such other limitations or procedures as the Administrator (or the Company s Board of Directors) determines it its sole discretion advisable which are consistent with the Plan.

(c) In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable tax or financial accounting consequences, the Administrator may, in its discretion and, to

48

the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(1) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

(2) shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Administrator action; and

(3) re-allocating or otherwise adjusting shares amounts.

Such modifications or amendments shall not require stockholder approval or the consent of any Plan participants.

20. *Notices*. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. *Conditions Upon Issuance of Shares*. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, state securities laws, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or system upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. *Term of Plan*. The Plan shall become effective upon the date that the Plan is approved by the stockholders of the Company (the Effective Date). The Plan shall continue in effect for a term of ten (10) years after the Effective Date unless sooner terminated under Section 20 hereof.

23. *Withholding*. A Participant may be required to pay to the Company and the Company shall have the right and is hereby authorized to withhold from any payment due under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, shares, other securities, or other property) of any applicable withholding or other taxes in respect of any payment under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Any withholding satisfied through a net-settlement shall be limited to the minimum statutory withholding requirements.

24. *Taxation; Code Section 409A*. For purposes of Section 409A, each option exercise is treated as a separate payment. Each payment under the Plan is intended to be excepted from Section 409A to the maximum extent provided under Section 409A in that each payment that is scheduled to be made on or before March 15th of the calendar year following the calendar year containing the Exercise Date, and since the employee has no binding right prior to that time, the payments is intended to be excepted under the short-term deferral exception as specified in Treas. Reg. § 1.409 A-1(b)(4). An eligible employee shall have no right to designate the date of any payment under the Plan.

Notwithstanding any provision of the Plan to the contrary, the tax consequences of Plan participation are not guaranteed. In no event shall the Administrator, the Company, or their employees, officers, directors or affiliates, have any liability to any eligible employee, participant (or any other person) due to the failure of the Plan to satisfy the requirements of Section 409A or any other applicable law.

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Table of Contents

V O T E B Y T E L E P H O N E c/o National City Bank Shareholder Services Operations Have your voting instruction form available when Locator 5352 P. O. Box 94509 you call Toll-Free 1-888-693-8683 using a Cleveland, OH 44101-4509 touch-tone phone and follow the simple instructions to record your vote. V O T E B Y I N T E R N E T Have your voting instruction form available when you access the website www.cesvote.com and follow the simple instructions to record your vote. V O T E B Y M A I L Please mark, sign and date your voting instruction form and return it in the postage-paid envelope provided or return it to: National City Bank, P.O. Box 535300, Pittsburgh, PA 15253-9837. Vote by Telephone Vote by Internet Vote by Mail Call Toll-Free using a Access the Website and Return your voting instruction touch-tone telephone: cast your vote: form in the postage-paid 1-888-693-8683 www.cesvote.com envelope provided Vote 24 hours a day, 7 days a week! In order to be counted in the final tabulation, your telephone or Internet vote must be received by 6:00 a.m. Eastern Daylight Time on April 22, 2009. If you vote by telephone or over the Internet, do not mail your voting instruction form. I Your voting instruction form must be signed and dated below. D Please fold and detach card at perforation before mailing. D RTI INTERNATIONAL METALS, INC. VOTING INSTRUCTION FORM FOR 2009 ANNUAL MEETING SOLICITED ON BEHALF OF FIDELITY MANAGEMENT TRUST COMPANY This Voting Instruction Form, when properly executed, will be voted in the manner directed herein. If no direction to the contrary is indicated, it will be voted FOR all Proposals. If your directions are not received by 6:00 a.m. Eastern Daylight Time on April 22, 2009, the shares credited to your account will not be voted. Dated: , 2009 Signature(s) Signature(s) Please sign exactly as your name appears hereon. When signing as fiduciary or corporate officer, give full title. Joint owners must both sign. PLEASE COMPLETE, DATE AND SIGN THIS VOTING INSTRUCTIONS FORM AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED.

Table of Contents

YOUR VOTE IS IMPORTANT You can be sure your shares are represented at the meeting by promptly returning your voting instruction form in the enclosed envelope. Voting instruction form must be signed and dated on the reverse side. D Please fold and detach card at perforation before mailing. D RTI INTERNATIONAL METALS, INC. VOTING INSTRUCTION FORM The undersigned hereby directs Fidelity Management Trust Company (Fidelity) to vote the shares of RTI International Metals, Inc. credited to the account of the undersigned as indicated hereon, with respect to the Annual Meeting of Shareholders of RTI International Metals, Inc. to be held on April 24, 2009, and any adjournments thereof, upon such matters as may properly come before the meeting. Although Fidelity makes no recommendation, the Board of Directors recommends a Vote FOR: Proposal No. 1. Election of Directors: (01) Craig R. Andersson (02) Daniel I. Booker (03) Donald P. Fusilli, Jr. (04) Ronald L. Gallatin (05) Charles C. Gedeon (06) Robert M. Hernandez (07) Dawne S. Hickton (08) Edith E. Holiday (09) Bryan T. Moss (10) Michael C. Wellham (11) James A. Williams FOR all nominees listed above WITHHOLD (except as marked to the contrary below) authority to vote for ALL nominees listed above INSTRUCTIONS: To withhold authority to vote for one or more nominees, write his or her name(s) in the space below: Proposal No. 2. Ratification of appointment of PricewaterhouseCoopers LLP as independent registered public accountants for 2009. FOR AGAINST ABSTAIN Proposal No. 3. Approval of the RTI International Metals Employee Stock Purchase Plan. FOR AGAINST ABSTAIN PLEASE COMPLETE, DATE AND SIGN THE REVERSE SIDE.

-bottom:0pt; text-indent:4%; font-size:10pt; font-family:Times New Roman">The Tax Matters Agreement also sets forth our and Ensign s obligations as to the filing of tax returns, the administration of tax contests and assistance and cooperation on tax matters.

Transition Services Agreement

Pursuant to the Transition Services Agreement, Ensign agreed to provide us with certain administrative and support services on a transitional basis for a period of up to one year (subject to an option, at our election, to extend certain services for up to one additional year). The transition services include, among other support services, accounting services, financial systems conversion support, human resources support, legal and compliance services and information systems services. The fees charged to us for transition services furnished pursuant to the Transition Services Agreement will approximate the actual cost incurred by Ensign in providing the transition services to us for the relevant period. The Transition Services Agreement provides that we have the right to terminate a transition service after an agreed notice period, generally thirty days. The Transition Services Agreement also contains provisions under which Ensign will generally agree to indemnify us for all losses incurred by us resulting from Ensign s gross negligence, willful misconduct or material breach of the Transition Services Agreement, but Ensign s aggregate indemnification obligation may not exceed the total amount paid by us for services under the Transition Services Agreement.

Employee Matters Agreement

The Employee Matters Agreement governs Ensign s and CareTrust s respective compensation and employee benefit obligations with respect to the current and former employees of each company, and generally allocates liabilities and responsibilities relating to employee compensation and benefit plans and programs.

Ensign equity awards at the time of the Spin-Off were treated in accordance with the existing Ensign equity plans as follows:

Restricted Stock. Awards of restricted Ensign common stock were treated in the same manner as other shares of Ensign common stock. Holders of restricted Ensign common stock awards will be entitled to an additional share of restricted CareTrust common stock for each share of restricted Ensign common stock held.

Stock Options. No changes were made with respect to Ensign options, other than equitable adjustments required by the terms of Ensign s existing equity plans.

In addition, the Employee Matters Agreement sets forth the general principles relating to employee matters, including with respect to the assignment of employees and the transfer of employees from Ensign to CareTrust, the assumption and retention of liabilities and related assets, the provision of benefits following the Spin-Off, employee service credit and related matters.

Table of Contents

MANAGEMENT

Set forth below is certain biographical information and ages, as of August 25, 2014, for individuals who serve as our directors. Each director holds office until his or her successor is duly elected or appointed and qualified or until his or her earlier death, retirement, disqualification, resignation or removal.

Our bylaws provide that our board of directors shall consist of not less than three and not more than nine directors as the board of directors may from time to time determine. Our board of directors consists of five directors, and is divided into three classes that are, as nearly as possible, of equal size. Each class of directors is elected for a three-year term of office, but the terms are staggered so that the term of only one class of directors expires at each annual meeting. The initial terms of the Class I, Class II and Class III directors expire in 2015, 2016 and 2017, respectively. Christopher R. Christensen serves as a Class I director, David G. Lindahl and Jon D. Kline each serve as a Class II director, and Gregory K. Stapley and Gary B. Sabin each serve as a Class III director. All officers serve at the discretion of the board of directors.

We have five directors, three of whom are independent, as defined under the NASDAQ listing requirements. David G. Lindahl, Gary B. Sabin and Jon D. Kline are independent directors.

Our charter does not provide for cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock will be able to elect all of the directors standing for election, and the holders of the remaining shares will not be able to elect any directors.

Name	Age	Position
Gregory K. Stapley	55	Chairman, President and Chief Executive Officer
Christopher R. Christensen	46	Director
David G. Lindahl	54	Director
Gary B. Sabin	60	Director
Jon D. Kline	47	Director

Gregory K. Stapley. Mr. Stapley is the Chairman, President and Chief Executive Officer of CareTrust. He has served in this position since our inception in 2013. Prior to joining CareTrust, he served as Executive Vice President and Secretary of Ensign, where he was instrumental in assembling the real estate portfolio that was transferred to CareTrust in the Spin-Off. A co-founder of Ensign, he also served as Ensign s Vice President, General Counsel and Assistant Secretary beginning shortly after Ensign s founding in 1999. Mr. Stapley previously served as General Counsel for the Sedgwick Companies, an Orange County-based manufacturer, wholesaler and retailer with 192 retail outlets across the United States. Prior to that, Mr. Stapley was a member of the Phoenix law firm of Jennings, Strouss & Salmon PLC, where his practice emphasized real estate and business transactions and government relations. Having served as Executive Vice President of Ensign since 2009 and as Vice President and General Counsel of Ensign from 1999 to 2009, Mr. Stapley brings to our board of directors extensive management experience, critical knowledge of our properties and knowledge and understanding of the healthcare business in general.

Christopher R. Christensen. Mr. Christensen is the President and Chief Executive Officer of Ensign. He has served as Ensign s President since 1999 and its Chief Executive Officer since 2006. A co-founder of Ensign, Mr. Christensen has overseen Ensign s growth since Ensign s founding in 1999. Mr. Christensen has concurrently served as a member of Ensign s Board of Directors since 1999, and currently sits on the quality assurance and compliance committee of Ensign s Board of Directors. Mr. Christensen previously served as acting Chief Operating Officer of Covenant Care, Inc., a California-based provider of long-term care. Mr. Christensen will bring to our board of directors significant experience as a chief executive officer and proven ability to manage multiple properties and businesses.

David G. Lindahl. Mr. Lindahl is a partner and Managing Director of HPSI, Inc., a nationwide Group Purchasing Organization with operations serving over 10,000 hospitals, post-acute care providers, educational, hospitality and institutional clients, which collectively purchase over $1 billion of goods and services through HPSI each year. He has been affiliated with HPSI in various capacities since 1981. During a portion of that time, he also served as President of HPSI affiliate The Home Place, an operating pediatric sub-acute facility. We invited Mr. Lindahl to serve on the board based on his executive leadership experience in the healthcare industry, his entrepreneurship and creativity, and his network of relationships with healthcare operators and their trade associations across the United States, particularly the many smaller hospital systems and post-acute providers which will constitute much of our initial target client base.

Gary B. Sabin. Mr. Sabin is the Chairman and Chief Executive Officer of Excel Trust, Inc. (NYSE:EXL), a retail-focused real estate investment trust that primarily targets value-oriented community and power centers, grocery-anchored neighborhood centers and freestanding retail properties. He previously served as Chairman, Chief Executive Officer and President of Excel Realty Holdings, as Co-Chairman and Chief Executive Officer of Price Legacy Corporation, as Chairman, President and Chief Executive Officer of Excel Legacy Corporation, as a Director and President of New Plan Excel Realty Trust and as Chairman, President and Chief Executive Officer of Excel Realty Trust. In addition, Mr. Sabin has served as Chief Executive Officer of various companies since his founding of Excel Realty Trust Inc. s predecessor company and its affiliates beginning in 1978. He has been active for over 30 years in diverse aspects of the real estate industry, including the evaluation and negotiation of real estate acquisitions, management, financing, development and dispositions. Mr. Sabin also currently serves as Chairman of The Sabin Children s Foundation and Vice Chairman of the Cystic Fibrosis Foundation. Mr. Sabin received a Master s Degree in Management from Stanford University as a Sloan Fellow, and a Bachelor of Science in Finance from Brigham Young University. We invited Mr. Sabin to serve on the board based on his executive leadership experience in public real estate investment trusts and other real estate companies, his entrepreneurship and creativity, his network of relationships with real estate professionals across the United States and his experience in finance.

Jon D. Kline. Mr. Kline is the Founder and President of Clearview Hotel Capital, LLC, a privately-held hotel investment and advisory company focused on acquiring and asset-managing hotels in urban and unique locations. Mr. Kline has been with Clearview Hotel Capital since 2007. He previously served as President and Chief Financial Officer of Sunstone Hotel Investors, Inc. (NYSE:SHO) which, during his tenure from 2003 to 2007, grew from a private real estate company to a $4.0 billion publicly-traded hotel REIT. Prior to Sunstone, Mr. Kline oversaw the U.S. hospitality and leisure investment banking practice at Merrill Lynch & Co., with responsibility for lodging, gaming, restaurants and other leisure industries. Prior to Merrill Lynch, Mr. Kline was a real estate investment banker at Smith Barney, focused on lodging and other real estate asset classes. Prior to Smith Barney, Mr. Kline was an attorney with Sullivan & Cromwell LLP in New York. Mr. Kline has been a member of the Board of Directors of the Juvenile Diabetes Research Foundation, Orange County Chapter, the United Way, Orange County, Heritage Pointe, and the Urban Land Institute and its Hotel Development Council. Mr. Kline holds a B.A. in Economics from Emory University and a J.D. from New York University School of Law. We invited Mr. Kline to serve on the board based on his executive leadership experience in a publicly-traded REIT, his professional and educational background, his network of relationships with real estate professionals and his extensive background and experience in public markets and in real estate and finance transactions.

Executive Officers

The following table shows the names and ages, as of August 25, 2014, for executive officers who do not serve as directors and the positions they hold. A description of the business experience of each for at least the past five years follows the table.

Name	Age	Position
William M. Wagner	48	Chief Financial Officer
David M. Sedgwick	39	Vice President of Operations

Table of Contents

William M. Wagner. Mr. Wagner has served as our Chief Financial Officer since December 2013 and also serves as our principal accounting officer. Mr. Wagner served as Chief Financial Officer of First Team Real Estate, a private real estate brokerage company, from 2012 to 2013. From 2008 to 2012, Mr. Wagner served as Senior Vice President and Chief Accounting Officer of Nationwide Health Properties, Inc., a healthcare REIT. From 2004 to 2008, Mr. Wagner served as Senior Vice President and Chief Accounting Officer of Sunstone Hotel Investors, Inc., a lodging REIT. From 2001 to 2004, Mr. Wagner served as Vice President, Financial Reporting of The TriZetto Group, Inc. From 1999 to 2001, Mr. Wagner worked for two internet start-up ventures. From 1997 to 1999, Mr. Wagner served as Director, Financial Reporting of Irvine Apartment Communities, Inc., a multifamily REIT. From 1990 to 1997, Mr. Wagner worked for EY Kenneth Leventhal Real Estate Group and served real estate clients including several REITs. Mr. Wagner received a B.A. degree in Business Administration from the University of Washington and is a Certified Public Accountant (inactive) in the State of California.

David M. Sedgwick. Mr. Sedgwick has served as our Vice President of Operations since May 2014. He is a licensed nursing home administrator and, prior to joining CareTrust, served in several key leadership roles at Ensign since 2001. During 2013, he operated Ensign s newly-built Medicare-only SNF in Denver, Colorado, and simultaneously supported all of Ensign s skilled nursing operations in Colorado. During 2012, he served as President of Ensign s Maryland-based urgent care franchise venture, Doctors Express. From 2007 to 2012, Mr. Sedgwick served as Ensign s Chief Human Capital Officer, with responsibility for recruiting and training more than 100 newly licensed nursing home administrators and directing Ensign University, which included Ensign s administrator training program. From 2002 to 2007, he operated three Ensign SNFs in two states. Mr. Sedgwick holds a B.S. in Accounting from Brigham Young University and an M.B.A. from the University of Southern California. Mr. Sedgwick is Mr. Stapley s brother-in-law.

Compensation Committee Interlocks and Insider Participation

None of our directors have interlocking or other relationships with other boards of directors, compensation committees or our executive officers that would require disclosure under Item 407(e)(4) of Regulation S-K.

Compensation of Directors

Non-employee directors are compensated for their service under a non-employee director fee plan, which has not yet been established, and the CareTrust REIT, Inc. and CTR Partnership, L.P. Incentive Award Plan. We will provide information regarding director compensation and the decision-making process for determining director compensation in our future filings with the SEC.

Executive Officer Compensation

Executive Compensation

The following table provides certain summary information concerning the compensation paid by Ensign for the fiscal years ended December 31, 2013 and 2012 to our principal executive officer, Mr. Stapley, and Mr. Wagner and Mr. Sedgwick, whom are our two other most highly compensated executive officers (collectively, the named executive officers). The amounts and forms of compensation reported below are not necessarily indicative of the compensation that our executive officers will continue to receive.

Table of Contents

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary($)	Bonus($)(1)	Stock Awards($)(2)	Stock Option Awards($)	Non-Equity Incentive Plan Compensation($)	All Other Compensation($)	Total($)
Gregory K. Stapley	2013	364,928	100,000				2,655(3)	467,583
Executive Vice President and Secretary of Ensign, President and Chief Executive Officer of CareTrust(5)	2012	354,299	488,140	72,649			2,612(4)	917,700
William M. Wagner	2013	8,324						8,324
Chief Financial Officer of CareTrust(6)	2012							
David M. Sedgwick	2013	110,750	25,000				617(7)	136,367
Operations Resource of Ensign(8)	2012	116,307					3,705(9)	120,012

(1) The amounts shown in this column constitute the cash bonuses made by Ensign to certain named executive officers. Mr. Stapley participated in Ensign s executive incentive program.

(2) The amounts shown are the amounts of compensation cost to be recognized by Ensign related to restricted stock awards which were granted during fiscal year 2012, as a result of the adoption of ASC 718. These amounts disregard the estimated forfeiture rate which is considered when recognizing the ASC 718 expense in the combined financial statements of Ensign. In addition, a portion of the bonuses paid by Ensign to Mr. Stapley in 2012 and 2011 was in the form of stock awards.

(3) Consists of term life and accidental death and dismemberment insurance payments of $862 and a matching contribution to The Ensign Group, Inc. 401(k) retirement program of $1,793.

(4) Consists of term life and accidental death and dismemberment insurance payments of $840 and a matching contribution to The Ensign Group, Inc. 401(k) retirement program of $1,772.

(5) Mr. Stapley became President and Chief Executive Officer of CareTrust on May 12, 2014. Mr. Stapley ceased to be an officer of Ensign at the time of the Spin-Off.

(6) Mr. Wagner began his employment with CareTrust on December 12, 2013.

(7) Consists of term life and accidental death and dismemberment insurance payments of $64 and a matching contribution to The Ensign Group, Inc. 401(k) retirement program of $553.

(8) Mr. Sedgwick became Vice President of Operations of CareTrust at the time of the Spin-Off.

(9) Consists of term life and accidental death and dismemberment insurance payments of $93, a matching contribution to The Ensign Group, Inc. 401(k) retirement program of $612 and automobile allowance of $3,000.

Table of Contents

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table provides certain summary information concerning outstanding Ensign equity awards held by our named executive officers as of December 31, 2013.

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested($)(1)
Gregory K. Stapley						
William M. Wagner						
David M. Sedgwick		2,000(2)	$ 17.47	3/11/2020	900(2)	$ 39,843

(1) The market value of unvested restricted equity awards was calculated using the closing stock price of Ensign common stock of $44.27 per share on December 31, 2013.

(2) The unexercised options held by Mr. Sedgwick were granted on March 11, 2010; 1,000 stock options vest on March 11, 2014, and 1,000 stock options vest on March 11, 2015. The unvested restricted stock awards held by Mr. Sedgwick were granted on February 2, 2011 and vest in equal installments of 300 shares on each anniversary of the grant date over a five year period.

Potential Payments Upon Termination Or Change In Control

There are no benefits guaranteed to be paid to the named executive officers upon termination or a change in control.

Incentive Award Plan

Introduction

We have adopted the CareTrust REIT, Inc. and CTR Partnership, L.P. Incentive Award Plan (the Incentive Award Plan), under which 5,000,000 shares of our common stock and 5,000,000 units of the Operating Partnership (such units, LTIP Units) are reserved for issuance. The Incentive Award Plan became effective upon the completion of the Spin-Off.

Section 162(m) of the Code

Generally, Section 162(m) of the Code does not permit a tax deduction for compensation in excess of $1 million paid in any calendar year by a publicly traded company to its chief executive officer or any of the three other most highly-compensated executive officers (other than the principal financial officers). However, certain compensation, including compensation based on the attainment of performance goals, is excluded from this deduction limit if certain criteria are satisfied, including that the material terms pursuant to which the compensation is to be paid are disclosed to and approved by the company s stockholders. The Incentive Award Plan, including the list of performance criteria applicable under the Incentive Award Plan for awards intended to qualify as performance-based compensation under Section 162(m) of the Code, was approved by stockholders on May 12, 2014. So long as other conditions of Section 162(m) of the Code are satisfied, certain compensation paid to the above individuals pursuant to the Incentive Awards Plan should not be subject to the deduction limit of Section 162(m) of the Code.

Description of the Incentive Award Plan

The following is a description of the material provisions of the Incentive Award Plan.

Table of Contents

Plan Administration. The compensation committee of our board of directors is the administrator of the Incentive Award Plan. The compensation committee is composed solely of non-employee directors, as defined under Rule 16b-3 of the Exchange Act, and outside directors, within the meaning of Section 162(m) of the Code.

The compensation committee has the authority to, among other things:

- construe and interpret the Incentive Award Plan;
- make rules and regulations relating to the administration of the Incentive Award Plan;
- designate eligible persons to receive awards;
- establish the terms and conditions of awards; and
- determine whether the awards or any portion thereof will contain time-based restrictions and/or performance-based restrictions, and, with respect to performance-based awards, the criteria for achievement of performance goals, as set forth in more detail below.

Eligibility. The compensation committee will designate those employees, consultants and non-employee directors who are to receive awards under the Incentive Award Plan.

Shares Authorized. Subject to adjustment in the event of a merger, recapitalization, stock split, reorganization or similar transaction, the maximum aggregate number of shares available for issuance under the Incentive Award Plan is 5,000,000, the maximum aggregate number of LTIP Units available for issuance under the Incentive Award Plan is 5,000,000 and the maximum number of shares available for issuance under the Incentive Award Plan with respect to incentive stock options is 5,000,000 Shares or LTIP Units that are subject to or underlie awards which expire or for any reason are cancelled, terminated, forfeited, fail to vest, or for any other reason are not paid or delivered under the Incentive Award Plan will again be available for issuance in connection with future awards granted under the Incentive Award Plan. Shares or LTIP Units surrendered or withheld as payment of either the exercise price of an Award and/or withholding taxes in respect of such an Award are counted against the Incentive Award Plan limits and will not again be available for issuance in connection with future awards.

Individual Limits. The number of shares of stock subject to options and stock appreciation rights awarded to any one participant during any calendar year may not exceed 1,000,000 shares. The number of shares and LTIP Units subject to awards other than options and stock appreciation rights awarded to any one participant during any calendar year may not exceed 1,000,000 shares and 1,000,000 LTIP Units, respectively. The amount of compensation to be paid to any one participant with respect to all cash-based awards that are intended to constitute performance-based compensation for purposes of Section 162(m) of the Code is $5,000,000. Each of these limits is subject to adjustment in the event of a merger, recapitalization, stock split, reorganization or similar transaction.

Types of Awards. The Incentive Award Plan provides for the grant of stock options, restricted stock, restricted stock units, performance awards (which include, but are not limited to, cash bonuses), dividend equivalent awards, deferred stock awards, stock payment awards, stock appreciation rights, other incentive awards (which include, but are not limited to, LTIP Unit awards), and performance share awards.

Options. Options to purchase shares of common stock may be granted alone or in tandem with stock appreciation rights. A stock option may be granted in the form of a non-qualified stock option or an incentive stock option. No incentive stock options will be granted to any person who is not an employee of the company. The price at which a share may be purchased under an option (the exercise price) will be determined by the compensation committee, but may not be less than the fair market value of CareTrust s common stock on the date the option is granted. The compensation committee may establish the term of each option, but no option may

Table of Contents

be exercisable after 10 years from the grant date. The amount of incentive stock options that become exercisable for the first time in a particular year cannot exceed a value of $100,000 per participant, determined using the fair market value of the shares on the date of grant.

SARs. Stock appreciation rights (or SARs) may be granted either alone or in tandem with stock options. The exercise price of a SAR must be equal to or greater than the fair market value of CareTrust s common stock on the date of grant. The compensation committee may establish the term of each SAR, but no SAR will be exercisable after 10 years from the grant date.

Restricted Stock/Restricted Stock Units. Restricted stock and restricted stock units may be issued to eligible participants, as determined by the compensation committee. The restrictions on such awards are determined by the compensation committee, and may include time based, performance-based, and service-based restrictions. Restricted stock units may be settled in cash, shares of common stock or a combination thereof. Except as otherwise determined by the compensation committee, holders of restricted stock will have the right to receive dividends and will have voting rights during the restriction period.

Performance Awards. Performance awards may be issued to any eligible individual, as deemed by the compensation committee. The value of performance awards may be linked to performance criteria, or to other specific criteria determined by the compensation committee. Performance awards may be paid in cash, shares, or a combination of both, as determined by the compensation committee. Without limiting the generality of the foregoing, performance awards may be granted in the form of a cash bonus payable upon the attainment of objective performance goals or such other criteria as are established by the compensation committee.

Dividend Equivalent Awards. Dividend equivalent awards may be granted either alone or in tandem with other awards, as determined by the compensation committee. Dividend equivalent awards are based on the dividends that are declared on the common stock, to be credited as of the dividend payment dates during the period between the date that the dividend equivalent awards are granted and such dates that the dividend equivalent awards terminate or expire. If dividend equivalents are granted with respect to shares covered by another award, the dividend equivalent may be paid out at the time and to the extent that vesting conditions of the award shares are satisfied. Dividend equivalent awards can be converted to cash or shares by a formula determined by the compensation committee. Unless otherwise determined by the compensation committee, dividend equivalents are not payable with respect to stock options or stock appreciation rights.

Stock Payment Awards. Stock payments may be issued to eligible participants, as determined by the compensation committee. The number of shares of any stock payment may be based upon performance criteria or any other specific criteria. Stock payment awards may be made in lieu of base salary, bonus, fees, or other cash compensation otherwise payable to such eligible individual.

Deferred Stock Awards. Deferred stock awards may be issued to eligible participants, as determined by the compensation committee. The number of shares of deferred stock will be determined by the compensation committee and may be based on performance criteria or other specific criteria. Shares underlying a deferred stock award which is subject to a vesting schedule or other conditions or criteria set up by the administrator will not be issued until such vesting requirements or other conditions or criteria, as applicable, have been satisfied. Unless otherwise provided by the compensation committee, a holder of a deferred stock award will have no rights as a shareholder until the award has vested and the shares have been issued.

Performance Share Awards. Performance share awards may be granted to any eligible individual who is selected by the compensation committee. Vesting of performance share awards may be linked to any one or more performance criteria, other specific performance criteria, and/or time-vesting or other criteria, as determined by the compensation committee.

Other Incentive Awards. Other incentive awards may be issued to eligible participants, as determined by the compensation committee. Such other incentive awards may cover shares or the right to purchase shares or have a

89

value derived from the value of, or an exercise or conversion privilege at a price related to, or otherwise payable in or based on shares, shareholder value, or shareholder return. Other incentive awards may be linked to any one or more of the performance criteria or other specific performance criteria determined appropriate by the compensation committee and may be paid in cash or shares. Without limiting the generality of the foregoing, LTIP Units may be granted in such amount and subject to such terms and conditions as may be determined by the compensation committee; provided, however, that LTIP Units may only be issued to an eligible individual for the performance of services to or for the benefit of the Operating Partnership (i) in the eligible individual s capacity as a partner of the Operating Partnership, (ii) in anticipation of the eligible individual becoming a partner of the Operating Partnership, or (iii) as otherwise determined by the compensation committee, provided that the LTIP Units are intended to constitute profits interests within the meaning of the Internal Revenue Code, as well as applicable revenue procedures. The compensation committee will specify the conditions and dates upon which the LTIP Units will vest and become nonforfeitable. LTIP Units will be subject to the terms and conditions of the agreement governing the Operating Partnership and such other restrictions, including restrictions on transferability, as the compensation committee may impose. These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the compensation committee determines at the time of the grant of the award or thereafter.

Performance-Based Awards. Awards may be structured to satisfy the requirements for performance-based compensation under Section 162(m) of the Code. In order to qualify as performance-based compensation, the grant, payment, or vesting schedule of the award must be contingent upon the achievement of pre-established performance goals over a performance period for CareTrust.

Performance Criteria. The performance goals may be based upon one or more of the following performance criteria: (i) net earnings (either before or after one or more of the following: (A) interest, (B) taxes, (C) depreciation, (D) amortization and (E) non-cash equity-based compensation expense); (ii) gross or net sales or revenue; (iii) net income (either before or after taxes); (iv) adjusted net income; (v) operating earnings or profit; (vi) cash flow (including, but not limited to, operating cash flow and free cash flow); (vii) return on assets; (viii) return on capital; (ix) return on shareholders equity; (x) total shareholder return; (xi) return on sales; (xii) gross or net profit or operating margin; (xiii) costs; (xiv) funds from operations; (xv) expenses; (xvi) working capital; (xvii) earnings per share; (xviii) adjusted earnings per Share; (xix) price per Share; (xx) regulatory body approval for commercialization of a product; (xxi) implementation or completion of critical projects; (xxii) market share; (xxiii) economic value; (xxiv) debt levels or reduction; (xxv) customer retention; (xxvi) sales-related goals; (xxvii) comparisons with other stock market indices; (xxviii) operating efficiency; (xxix) customer satisfaction and/or growth; (xxx) employee satisfaction; (xxxi) research and development achievements; (xxxii) financing and other capital raising transactions; (xxxiii) recruiting and maintaining personnel; (xxxiv) year-end cash, (xxxv) inventory, (xxxvi) inventory turns, (xxxvii) net inventory turns, (xxxviii) new store openings, (xxxix) new store performance, (xl) average transaction size, (xli) customer traffic, (xlii) accounts payable to inventory ratio, (xliii) employee retention, (xliv) comparable store sales; (xlv) capital expenditures; (xlvi) average occupancy; (xlvii) year-end occupancy; (xlviii) property operating expense savings; and (xlix) leasing goals.

Adjustments to Performance Criteria. Performance criteria may be measured either in absolute terms for CareTrust or any operating unit of CareTrust or as compared to results of a peer group or to market performance indicators. Further, the compensation committee may provide objectively determinable adjustments be made to one or more of the performance goals. Such adjustments may include: (i) items related to a change in accounting principle; (ii) items relating to financing activities; (iii) expenses for restructuring or productivity initiatives; (iv) other non-operating items; (v) items related to acquisitions; (vi) items attributable to the business operations of any entity acquired by us during the performance period; (vii) items related to the disposal or sale of a business or segment of a business; (viii) items related to discontinued operations that do not qualify as a segment of a business under applicable accounting standards; (ix) items attributable to any stock dividend, stock split, combination or exchange of stock occurring during the performance period; (x) any other items of significant income or expense which are determined to be appropriate adjustments; (xi) items relating to unusual or

Table of Contents

extraordinary corporate transactions, events or developments, (xii) items related to amortization of acquired intangible assets; (xiii) items that are outside the scope of our core, on-going business activities; (xiv) items related to acquired in-process research and development; (xv) items relating to changes in tax laws; (xvi) items relating to major licensing or partnership arrangements; (xvii) items relating to asset impairment charges; (xviii) items relating to gains or losses for litigation, arbitration and contractual settlements; or (xix) items relating to any other unusual or nonrecurring events or changes in applicable laws, accounting principles or business conditions.

To the extent permitted under Section 162(m) of the Code (including, without limitation, compliance with any requirements for shareholder approval), the compensation committee may designate additional performance criteria on which performance goals may be based, and may adjust, modify or amend the aforementioned performance criteria. Approval of the Incentive Award Plan also constituted approval of these performance metrics for purposes of Section 162(m).

Change in Control. In the event of a change in control of CareTrust, all outstanding and unvested options and stock appreciation rights under the Incentive Award Plan will become vested and exercisable. Other awards will vest immediately and generally be distributed effective as of the date of change in control. Awards granted which are subject to the achievement of performance goals will immediately vest as if 100% of the performance goals had been achieved.

Amendment and Termination. Our board of directors may at any time terminate, suspend or discontinue the Incentive Award Plan. Our board of directors may amend the Incentive Award Plan at any time, provided that any increase in the number of shares available for issuance under the plan must be approved by our shareholders. In addition, our board of directors may not, without shareholder approval, amend any outstanding award to increase or reduce the price per share or to cancel and replace an award with cash and/or another award, including another option or stock appreciation right having a price per share that is less than, greater than or equal to the price per share of the original award.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics. The Code of Business Conduct and Ethics confirms our commitment to conduct our affairs in compliance with all applicable laws and regulations and observe the highest standards of business ethics, and seeks to identify and mitigate conflicts of interest between our directors, officers and employees, on the one hand, and us on the other hand. The Code of Business Conduct and Ethics also applies to ensure compliance with stock exchange requirements and to ensure accountability at a senior management level for that compliance. We intend that the spirit, as well as the letter, of the Code of Business Conduct and Ethics be followed by all of our directors, officers, employees and subsidiaries. This will be communicated to each new director, officer and employee. A copy of our Code of Business Conduct and Ethics is available on our website.

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table provides information with respect to the beneficial ownership of our common stock as of August 25, 2014 by (1) each person who is known to us to be a beneficial owner of more than 5% of our outstanding common stock, (2) each of our directors and named executive officers, and (3) all directors, director nominees and executive officers as a group.

Except as otherwise noted in the footnotes below, each person or entity identified below has sole voting and investment power with respect to such securities. Our calculation of the percentage of beneficial ownership is based on 22,435,938 shares of our common stock outstanding on August 25, 2014.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percent of Class(2)
Named Executive Officers and Directors:		
Christopher R. Christensen(3)	1,067,090	4.8%
Gregory K. Stapley(4)	344,900	1.5%
William M. Wagner		
David M. Sedgwick	17,202	*
David G. Lindahl		
Gary B. Sabin		
Jon D. Kline		
All directors, nominees and executive officers as a group (7 persons):	1,429,192	6.4%
Other Five Percent Stockholders:		
FMR LLC(5)	1,983,700	8.8%
Blackrock, Inc.(6)	1,738,979	7.8%
Wasatch Advisors, Inc.(7)	1,551,556	6.9%
The Vanguard Group(8)	2,815,586	12.5%

* Denotes less than 1%.

(1) The addresses of all of the officers and directors listed above are in the care of CareTrust, 27101 Puerta Real, Suite 400, Mission Viejo, CA 92691.

(2) Percentages shown assume the exercise by such persons of all options to acquire shares of our common stock that are exercisable within 60 days of June 30, 2014 and no exercise by any other person.

(3) Represents 1,048,000 shares held by Hobble Creek Investments, of which Christopher Christensen is the sole member, 12,919 restricted shares held by Mr. Christensen directly, 2,171 shares held by Mr. Christensen s spouse, and 4,000 shares held by Mr. Christensen s former spouse as custodian for their minor children under the California Uniform Transfers to Minors Act. Mr. Christensen s former spouse holds voting and investment power over the shares held for their children.

(4) Represents 272,850 shares held by the Stapley Family Trust dated April 25, 2006, 32,050 shares held by Deborah Stapley as custodian for the minor children of Gregory K. Stapley and Deborah Stapley under the California Uniform Transfers to Minor Act, and 40,000 shares held by the Marian K. Stapley Revocable Trust dated April 29, 1965, of which Mr. Stapley is trustee. Mr. Stapley and his spouse share voting and investment power over the

shares held by the Stapley Family Trust, Mr. Stapley s spouse holds voting and investment power over the shares held for their minor children and Mr. Stapley holds, as trustee, voting and investment power over the shares held by the Marian K. Stapley Revocable Trust.

(5) Represents beneficial ownership as of December 31, 2013 as reported on Schedule 13G filed by FMR LLC on February 14, 2014, which indicates that FMR LLC held 1,983,700 shares and held sole voting power over 100 shares. The business address of FMR LLC is 82 Devonshire Street, Boston, Massachusetts 02109.

(6) Represents beneficial ownership as of December 31, 2013 as reported on Schedule 13G filed by Blackrock, Inc. on January 29, 2014, which indicates that Blackrock, Inc. held 1,738,979 shares and held sole voting power over 1,690,531 shares. The business address of Blackrock, Inc. is 40 East 52nd Street, New York, NY 10022.

(7) Represents beneficial ownership as of December 31, 2013 as reported on Schedule 13G filed by Wasatch Advisors, Inc. on February 13, 2014, which indicates that Wasatch Advisors, Inc. held 1,551,556 shares. The business address of Wasatch Advisors, Inc. is 150 Social Hall Avenue, Salt Lake City, Utah 84111.

(8) Represents beneficial ownership as of June 30, 2014 as reported on Schedule 13G filed by The Vanguard Group on July 9, 2014, which indicates that The Vanguard Group held 2,815,586 shares and held sole voting power over 24,481 shares, sole dispositive power over 2,792,205 shares, and shared dispositive power over 23,381 shares. The business address of The Vanguard Group is 100 Vanguard Blvd., Malvern, PA 19355.

Table of Contents

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Procedures for Approval of Related Person Transactions

CareTrust s board of directors has adopted a policy regarding the approval of any related person transaction, which is any transaction or series of transactions in which we or any of our subsidiaries is or are to be a participant, the amount involved exceeds $120,000, and a related person (as defined under SEC rules) has a direct or indirect material interest. Under the policy, a related person is required to promptly disclose to our Chief Financial Officer any proposed related person transaction and all material facts about the proposed transaction. Our Chief Financial Officer would then assess and promptly communicate that information to our audit committee. Based on our audit committee s consideration of all of the relevant facts and circumstances, our audit committee will decide whether or not to approve such transaction and will generally approve only those transactions that are in, or are not inconsistent with, the best interests of CareTrust. If we become aware of an existing related person transaction that has not been pre-approved under this policy, the transaction will be referred to our audit committee, which will evaluate all options available, including ratification, revision or termination of such transaction. Our policy requires any director who may be interested in a related person transaction to recuse himself or herself from any consideration of such related person transaction. As a result of Mr. Christensen s service on CareTrust s board of directors, transactions between Ensign and CareTrust that exceed the $120,000 threshold are subject to our policy regarding related party transactions, and require Mr. Christensen to recuse himself from consideration of such transactions.

Relationship between Ensign and CareTrust

To govern their relationship after the Spin-Off, Ensign and CareTrust entered into: (1) the Separation and Distribution Agreement; (2) the Master Leases; (3) the Opportunities Agreement; (4) the Tax Matters Agreement; (5) the Transition Services Agreement; and (6) the Employee Matters Agreement. See Our Relationship with Ensign after the Spin-Off. Transactions pursuant to these agreements are pre-approved under our policy regarding related party transactions. However, any new transactions between Ensign and CareTrust, or material changes to these agreements, are subject to approval under the policy. Transactions between CareTrust and Ensign will generally not be considered affiliate transactions under the indenture governing the Notes or the Credit Agreement.

POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

The following is a discussion of our policies with respect to investments, financing and certain other activities. These policies may be amended and revised from time to time at the discretion of our board of directors without notice to or a vote of our stockholders. The indenture that governs the Notes and the Credit Agreement limit our ability to make certain investments, incur or guarantee indebtedness or sell our assets. See Description of the New Notes Covenants and Description of Our Other Indebtedness.

Investment Policies

Investments in Real Estate or Interests in Real Estate

We conduct all of our investment activities through the Operating Partnership and its subsidiaries. Our overall investment objectives are to maximize returns for our stockholders and to seek to increase cash flow, provide quarterly cash distributions, maximize the value of our properties and acquire properties with cash flow growth potential. We will employ what we believe to be a disciplined, opportunistic acquisition strategy with a focus on the acquisition of SNFs and senior housing, including ALFs and ILFs, as well as medical office buildings, long-term acute care hospitals and inpatient rehabilitation facilities. We have not established a specific policy regarding the relative priority of our investment objectives. We currently lease most of our properties to Ensign pursuant to long-term triple-net leases which require Ensign to bear all of the costs associated with the property. We expect to pursue our investment objectives through the ownership of properties by our subsidiaries, but may also make investments in other entities, including joint ventures.

As we acquire additional properties, we currently intend to diversify by geography, asset class and tenant within the healthcare and healthcare-related sectors. We anticipate that future investment activity will be focused primarily in the United States, but will not be limited to any geographic area. We intend to engage in such future investment activities in a manner that is consistent with requirements applicable to REITs for U.S. federal income tax purposes. Provided we comply with these requirements, however, there are no limitations on the percentage of our assets that may be invested in any one real estate asset.

We may enter into joint ventures from time to time, if we determine that doing so would be the most effective means of raising capital. Equity investments may be subject to existing mortgage financing and other indebtedness or such financing or indebtedness may be incurred in connection with acquiring properties, or a combination of these methods. Any such financing or indebtedness will have priority over our equity interest in such property. We intend to make investments in such a way as to not be treated as an investment company under the Investment Company Act of 1940, as amended (the 1940 Act).

We do not have a specific policy as to the amount or percentage of our assets which will be invested in any specific property or leased to any particular operator, but anticipate that our real estate investments will continue to be diversified among a relatively large number of facilities. As of June 30, 2014, our portfolio of investments consisted of 97 properties located in 10 states.

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

Purchase, Sale and Development of Properties

From time to time, we may engage in strategic development opportunities. These opportunities may involve replacing or renovating properties in our portfolio that have become economically obsolete or identifying new sites that present an attractive opportunity and complement our existing portfolio.

Table of Contents

Investments in Real Estate Mortgages

While we emphasize equity real estate investments in healthcare real estate properties, we may invest in mortgages and other real estate interests consistent with the rules applicable to REITs. Investments in real estate mortgages are subject to the risk that one or more borrowers may default and that the collateral securing mortgages may not be sufficient to enable us to recover our full investment.

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

Subject to the gross income and asset requirements required for REIT qualification, we may, but do not presently intend to, invest in securities of entities engaged in real estate activities or securities of other issuers (normally partnership interests, limited liability company interests or other joint venture interests in special purpose entities owning properties), including for the purpose of exercising control over such entities. We may acquire some, all or substantially all of the securities or assets of other REITs or entities engaged in real estate activities where such investment would be consistent with our investment policies and the REIT requirements. There are no limitations on the amount or percentage of our total assets that may be invested in any one issuer, other than those imposed by the gross income and asset tests we must meet in order to qualify as a REIT under the Code. In any event, we do not intend that our investments in securities will require us to register as an investment company under the 1940 Act, and we would generally divest appropriate securities before any such registration would be required.

Financing Policies

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

To the extent that our board of directors or management determines that it is necessary to raise additional capital, we may borrow under the Credit Facility, issue debt or equity securities, including additional partnership units, retain earnings (subject to the REIT distribution requirements for U.S. federal income tax purposes), assume secured indebtedness, obtain mortgage financing on a portion of our owned properties, engage in joint ventures, issue other types of securities, or employ a combination of these methods.

Other Policies

We may, but do not presently intend to, make investments other than as previously described. We may offer shares of our common stock or other equity or debt securities in exchange for cash or property and to repurchase or otherwise re-acquire shares of our common stock or other equity or debt securities in exchange for cash or property. We may issue preferred stock from time to time, in one or more classes or series, as authorized by our board of directors. We have not engaged in trading, underwriting or the agency distribution or sale of securities of other issuers and do not intend to do so. At all times, we intend to make investments in a manner consistent with the REIT requirements of the Code unless, because of business circumstances or changes in the Code (or the Treasury regulations promulgated thereunder), our board of directors determines that it is no longer in our best interests for us to qualify as a REIT. We intend to make investments in such a way that we will not be treated as an investment company under the 1940 Act. Our policies with respect to such activities may be reviewed and modified from time to time by our board of directors.

Table of Contents

Lending Policies

We do not have a policy limiting our ability to make loans to other persons. Subject to REIT qualification rules, we may make loans to third parties. For example, we may consider offering purchase money financing in connection with the sale of properties where the provision of that financing will increase the value to be received by us for the property sold, or we may consider making loans to, or guaranteeing the debt of, joint ventures in which we participate or may participate in the future. We may choose to guarantee the debt of certain joint ventures with third parties. Consideration for those guarantees may include fees, long-term management contracts, options to acquire additional ownership and promoted equity positions. We do not currently intend to engage in any significant lending activities. We intend to make investments in such a way that we will not be treated as an investment company under the 1940 Act. However, our board of directors may adopt a lending policy without notice to or the vote of our shareholders.

Reporting Policies

As a public company, CareTrust is subject to the reporting requirements of the Exchange Act, pursuant to which we are required to file periodic reports, proxy statements and other information, including audited financial statements, with the SEC. See Where You Can Find More Information.

Table of Contents

DESCRIPTION OF OUR OTHER INDEBTEDNESS

Credit Facility

On May 30, 2014, CareTrust, the Operating Partnership and certain of its wholly owned subsidiaries entered into a credit agreement (the Credit Agreement) with Suntrust Bank, in its capacity as administrative agent, and the lenders party thereto. The Credit Agreement provides for the Credit Facility with commitments in an aggregate principal amount of $150.0 million from a syndicate of banks and other financial institutions. CareTrust intends to use borrowings under the Credit Agreement for working capital purposes, to fund acquisitions and for general corporate purposes.

The Credit Facility is secured by certain of CareTrust s properties, and the amount available to be drawn under the Credit Facility is based on the borrowing base values attributed to such mortgaged properties. As of June 30, 2014, the amount available to be drawn under the Credit Facility was $84.2 million. The Credit Facility is also secured by certain personal property of CareTrust s subsidiaries that have provided mortgages, CareTrust s interests in the Operating Partnership and CareTrust s interests in the subsidiaries that guarantee the Credit Facility.

The Credit Agreement provides that, subject to customary conditions, including obtaining commitments and pro forma compliance with financial maintenance covenants, the Operating Partnership may seek to obtain incremental revolving or term loans under the Credit Facility in an aggregate amount not to exceed $75.0 million. CareTrust does not currently have any commitments for such incremental loans.

The interest rates applicable to loans under the Credit Facility are, at the Operating Partnership s option, equal to either a base rate plus a margin ranging from 1.00% to 1.50% per annum or LIBOR plus a margin ranging from 2.00% to 2.50% per annum, based on the debt to asset value ratio of the Operating Partnership and its subsidiaries. In addition, the Operating Partnership will pay a commitment fee on the unused portion of the commitments under the Credit Facility that will range from 0.35% to 0.50% per annum, depending on the amount of such unused commitments.

Loans made under the Credit Facility are not subject to interim amortization. The Operating Partnership is not required to repay any loans under the Credit Facility prior to maturity, other than to the extent the outstanding borrowings exceed the lesser of the aggregate commitments under the Credit Facility and the sum of the borrowing base values attributable to the properties that are mortgaged as security under the Credit Facility. The Operating Partnership is permitted to prepay all or any portion of the loans under the Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders.

The Credit Facility is guaranteed, jointly and severally, by CareTrust and by CareTrust s wholly owned subsidiaries that are party to the Credit Agreement. The Credit Agreement contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Operating Partnership and its subsidiaries to grant liens on their assets, incur indebtedness, sell assets, make investments, engage in acquisitions, mergers or consolidations, amend certain material agreements and pay certain dividends and other restricted payments. The Credit Agreement requires CareTrust to comply with financial maintenance covenants to be tested quarterly, consisting of a maximum debt to asset value ratio, a maximum secured debt to asset value ratio, a maximum secured recourse debt to asset value ratio, a minimum fixed charge coverage ratio and a minimum net worth. The Credit Agreement also contains certain customary events of default. CareTrust is required to maintain its status as a REIT on and after the effective date of its election to be treated as a REIT.

GECC Loan

Ten of our properties are subject to secured mortgage indebtedness under the GECC Loan. In connection with the Spin-Off, on May 30, 2014, we assumed $48.3 million of secured mortgage indebtedness from Ensign

Table of Contents

and increased the amount of secured mortgage indebtedness on these same ten properties with an advance from the GECC Loan in an amount of approximately $50.7 million. The advance bears interest at a floating rate equal to three-month LIBOR plus 3.35%, reset monthly and subject to a LIBOR floor of 0.50%, with monthly principal and interest payments based on a 25-year amortization. The remaining indebtedness under the GECC Loan continues to bear interest at the existing interest rates until, but not including, June 29, 2016, and then converts to the floating rate described above. The GECC Loan, as modified, has a term of 36 months from the date of the new advance, plus two 12-month extension options, the exercise of which is conditioned, in each case, on the absence of any then-existing default and the payment of an extension fee equal to 0.25% of the then-outstanding principal balance of the GECC Loan. The original portion of the GECC Loan, approximately $48.3 million as of June 30, 2014, is prepayable without penalty, in whole but not in part, after June 29, 2016. The new portion of the GECC Loan, approximately $50.7 million as of June 30, 2014, is prepayable without penalty, in whole but not in part, after January 31, 2016.

The GECC Loan is guaranteed by CareTrust, contains customary affirmative and negative covenants, as well as customary events of default, and requires us to comply with specified financial maintenance covenants.

Table of Contents

THE EXCHANGE OFFER

Terms of the Exchange Offer; Period for Tendering Old Notes

On the terms and subject to the conditions set forth in this prospectus, we will accept for exchange Old Notes that are validly tendered prior to the expiration date and not validly withdrawn as permitted below. When we refer to the term expiration date, we mean 5:00 p.m., New York City time, October 9, 2014. We may, however, extend the period of time that the exchange offer is open or earlier terminate the exchange offer. If we extend the exchange offer, the term expiration date means the latest time and date to which the exchange offer is extended.

As of the date of this prospectus, $260,000,000 aggregate principal amount of Old Notes are outstanding, representing the aggregate principal amount of Old Notes issued under the indenture, dated as of May 30, 2014. We are sending this prospectus, together with the letter of transmittal, to all holders of Old Notes known to us on the date of this prospectus.

We expressly reserve the right to extend the period of time that the exchange offer is open, and delay acceptance for exchange of any Old Notes, by giving written notice of an extension to the holders of the Old Notes as described below. During any extension, all Old Notes previously tendered will remain subject to the exchange offer and may be accepted for exchange by us. Any Old Notes not accepted for exchange for any reason will be returned without expense to the tendering holder promptly after the expiration or termination of the exchange offer.

Old Notes tendered in the exchange offer must be in denominations of principal amount of $2,000 and integral multiples of $1,000 in excess of $2,000.

We expressly reserve the right to amend or terminate the exchange offer, and not to exchange any Old Notes, upon the occurrence of any of the conditions to the exchange offer specified under Conditions to the Exchange Offers. In the event of a material change in the exchange offer, including the waiver of a material condition, we will extend the offer period if necessary so that at least five business days remain in the offer following notice of the material change. We will give written notice of any extension, amendment, non-acceptance or termination of the exchange offer to the holders of the Old Notes as promptly as practicable. In the case of any extension, we will issue a notice by means of a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

Procedures for Tendering Old Notes

Your tender to us of Old Notes as set forth below and our acceptance of Old Notes will constitute a binding agreement between us and you on the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal. Except as set forth below, to tender Old Notes for exchange in the exchange offer, you must transmit a properly completed and duly executed letter of transmittal, including all other documents required by the letter of transmittal or, in the case of a book-entry transfer, an agent s message in place of the letter of transmittal, to Wells Fargo Bank, National Association, as exchange agent, at the address set forth below under Exchange Agent prior to the expiration date. In addition:

- certificates for Old Notes must be received by the exchange agent prior to the expiration date, along with the letter of transmittal, or a timely confirmation of a book-entry transfer (a book-entry confirmation) of Old Notes, if this procedure is available, into the exchange agent s account at DTC pursuant to the procedure for book-entry transfer described below under Book-Entry Transfers must be received by the exchange agent prior to the expiration date, with the letter of transmittal or an agent s message in place of the letter of transmittal, or

the holder must comply with the guaranteed delivery procedures described below.

99

Table of Contents

The term agent s message means a message, transmitted by DTC to and received by the exchange agent and forming a part of a book-entry confirmation, which states that DTC has received an express acknowledgment from the tendering participant stating that such participant has received and agrees to be bound by the letter of transmittal and that we may enforce such letter of transmittal against such participant.

The method of delivery of Old Notes, letters of transmittal and all other required documents is at your election and risk. If such delivery is by mail, it is recommended that you use registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. No letter of transmittal or Old Notes should be sent to us.

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed unless the Old Notes surrendered for exchange are tendered:

- by a holder of the Old Notes who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal, or

- for the account of an Eligible Institution (as defined below).

In the event that signatures on a letter of transmittal or a notice of withdrawal are required to be guaranteed, such guarantees must be by a firm which is a member of the Securities Transfer Agent Medallion Program, the Stock Exchanges Medallion Program or the New York Stock Exchange Medallion Program (we refer to each such entity as an Eligible Institution in this prospectus). If Old Notes are registered in the name of a person other than the signer of the letter of transmittal, the Old Notes surrendered for exchange must be endorsed by, or be accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as we or the exchange agent determine, duly executed by the registered holders with the signature thereon guaranteed by an Eligible Institution.

We will use our reasonable judgment to make a final and binding determination on all questions as to the validity, form, eligibility, including time of receipt, and acceptance of Old Notes tendered for exchange. We reserve the absolute right to reject any and all tenders of any particular old note not properly tendered or to not accept any particular old note which acceptance might, in our or our counsel s reasonable judgment, be unlawful. We also reserve the right to waive any defects or irregularities or conditions of the applicable exchange offer as to any particular old note either at or before the expiration date, including the right to waive the ineligibility of any holder who seeks to tender Old Notes in such exchange offer. Our interpretation of the terms and conditions of the applicable exchange offer as to any particular old note either before or after the expiration date, including the letter of transmittal and the instructions thereto, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of Old Notes for exchange must be cured within a reasonable period of time, as we determine. We are not, nor is the exchange agent or any other person, under any duty to notify you of any defect or irregularity with respect to your tender of Old Notes for exchange, and no one will be liable for failing to provide such notification.

If the letter of transmittal is signed by a person or persons other than the registered holder or holders of Old Notes, such Old Notes must be endorsed or accompanied by powers of attorney signed exactly as the name(s) of the registered holder(s) that appear on the Old Notes.

If the letter of transmittal or any Old Notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing. Unless waived by us, proper evidence satisfactory to us of their authority to so act must be submitted with the letter of transmittal.

By tendering Old Notes, you represent to us that, among other things:

- the holder is neither our affiliate, as defined in Rule 405 under the Securities Act, nor a broker-dealer tendering Notes acquired directly from us for its own account;

- any New Notes acquired pursuant to the exchange offer are being obtained in the ordinary course of business of the person receiving such New Notes, whether or not such person is the holder; and

- at the time of commencement of the exchange offer, neither the holder nor such other person has any arrangement or understanding with any person to participate in the distribution, as defined in the Securities Act, of the New Notes in violation of the Securities Act.

In the case of a holder that is not a broker-dealer, that holder, by tendering, will also represent to us that such holder is not engaged in and does not intend to engage in a distribution, as defined in the Securities Act, of the New Notes.

If you are our affiliate, as defined under Rule 405 under the Securities Act, and engage in or intend to engage in or have an arrangement or understanding with any person to participate in a distribution of such New Notes to be acquired pursuant to the exchange offer, you or any such other person:

- cannot rely on the applicable interpretations of the staff of the SEC;

- will not be entitled to tender your Old Notes in such exchange offer; and

- must comply with the registration requirements of the Securities Act in connection with any resale transaction.

Each broker-dealer that receives New Notes for its own account in exchange for Old Notes that were acquired as a result of market-making or other trading activities must acknowledge that it will comply with the registration and prospectus delivery requirements of the Securities Act in connection with any offer, resale or other transfer of the New Notes issued in the exchange offer, including information with respect to any selling holder required by the Securities Act in connection with any resale of the New Notes.

Furthermore, any broker-dealer that acquired any of its Old Notes directly from us:

- may not rely on the applicable interpretation of the staff of the SEC s position contained in *Exxon Capital Holdings Corp.*, SEC no-action letter (publicly available May 13, 1988), *Morgan Stanley & Co. Incorporated*, SEC no-action letter (publicly available June 5, 1991) and Shearman & Sterling, SEC no-action letter (publicly available July 2, 1993); and

- must also be named as a selling noteholder in connection with the registration and prospectus delivery requirements of the Securities Act relating to any resale transaction.

Each broker-dealer that receives New Notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such New Notes. The letter of transmittal states that by so acknowledging and 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 New Notes received in exchange for Old Notes which were received by the broker-dealer as a result of market-making or other trading activities. See Plan of Distribution.

Acceptance of Old Notes for Exchange; Delivery of New Notes

Upon satisfaction or waiver of all of the conditions to the exchange offer, we will accept, promptly after the expiration date, all Old Notes validly tendered and not validly withdrawn prior to the expiration date, unless we terminate the exchange offer. We will issue the New Notes promptly after acceptance of the Old Notes. See Conditions to the Exchange Offer. For purposes of the exchange offer, we will be deemed to have accepted validly tendered Old Notes for exchange if and when we give oral (confirmed in writing) or written notice to the exchange agent.

Table of Contents

The holder of each old note accepted for exchange will receive a new note in a principal amount equal to that of the surrendered Old Notes. The New Notes will bear interest from the most recent date to which interest has been paid on the Old Notes. If no interest has been paid on the Old Notes, holders of New Notes will receive interest accruing from May 30, 2014. Accordingly, registered holders of New Notes on the relevant record date for the first interest payment date following the completion of the applicable exchange offer will receive interest accruing from the most recent date to which interest has been paid on the Old Notes or, if no interest has been so paid, from May 30, 2014. Old Notes accepted for exchange will cease to accrue interest from and after the date of completion of the applicable exchange offer. Holders of Old Notes whose Old Notes are accepted for exchange will not receive any payment for accrued interest on the Old Notes otherwise payable on any interest payment date, the record date for which occurs on or after completion of such exchange offer and will be deemed to have waived their rights to receive the accrued interest on the Old Notes.

In all cases, issuance of New Notes for Old Notes that are accepted for exchange will only be made after timely receipt by the exchange agent of:

- certificates for such Old Notes or a timely book-entry confirmation of such Old Notes into the exchange agent s account at DTC;
- a properly completed and duly executed letter of transmittal or an agent s message in lieu thereof; and
- all other required documents.

If any tendered Old Notes are not accepted for any reason set forth in the terms and conditions of the exchange offer or if Old Notes are submitted for a greater principal amount than the holder desires to exchange, the unaccepted or non-exchanged Old Notes will be returned without expense to the tendering holder or, in the case of Old Notes tendered by book-entry transfer into the exchange agent s account at DTC pursuant to the book-entry procedures described below, the non-exchanged Old Notes will be credited to an account maintained with DTC, promptly after the expiration or termination of the applicable exchange offer.

Book-Entry Transfers

For purposes of the exchange offer, the exchange agent will request that an account be established with respect to the Old Notes of at DTC within two business days after the date of this prospectus, unless the exchange agent already has established an account with DTC suitable for the exchange offer. Any financial institution that is a participant in DTC may make book-entry delivery of Old Notes by causing DTC to transfer such Old Notes into the exchange agent s account at DTC in accordance with DTC s procedures for transfer. Although delivery of Old Notes may be effected through book-entry transfer at DTC, the letter of transmittal or facsimile thereof or an agent s message in lieu thereof, with any required signature guarantees and any other required documents, must, in any case, be transmitted to and received by the exchange agent at the address set forth under Exchange Agent prior to the expiration date or the guaranteed delivery procedures described below must be complied with.

The exchange agent and the book-entry transfer facility have confirmed that any financial institution that is a participant in the book-entry transfer facility may utilize the book-entry transfer facility Automated Tender Offer Program, or ATOP, procedures to tender Old Notes. Any participant in the book-entry transfer facility may make book-entry delivery of Old Notes by causing the book-entry transfer facility to transfer such Old Notes into the exchange agent s account in accordance with the book-entry transfer facility s ATOP procedures for transfer. However, the exchange for the Old Notes so tendered will only be made after a book-entry confirmation of the book-entry transfer of Old Notes into the exchange agent s account, and timely receipt by the exchange agent of an agent s message and any other documents required by the letter of transmittal. The term agent s message means a message, transmitted by the book-entry transfer facility and received by the exchange agent and forming part of a book-entry confirmation, which states that the book-entry transfer facility has received an express acknowledgment from a participant tendering Old Notes that are the subject of such book-entry confirmation that such participant has received and agrees to be bound by the terms of the letter of transmittal, and that we may enforce such agreement against such participant.

Table of Contents

Guaranteed Delivery Procedures

If you desire to tender your Old Notes and your Old Notes are not immediately available, or time will not permit your Old Notes or other required documents to reach the exchange agent before the expiration date, a tender may be effected if:

- prior to the expiration date, the exchange agent receives from such an Eligible Institution a notice of guaranteed delivery, substantially in the form we provide, by telegram, telex, facsimile transmission, mail or hand delivery, setting forth your name and address, the amount of Old Notes tendered, stating that the tender is being made thereby and guaranteeing that within three NASDAQ Global Select Market (NASDAQ) trading days after the date of execution of the notice of guaranteed delivery, the certificates for all physically tendered Old Notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a properly completed and duly executed appropriate letter of transmittal or facsimile thereof or agent s message in lieu thereof, with any required signature guarantees and any other documents required by the letter of transmittal will be deposited by such Eligible Institution with the exchange agent; and

- the certificates for all physically tendered Old Notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a properly completed and duly executed appropriate letter of transmittal or facsimile thereof or agent s message in lieu thereof, with any required signature guarantees and all other documents required by the letter of transmittal, are received by the exchange agent within three NASDAQ trading days after the date of execution of the notice of guaranteed delivery.

Withdrawal Rights

You may withdraw your tender of Old Notes at any time prior to the expiration date. To be effective, a written notice of withdrawal must be received by the exchange agent at the address set forth under Exchange Agent. This notice must specify:

- the name of the person having tendered the Old Notes to be withdrawn;

- the Old Notes to be withdrawn, including the principal amount of such Old Notes; and

- where certificates for Old Notes have been transmitted, the name in which such Old Notes are registered, if different from that of the withdrawing holder.

If certificates for Old Notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of the certificates, the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an Eligible Institution, unless such holder is an Eligible Institution. If Old Notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn Old Notes and otherwise comply with the procedures of DTC.

We will use our reasonable judgment to make a final and binding determination on all questions as to the validity, form and eligibility, including time of receipt, of such notices. Any Old Notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any Old Notes tendered for exchange but not exchanged for any reason will be returned to the holder without cost to the holder, or, in the case of Old Notes tendered by book-entry transfer into the exchange agent s account at DTC pursuant to the book-entry transfer procedures described above, the Old Notes will be credited to an account maintained with DTC for the Old Notes promptly after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn Old Notes may be re-tendered by following one of the procedures described under Procedures for Tendering Old Notes above at any time prior to the expiration date.

Table of Contents

Conditions to the Exchange Offer

Notwithstanding any other provision of the exchange offer, we are not required to accept for exchange, or to issue New Notes in exchange for, any Old Notes and may terminate or amend the exchange offer, if any of the following events occur prior to the expiration of the exchange offer:

- the exchange offer violates any applicable law or applicable interpretation of the staff of the SEC;
- an action or proceeding shall have been instituted or threatened in any court or by any governmental agency that might materially impair our ability to proceed with the exchange offer;
- we shall not have received all governmental approvals that we deem necessary to consummate the exchange offer; or
- there has been proposed, adopted, or enacted any law, statute, rule or regulation that, in our reasonable judgment, would materially impair our ability to consummate the exchange offer.

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

In addition, we will not accept for exchange any Old Notes tendered, and we will not issue New Notes in exchange for any such Old Notes, if at such time any stop order by the SEC is threatened or in effect with respect to the registration statement of which this prospectus constitutes a part, or the indenture is no longer qualified under the Trust Indenture Act.

Exchange Agent

Wells Fargo Bank, National Association has been appointed as the exchange agent for the exchange offer. All executed letters of transmittal should be directed to the exchange agent at the address set forth below. Questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery should be directed to the exchange agent addressed as follows:

Wells Fargo Bank, National Association, Exchange Agent

By Registered or Certified Mail:	By Regular Mail or Overnight Courier:	In Person by Hand Only:
WELLS FARGO BANK N.A. Corporate Trust Operations MAC N9303-121 PO Box 1517	WELLS FARGO BANK N.A. Corporate Trust Operations MAC N9303-121 Sixth & Marquette Avenue	WELLS FARGO BANK N.A. 12th Floor-Northstar East Building Corporate Trust Operations 608 Second Avenue South

Minneapolis, MN 55480	Minneapolis, MN 55479	Minneapolis, MN 55479

By Facsimile (for Eligible Institutions only):	For Information or Confirmation by Telephone:
(612) 667-6282	(800) 344-5128

DELIVERY OF THE LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF SUCH LETTER OF TRANSMITTAL VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY OF THE LETTER OF TRANSMITTAL.

Table of Contents

Fees and Expenses

The principal solicitation is being made by mail by Wells Fargo Bank, National Association, as exchange agent. We will pay the exchange agent customary fees for its services, reimburse the exchange agent for its reasonable out-of-pocket expenses incurred in connection with the provision of these services and pay other registration expenses, including fees and expenses of the trustee under the indenture relating to the Notes, filing fees, blue sky fees and printing and distribution expenses. We will not make any payment to brokers, dealers or others soliciting acceptances of the exchange offer.

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

Accounting Treatment

We will record the New Notes at the same carrying value as the Old Notes, as reflected in our accounting records on the date of the exchange. Accordingly, we will not recognize any gain or loss for accounting purposes. The expenses of the exchange offer will be expensed as incurred.

Transfer Taxes

You will not be obligated to pay any transfer taxes in connection with the tender of Old Notes in the exchange offer unless you instruct us to register New Notes in the name of, or request that Old Notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder. In those cases, you will be responsible for the payment of any potentially applicable transfer tax.

Consequences of Exchanging or Failing to Exchange Old Notes

The information below concerning specific interpretations of and positions taken by the staff of the SEC is not intended to constitute legal advice, and holders should consult their own legal advisors with respect to those matters.

If you do not exchange your Old Notes for New Notes in the exchange offer, your Old Notes will continue to be subject to the provisions of the indenture relating to the Notes regarding transfer and exchange of the Old Notes and the restrictions on transfer of the Old Notes described in the legend on your Old Notes. These transfer restrictions are required because the Old Notes were issued under an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the Old Notes may not be offered or sold unless registered under the Securities Act, except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not plan to register the Old Notes under the Securities Act. Holders of Old Notes that do not exchange Old Notes for New Notes in the exchange offer will no longer have any registration rights with respect to their Old Notes (except in the case of the initial purchasers and participating broker-dealers as provided in the registration rights agreement).

Under existing interpretations of the Securities Act by the SEC s staff contained in several no-action letters to third parties, and subject to the immediately following sentence, we believe that the New Notes would generally be freely transferable by holders after the exchange offer without further registration under the Securities Act, subject to certain representations required to be made by each holder of New Notes, as set forth below. However, any purchaser of New Notes who is one of our affiliates as defined in Rule 405 under the Securities Act or who intends to participate in the exchange offer for the purpose of distributing the New Notes:

will not be able to rely on the interpretation of the SEC s staff;

will not be able to tender its Old Notes in the exchange offer; and

105

must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the New Notes unless such sale or transfer is made pursuant to an exemption from such requirements. See Plan of Distribution.

We do not intend to seek our own interpretation regarding the exchange offer, and there can be no assurance that the SEC s staff would make a similar determination with respect to the New Notes as it has in other interpretations to other parties, although we have no reason to believe otherwise.

Each broker-dealer that receives New Notes for its own account in exchange for Old Notes, where the Old Notes were acquired by it as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus that meets the requirements of the Securities Act in connection with any resale of the New Notes. The letter of transmittal 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 New Notes received in exchange for Old Notes which were received by the broker-dealer as a result of market-making or other trading activities.

DESCRIPTION OF THE NEW NOTES

The New Notes will be issued under the indenture, dated as of May 30, 2014, among CareTrust REIT, Inc., CTR Partnership, L.P., CareTrust Capital Corp., CareTrust GP, LLC, the Subsidiary Guarantors and Wells Fargo Bank, National Association, as trustee, which we refer to as the *indenture*. This is the same indenture under which the Old Notes were issued. The terms of the New Notes are stated in the indenture and also include those terms made part of the indenture by reference to the Trust Indenture Act of 1939, as amended (the *Trust Indenture Act*). The following description is a summary of the material provisions of the indenture and it does not restate the indenture. This description therefore may not contain all of the information that is important to you, and we urge you to read the indenture in its entirety, which can be obtained upon request to CareTrust REIT, Inc. at the address indicated under Where You Can Find More Information elsewhere in this prospectus, because it, and not this description, defines your rights as a holder of New Notes.

You can find the definitions of certain capitalized terms used in this description under the subheading Certain Definitions. The term Partnership as used in this section refers only to CTR Partnership, L.P. and not to any of its subsidiaries, the term Capital Corp. as used in this section refers only to CareTrust Capital Corp. and not to any of its subsidiaries, the term Issuers as used in this section refers only to the Partnership and Capital Corp. and not to any of their respective subsidiaries, the term Parent as used in this section refers only to CareTrust REIT, Inc. and not to any of its subsidiaries and the term General Partner as used in this section refers only to CareTrust GP, LLC and not to any of its subsidiaries.

The New Notes Versus the Old Notes

The Issuers are issuing $260.0 million aggregate principal amount of their 5.875% Senior Notes due 2021 (the *New Notes* and, together with any Old Notes that remain outstanding after the exchange offer, the *Notes*). The New Notes are substantially identical to the Old Notes except that the transfer restrictions, registration rights and additional interest provisions relating to the Old Notes described in the registration rights agreement do not apply to the New Notes. The New Notes issued in this exchange offer and any Old Notes that remain outstanding after this exchange offer will constitute a single series of debt securities under the indenture.

General

The Notes are unsecured senior obligations of the Issuers and will mature on June 1, 2021. The Notes will initially bear interest at a rate of 5.875% per annum, payable semiannually to holders of record at the close of business on the May 15 or the November 15 immediately preceding the interest payment date on June 1 and December 1 of each year, commencing December 1, 2014.

Principal of, premium, if any, and interest on the Notes will be payable, and the Notes may be exchanged or transferred, in accordance with the terms of the indenture.

Interest on the Notes will accrue from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of $2,000 of principal amount and any integral multiple of $1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Issuers are entitled to require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection with a registration of transfer or exchange of Notes.

Subject to the covenant described below under Covenants Limitation on Indebtedness, the Issuers are entitled to issue additional notes under the indenture. The Notes and any additional notes subsequently issued under the indenture will be treated as a single class for all purposes under the indenture, including waivers, amendments, redemptions and offers to purchase (other than special redemptions or offers to purchase related to a particular transaction or an escrow funding and specific to an issuance of Notes (including any special mandatory redemption). Additional notes will not necessarily be fungible with the Notes for U.S. federal income tax purposes.

Parent, the General Partner and the Issuers

Each of Parent, the General Partner and the Issuers was formed for the purpose of consummating the Spin-Off and the other Transactions. Parent is a holding company with no operations or assets, other than the equity interests in the Partnership and in the General Partner. The General Partner is a holding company with no operations or assets, other than the equity interests in the Partnership. As a result, holders of the Notes should not expect Parent or the General Partner to participate in servicing the obligations under the Notes.

Substantially concurrently with or on or prior to the Issue Date, Ensign contributed to Parent, for further contribution directly and indirectly to the Partnership, the entities that owned all of Ensign s real property interests (other than the entities that own certain retained properties) (the *CareTrust PropCo Entities* and, such real property interests, the *PropCo Assets*) and the entities that operate three ILFs (the *CareTrust OpCo Entities* and, the assets related to such operations, the *OpCo Assets*). *CareTrust Subsidiaries* means the CareTrust OpCo Entities together with the CareTrust PropCo Entities. *CareTrust Assets* means the OpCo Assets together with the PropCo Assets.

Capital Corp. is a newly formed corporation and a direct wholly owned subsidiary of the Partnership formed solely for the purpose of facilitating the offering of the Notes by acting as a co-issuer of the Notes. Capital Corp. is nominally capitalized and does not have any operations or revenues. As a result, investors in the Notes should not expect Capital Corp. to participate in servicing the obligations under the Notes. See Limitations on Activities of Capital Corp.

Notes Guarantees and Subsidiary Guarantors

The Notes are guaranteed by Parent, the General Partner and each of the CareTrust Subsidiaries (the *Subsidiary Guarantors*), other than those CareTrust Subsidiaries (the *Real Property Non-Guarantor Subsidiaries*) that hold their properties subject to mortgages or other Indebtedness whose terms prohibit such Subsidiaries from entering into guarantees of other Indebtedness, including Notes Guarantees and guarantees of the Credit Agreement. As of the Issue Date, the Real Property Non-Guarantor Subsidiaries held CareTrust Assets consisting of the Real Property Non-Guarantor Subsidiaries respective real properties and the improvements thereon, including SNFs (the *Non-Guarantor Assets*). The consolidated net revenues of CareTrust on an annualized basis attributable to the Non-Guarantor Assets would have been $10.9 million based upon the consolidated net revenues of CareTrust for the month of June 2014 (the first full month of operations after the Spin-Off), and, as of June 30, 2014, the Non-Guarantor Assets accounted for 10.8% of CareTrust s total real estate investments, net of accumulated depreciation, and secured aggregate mortgage indebtedness to third parties of approximately $99.0 million, which consists of indebtedness under the GECC Loan.

The Notes Guarantees are unconditional (subject to the release provisions described below under Covenants Future Guarantees by Restricted Subsidiaries) regardless of the enforceability of the Notes and the indenture but are limited to the extent necessary to avoid being characterized as a fraudulent conveyance. The Notes will not be guaranteed by the Real Property Non-Guarantor Subsidiaries, any Unrestricted Subsidiaries we may create in the future or any future Restricted Subsidiaries that are not required to become (or are released as) Subsidiary Guarantors in accordance with Covenants Future Guarantees by Restricted Subsidiaries. As of the Issue Date, there was no Unrestricted Subsidiaries, and all of the Partnership s Subsidiaries (other than the Real Property Non-Guarantor Subsidiaries) were Subsidiary Guarantors. However, as described in the definition of Unrestricted Subsidiary, any Subsidiary of Parent (other than the Issuers) may be designated in the future as an Unrestricted Subsidiary. Unrestricted Subsidiaries will not be subject to the restrictive covenants in the indenture.

Table of Contents

Subject to certain exceptions, each future Domestic Restricted Subsidiary of the Issuers that subsequently guarantees Indebtedness under the Credit Agreement, any other syndicated loan facility or any capital markets Indebtedness of the Issuers or a Subsidiary Guarantor will be required to execute a Subsidiary Guarantee. See Covenants Future Guarantees by Restricted Subsidiaries.

Pursuant to the indenture, and giving effect to the release provisions described below under Covenants Future Guarantees by Restricted Subsidiaries , a Subsidiary Guarantor may consolidate with, merge with or into, or transfer all or substantially all its assets to any other Person as described below under Covenants Consolidation, Merger and Sale of Assets, and the Capital Stock of a Subsidiary Guarantor may be sold or otherwise disposed of to another Person as described below under Covenants Limitation on Asset Sales. The Subsidiary Guarantee of a Subsidiary Guarantor also will be released under specified circumstances as described under Covenants Future Guarantees by Restricted Subsidiaries.

Optional Redemption

Optional Redemption. Except as described below, the Issuers are not entitled to redeem any Notes prior to June 1, 2017. The Notes will be redeemable at the option of the Issuers, in whole or in part, at any time, and from time to time, on and after June 1, 2017, at the following redemption prices (expressed as percentages of the principal amount thereof) if redeemed during the 12-month period commencing June 1 of the years indicated below, in each case together with accrued and unpaid interest thereon, if any, to, but not including, the redemption date (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date):

Year	Redemption Price
2017	102.938%
2018	101.469%
2019 and thereafter	100.000%

Make-Whole Redemption. Prior to June 1, 2017, the Issuers are entitled, at their option, to redeem, at any time, and from time to time, all or a portion of the Notes at a redemption price equal to 100% of the principal amount of the Notes ***plus*** the Applicable Premium as of, and accrued and unpaid interest, if any, to, but not including, the redemption date (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date).

Applicable Premium means with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (i) the redemption price of such Note on June 1, 2017 (such redemption price being described in the first paragraph in this Optional Redemption section exclusive of any accrued and unpaid interest) *plus* (ii) all required remaining scheduled interest payments due on such Note through June 1, 2017 (but excluding accrued and unpaid interest to such redemption date), computed using a discount rate equal to the Adjusted Treasury Rate at such redemption date, over (B) the principal amount of such Note on such redemption date.

Adjusted Treasury Rate means, with respect to any redemption date, (1) the yield as of the earlier of (a) such redemption date and (b) the date on which such Notes are defeased or satisfied and discharged, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the

Comparable Treasury Issue (if no maturity is within three months before or after June 1, 2017, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated by the Issuers on the third Business Day immediately preceding the redemption date, *plus*, in the case of each of clauses (1) and (2), 0.50%.

Comparable Treasury Issue means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Notes from the redemption date to June 1, 2017, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to June 1, 2017.

Comparable Treasury Price means, with respect to any redemption date, if clause (2) of the Adjusted Treasury Rate definition is applicable, the average of three, or such lesser number as is obtained by the Issuers, Reference Treasury Dealer Quotations for such redemption date.

Quotation Agent means the Reference Treasury Dealer selected by the Issuers.

Reference Treasury Dealer means Wells Fargo Securities, LLC and its successors and assigns, SunTrust Robinson Humphrey, Inc. and its successors and assigns and RBC Capital Markets, LLC and its successors and assigns.

Reference Treasury Dealer Quotations means with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Issuers, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day immediately preceding such redemption date.

Optional Redemption With Proceeds of Equity Offerings. At any time, and from time to time, on or prior to June 1, 2017, the Issuers are entitled, at their option, to use an amount equal to all or a portion of the Net Cash Proceeds of one or more Equity Offerings to redeem up to 35% of the principal amount of the Notes (together with any additional notes) issued under the indenture at a redemption price of 105.875% of the principal amount thereof *plus* accrued and unpaid interest thereon, if any, to, but not including, the redemption date (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date); provided, however, that:

(1) at least 65% of the principal amount of Notes originally issued under the indenture remains outstanding immediately after such redemption; and

(2) the Issuers complete such redemption not more than 120 days after the consummation of any such Equity Offering.

The Issuers or their Affiliates are entitled to acquire Notes by means other than a redemption from time to time, including through an Offer to Purchase, open market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise, so long as such acquisition does not otherwise violate the terms of the indenture, upon such terms and at such prices as the Issuers or their Affiliates may determine, which may be more or less than the consideration for which the Old Notes were sold and may be less than any redemption price then in effect and could be for cash or other consideration.

Selection and Notice of Redemption for Optional Redemptions

In the event that the Issuers elect to redeem less than all of the Notes, selection of the Notes for redemption will be made by the trustee either:

(1) in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are then listed; or

Table of Contents

(2) if the Notes are not so listed, on a pro rata basis, by lot or by such method as the trustee deems fair and appropriate and in accordance with DTC procedures.

No Notes of a principal amount of $2,000 or less will be redeemed in part, and no redemption shall result in a holder holding a Note of a principal amount of less than $2,000. Notice of redemption will be mailed by first-class mail or given as otherwise provided in accordance with the procedures of DTC at least 30 but not more than 60 days before the redemption date to each holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed or given more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the indenture. In connection with any redemption of Notes (including with the Net Cash Proceeds of an Equity Offering), any such redemption may, at the Issuers discretion, be subject to satisfaction of one or more conditions precedent, including any related Equity Offering. In addition, if such redemption or notice is subject to satisfaction of one or more conditions precedent, such notice may state that, in the Issuers discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied (or waived by the Issuers in their sole discretion), or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied (or waived by the Issuers in their sole discretion) by the redemption date, or by the redemption date so delayed. Unless the Issuers default in the payment of the redemption price, on and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption.

Sinking Fund

There will be no sinking fund payments for the Notes, and the Notes are not subject to mandatory redemption.

Ranking

The Notes will be senior unsecured obligations of the Issuers, and rank equally in right of payment with other existing and future unsecured senior Indebtedness of the Issuers. The Notes Guarantee by each Guarantor will be an unsecured senior obligation of such Guarantor and will rank equally in right of payment with all existing and future unsecured senior Indebtedness of such Guarantor. The Notes and the Notes Guarantees, respectively, will be effectively subordinated to all of the Issuers and the Guarantors secured Indebtedness (including the Credit Agreement and a promissory note with Johnson Land Enterprises, Inc.) to the extent of the value of the assets securing such Indebtedness, and structurally subordinated to all Indebtedness (including the GECC Loan) of any Subsidiaries of the Issuers (including the Real Property Non-Guarantor Subsidiaries) that are not Subsidiary Guarantors. See Notes Guarantees and Subsidiary Guarantors for a description of which entities will guarantee the Notes. As of June 30, 2014:

(i) we had on a consolidated basis approximately $359.5 million of Indebtedness outstanding (consisting of $260.0 million under the Notes, approximately $99.5 million under the GECC Loan and a promissory note with Johnson Land Enterprises, Inc. and no outstanding borrowings under the Credit Agreement);

(ii) we had on a consolidated basis approximately $99.5 million of Secured Indebtedness outstanding (consisting of approximately $99.5 million under the GECC Loan and a promissory note with Johnson Land Enterprises, Inc. and no outstanding borrowings under the Credit Agreement) all of which would be effectively senior to the Notes to the extent of the value of the assets securing such Indebtedness;

(iii) we had on a consolidated basis approximately $84.2 million in borrowing capacity available under the Credit Agreement given the borrowing base requirements of the Credit Agreement (all of which borrowings would be effectively senior to the Notes to the extent of the value of the assets securing such Indebtedness); and

(iv) the Real Property Non-Guarantor Subsidiaries would have had approximately $99.0 million of Indebtedness outstanding (consisting of the GECC Loan) all of which would be structurally senior to the Notes.

Table of Contents

Suspension of Covenants

During a Suspension Period, Parent and its Restricted Subsidiaries will not be subject to the following corresponding provisions of the indenture:

Covenants Limitation on Indebtedness ;

Covenants Maintenance of Total Unencumbered Assets ;

Covenants Limitation on Restricted Payments ;

Covenants Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries ;

Covenants Future Guarantees by Restricted Subsidiaries ;

Covenants Limitation on Transactions with Affiliates ;

Covenants Limitation on Asset Sales ; and

clause (3) of the first paragraph of Consolidation, Merger and Sale of Assets.

All other provisions of the indenture will apply at all times during any Suspension Period so long as any Notes remain outstanding thereunder.

Suspension Period means any period:

(1) beginning on the date that:

(A) the Notes have Investment Grade Status;

(B) no Default or Event of Default has occurred and is continuing; and

(C) the Issuers have delivered an Officer s Certificate to the trustee certifying that the conditions set forth in clauses (A) and (B) above are satisfied; and

(2) ending on the date (the *Reversion Date*) that the Notes cease to have Investment Grade Status.
During a Suspension Period, Parent s Board of Directors may not designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the definition of Unrestricted Subsidiary.

On each Reversion Date, calculations under the reinstated Restricted Payments covenant will be made as if the Restricted Payments covenant had been in effect since the Issue Date; provided that no Default or Event of Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended; provided further, that the amount available to be made as a Restricted Payment shall not be reduced to below zero solely as a result of Restricted Payments made during the Suspension Period but may be reduced to below zero as a result of negative cumulative Funds from Operations during the Suspension Period for the purpose of the first bullet under clause (C) of the first paragraph of such covenant.

On each Reversion Date, all Indebtedness, Liens and dividend and other payment restrictions Incurred during the Suspension Period prior to such Reversion Date will be deemed to have been outstanding on the Issue Date. For purposes of the Limitation on Asset Sales covenant, on each Reversion Date, the unutilized Excess Proceeds will be reset to zero. No Default or Event of Default will be deemed to have occurred on the Reversion Date (or thereafter) under any Suspended Covenant solely as a result of any actions taken by Parent of any of its Restricted Subsidiaries, or events occurring, during the Suspension Period. For purposes of the Maintenance of Total Unencumbered Assets covenant, if the Issuers and their Restricted Subsidiaries are not in compliance with such covenant as of a Reversion Date, no Default or Event of Default will be deemed to have occurred unless such noncompliance continues for 120 days following the Reversion Date, provided that neither the Issuers nor any of their Restricted Subsidiaries shall incur any Secured Indebtedness until such time that the requirements of such covenant have been satisfied.

Table of Contents

There can be no assurance that the Notes will ever achieve an investment grade rating or Investment Grade Status or that any such rating or status will be maintained.

Spin-Off Transactions

The indenture provides that notwithstanding any of the covenants or obligations of Parent, the Issuers or any of Parent s Restricted Subsidiaries described under Covenants, Consolidation, Merger and Sale of Assets, Repurcha of Notes upon a Change of Control and Limitations on Activities of Capital Corp., any action taken by any of Parent, the Issuers or any of Parent s Restricted Subsidiary in connection with or incidental to the consummation of the Spin-Off and other Transactions shall be permitted under those covenants and obligations without restriction.

Covenants

The indenture contains, among others, the following covenants:

Limitation on Indebtedness

(1) Parent and the General Partner will not Incur any Indebtedness (including Acquired Indebtedness) other than guarantees of Indebtedness issued on the Issue Date, other Indebtedness existing on the Issue Date, and guarantees of Indebtedness of the Issuers or any other Restricted Subsidiary of Parent provided such Indebtedness is permitted by and Incurred in accordance with this covenant. The Issuers will not, and will not permit any of their Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness) if, immediately after giving effect to the Incurrence of such additional Indebtedness and on a pro forma basis (including the receipt and pro forma application of the proceeds therefrom), the aggregate principal amount of all outstanding Indebtedness of Parent and its Restricted Subsidiaries on a consolidated basis is greater than 60% of Parent s Adjusted Total Assets.

(2) The Issuers will not, and will not permit any of their Restricted Subsidiaries to, Incur any Secured Indebtedness (including Acquired Indebtedness) if, immediately after giving effect to the Incurrence of such additional Secured Indebtedness and on a pro forma basis (including the receipt and pro forma application of the proceeds therefrom), the aggregate principal amount of all outstanding Secured Indebtedness of the Issuers and their Restricted Subsidiaries on a consolidated basis would be greater than 40% of Parent s Adjusted Total Assets.

(3) The Issuers will not, and will not permit any of their Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness); provided, however, that the Issuers or any of the Subsidiary Guarantors may Incur Indebtedness (including Acquired Indebtedness) if, after giving effect to the Incurrence of such Indebtedness and on a pro forma basis (including the receipt and pro forma application of the proceeds therefrom), the Interest Coverage Ratio of Parent and its Restricted Subsidiaries on a consolidated basis would be at least 2.0 to 1.0.

(4) Notwithstanding paragraphs (1), (2) and (3) above, Parent or any of its Restricted Subsidiaries (except as specified below) may Incur each and all of the following (collectively, *Permitted Indebtedness*):

(A) Indebtedness of an Issuer or a Guarantor outstanding under any Credit Facility at any time in an aggregate principal amount not to exceed the greater of $225.0 million and 30% of Parent s Adjusted Total Assets (in each case, *plus*, in the case of any Indebtedness under any Credit Facility resulting from the refinancing of any Indebtedness under any Credit Facility, the aggregate amount of accrued interest, fees, underwriting discounts, premiums and other costs and expenses incurred in connection with such refinancing);

(B) Indebtedness of the Issuers or any of their Restricted Subsidiaries owed to:

the Issuers or a Guarantor, or

any Restricted Subsidiary;

113

provided, however, that if the Partnership, Capital Corp. or any Guarantor is an obligor and the payee is not the Partnership, Capital Corp. or a Guarantor, the Indebtedness is subordinated in right of payment to the amounts due under the Notes, in the case of the Partnership or Capital Corp., or the Notes Guarantee, in the case of a Guarantor; provided further that any event that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary of the Issuers or any subsequent transfer of such Indebtedness (other than to the Issuers or any other Restricted Subsidiary of the Issuers) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (B);

(C) Indebtedness of the Issuers or any of their Restricted Subsidiaries under Hedging Obligations (provided that such agreements (x)(i) are designed to protect the Issuers or any of their Restricted Subsidiaries against fluctuations in foreign currency exchange rates or interest rates (whether fluctuations of fixed to floating rate interest or floating to fixed rate interest) or otherwise in the ordinary course of business to hedge or mitigate risks to which the Issuers or any of their Restricted Subsidiaries are exposed in the conduct of their business or the management of their liabilities and not for speculative purposes and (ii) do not increase the Indebtedness of the obligor outstanding at any time other than as a result of fluctuations in foreign currency exchange rates or interest rates or other hedged items or by reason of fees, indemnities and compensation payable thereunder, or (y) were entered into as part of or in connection with an issuance of Convertible Indebtedness) (including, in the case of this clause (y), for the avoidance of doubt, Permitted Bond Hedge Transactions and Permitted Warrant Transactions));

(D) Indebtedness of the Issuers or any of the Subsidiary Guarantors, to the extent the net proceeds thereof are promptly or substantially concurrently:

used to purchase Notes tendered in an Offer to Purchase made as a result of (or in anticipation of, but subject to) a Change in Control,

used to redeem all the Notes as described above under Optional Redemption,

deposited to defease the Notes as described below under Defeasance, or

deposited to discharge the obligations under the Notes and indenture as described below under Satisfaction and Discharge ;

(E) (i) Guarantees of Indebtedness of the Issuers or any of the Subsidiary Guarantors by Parent or the General Partner, (ii) Guarantees of Indebtedness of the Issuers or any Subsidiary Guarantor by any of their Restricted Subsidiaries provided the guarantee of such Indebtedness is permitted by and made in accordance with the Future Guaranties by Restricted Subsidiaries covenant described below, (iii) any Guarantees by a Subsidiary Guarantor of any Indebtedness of an Issuer or any other Subsidiary Guarantor, (iv) Guarantees by an Issuer of Indebtedness of any Subsidiary Guarantor, (v) Guarantees of Permitted Mortgage Indebtedness of a Restricted Subsidiary by Parent and (vi) Guarantees by any Restricted Subsidiary of Parent that is not an Issuer or Subsidiary Guarantor of Indebtedness of any other Restricted Subsidiary of Parent that is not an Issuer or Subsidiary Guarantor;

(F) Existing Indebtedness;

(G) Indebtedness represented by the Notes and the Notes Guarantees issued on the Issue Date and the exchange Notes and related exchange guarantees to be issued in exchange for such Notes and Notes Guarantees pursuant to the registration rights agreement;

(H) Indebtedness consisting of obligations to pay insurance premiums incurred in the ordinary course of business;

(I) Indebtedness in respect of any bankers acceptances, bank guarantees, letters of credit, warehouse receipt or similar facilities, and reinvestment obligations related thereto, entered into in the ordinary course of business;

(J) (a) Indebtedness in respect of workers compensation claims, health, disability or other employee benefits, self-insurance obligations, indemnities, performance, bid, completion and surety bonds or guarantees and similar types of obligations in the ordinary course of business and including statutory obligations or otherwise under applicable law and (b) deposits and advance payments received in the ordinary course of business;

(K) Indebtedness represented by cash management obligations and other obligations in respect of netting services, automatic clearinghouse arrangements, overdraft protections and similar arrangements in each case in connection with deposit accounts and honoring or drawing of an instrument against insufficient funds and endorsements for deposit;

(L) Indebtedness supported by a letter of credit procured by the Issuers or any of their Restricted Subsidiaries in a principal amount not in excess of the stated amount of such letter of credit and where the underlying Indebtedness would otherwise be permitted;

(M) guarantees: (a) Incurred in the ordinary course of business; or (b) constituting Investments that are (i) included in the calculation of the amount available to be made as Restricted Payments under clause (C) of the first paragraph of the Limitation on Restricted Payments covenant, (ii) made pursuant to clause (18) under the third paragraph under the Limitation on Restricted Payments covenant or (iii) made in reliance on clause (9), (18) or (19) of the definition of Permitted Investments ;

(N) Permitted Refinancing Indebtedness Incurred in exchange for, or the net proceeds of which are used to refund, refinance or replace, Indebtedness (other than intercompany Indebtedness) that was permitted by the indenture to be Incurred under the provisions of paragraphs (1), (2) and (3) of this covenant or clause (D), (F), (G), (N), (O), (P), (Q), (R), (S) or (T) of this paragraph (4);

(O) Indebtedness of Restricted Subsidiaries that are not the Issuers or Subsidiary Guarantors in an aggregate principal amount at any time outstanding not to exceed, when taken together with all then outstanding net Investments in Unrestricted Subsidiaries and joint ventures made in reliance on clause (9) of the definition of Permitted Investments, the greater of $20.0 million and 3.0% of the Adjusted Total Assets of such Restricted Subsidiaries; provided, however, that any Permitted Refinancing Indebtedness Incurred under clause (N) above in respect of Indebtedness Incurred under this clause (O) shall be deemed to have been Incurred under this clause (O) for purposes of determining the amount of Indebtedness that may at any time be Incurred under this clause (O);

(P) additional Indebtedness of the Issuers and their Restricted Subsidiaries in an aggregate principal amount at any time outstanding not to exceed the greater of $20.0 million and 3.0% of Parent s Adjusted Total Assets; provided, however, that any Permitted Refinancing Indebtedness Incurred under clause (N) above in respect of Indebtedness Incurred under this clause (P) shall be deemed to have been Incurred under this clause (P) for purposes of determining the amount of Indebtedness that may at any time be Incurred under this clause (P);

(Q) Indebtedness (including Capitalized Lease Obligations and Attributable Debt) of the Issuers and their Restricted Subsidiaries Incurred to finance the purchase, lease, expansion, repair, refurbishment, renovation, improvement, construction or acquisition (whether by asset or Capital Stock of the Person owning such assets) of, or capital expenditures with respect to, property (real or personal) or equipment in an aggregate principal amount at any time outstanding not to exceed the greater of $20.0 million and 3.0% of Parent s Adjusted Total Assets; provided, however, that any Permitted Refinancing Indebtedness Incurred under clause (N) above in respect of such Indebtedness shall be deemed to have been Incurred under this clause (Q) for purposes of determining the amount of Indebtedness that may at any time be Incurred under this clause (Q);

(R) Acquired Indebtedness and any other Indebtedness Incurred to finance a merger, consolidation or other acquisition; provided that either (i) immediately after giving effect to the Incurrence of such

115

Table of Contents

Acquired Indebtedness and such other Indebtedness, as the case may be, on a pro forma basis (including the receipt and pro forma application of the proceeds therefrom) as if such Incurrence (and the related merger, consolidation or other acquisition) had occurred at the beginning of the applicable Four Quarter Period, (A) either (x) the Issuers and their Restricted Subsidiaries would be permitted to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (1) above or (y) the ratio referred to in such paragraph (1) would be equal to or less than such ratio immediately prior to such merger, consolidation or other acquisition, (B) either (x) the Issuers and their Restricted Subsidiaries would be permitted to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (2) above or (y) the ratio referred to in such paragraph (2) would be equal to or less than such ratio immediately prior to such merger, consolidation or other acquisition and (C) either (x) the Issuers and the Subsidiary Guarantors would be permitted to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (3) above or (y) the ratio referred to in such paragraph (3) would be equal to or greater than such ratio immediately prior to such merger, consolidation or other acquisition; or (ii) the aggregate principal amount of such Acquired Indebtedness or other Indebtedness at any time outstanding Incurred pursuant to this clause (R)(ii) does not exceed $10.0 million;

(S) Permitted Mortgage Indebtedness of any Restricted Subsidiary of Parent that is not an Issuer or Subsidiary Guarantor that would be permitted to be Incurred under the provisions of paragraphs (1), (2) and (3) of this covenant, if such Restricted Subsidiary was a Subsidiary Guarantor; or

(T) Convertible Indebtedness of Parent that would be permitted to be Incurred under the provisions of paragraphs (1), (2) and (3) of this covenant, if Parent was an Issuer.

(5) Notwithstanding any other provision of this Limitation on Indebtedness covenant, the maximum amount of Indebtedness that Parent or any of its Restricted Subsidiaries may Incur pursuant to this Limitation on Indebtedness covenant shall not be deemed to be exceeded, with respect to any outstanding Indebtedness, due solely to the result of fluctuations in the exchange rates of currencies.

(6) For purposes of determining any particular amount of Indebtedness under this Limitation on Indebtedness covenant, guarantees, Liens or obligations with respect to letters of credit supporting Indebtedness otherwise included in the determination of such particular amount shall not be included.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of permitted Indebtedness described in clauses (A) through (T) of paragraph (4) above or is entitled to be Incurred pursuant to paragraphs (1), (2) and (3) above, the Issuers shall, in their sole discretion, be entitled to classify all or a portion of such item of Indebtedness on the date of its Incurrence or issuance and determine the order of such Incurrence or issuance (and may later reclassify such item of Indebtedness) and may divide and classify such Indebtedness in more than one of the types of Indebtedness described. At any time that the Issuers would be entitled to have Incurred any then outstanding Indebtedness under paragraphs (1), (2) and (3) of this covenant, such Indebtedness shall be automatically reclassified into Indebtedness Incurred pursuant to those paragraphs. Notwithstanding the foregoing, any Indebtedness Incurred and outstanding under the Credit Agreement on or prior to the Issue Date shall be deemed to have been Incurred under clause (A) of paragraph (4) above and may not be reclassified. Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness, but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness. For the avoidance of doubt, the outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any guarantee, Lien, letter of credit or similar instrument supporting such Indebtedness shall not be double counted.

For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term debt, or first committed, in the case of revolving credit debt; provided, however, that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced, *plus* the amount of any reasonable premium (including reasonable tender premiums), defeasance costs and any reasonable fees and expenses incurred in connection with the issuance of such new Indebtedness. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such respective Indebtedness is denominated that is in effect on the date of such refinancing.

A change in GAAP that results in an obligation existing at the time of such change, which is not at the time of such change classified as Indebtedness, becoming Indebtedness will not be deemed to be an Incurrence of Indebtedness.

Maintenance of Total Unencumbered Assets

The Issuers and their Restricted Subsidiaries will maintain at all times Total Unencumbered Assets of not less than 150% of the aggregate outstanding principal amount of the Unsecured Indebtedness of the Issuers and their Restricted Subsidiaries on a consolidated basis.

Limitation on Restricted Payments

Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any distribution on or with respect to Capital Stock of Parent or any Restricted Subsidiary of Parent held by Persons other than Parent or any of its Restricted Subsidiaries, other than (i) dividends or distributions payable solely in shares of Capital Stock of Parent or any of its Restricted Subsidiaries (other than Disqualified Stock) and (ii) pro rata dividends or other distributions made by a Restricted Subsidiary that is not Wholly Owned to minority stockholders (or owners of equivalent interests in the event the Subsidiary is not a corporation);

(2) purchase, redeem, retire or otherwise acquire for value any shares of Capital Stock of Parent held by any Person, other than (i) Capital Stock held by Parent or a Restricted Subsidiary of Parent) or (ii) solely in Capital Stock of Parent (other than Disqualified Stock);

(3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness of the Issuers that is subordinated in right of payment to the Notes or Indebtedness of a Subsidiary Guarantor that is subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor, in each case excluding (i) any intercompany Indebtedness between or among Parent or any of its Restricted Subsidiaries and (ii) the payment, purchase, redemption, repurchase, defeasance, discharge, acquisition or retirement of such subordinated Indebtedness in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such payment, purchase, redemption, repurchase, defeasance, discharge, acquisition or retirement; or

(4) make an Investment, other than a Permitted Investment, in any Person;

(such payments or any other actions described in clauses (1) through (4) above being collectively *Restricted Payments*) if, at the time of, and after giving effect to, the proposed Restricted Payment:

(A) a Default or Event of Default shall have occurred and be continuing,

(B) the Issuers could not Incur at least $1.00 of Indebtedness in compliance with both paragraphs (1) and (3) of the Limitation on Indebtedness covenant, or

117

Table of Contents

(C) the aggregate amount of all Restricted Payments made after the Issue Date (and not returned or rescinded and subject to the last paragraph of this covenant) shall exceed the sum of, without duplication:

95% of the aggregate amount of the Funds From Operations (or, if the Funds From Operations is a loss, *minus* 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter in which the Spin-Off Effective Date occurs and ending on the last day of the last fiscal quarter immediately preceding the Transaction Date for which reports have been filed with the SEC or provided to the trustee pursuant to the SEC Reports and Reports to Holders covenant or for which internal financial statements are available, *plus*

100% of the aggregate Net Cash Proceeds, and the fair market value of property or assets or marketable securities, received by Parent or the Partnership after the Issue Date from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of Parent, including from an issuance or sale permitted by the indenture of Indebtedness or Disqualified Stock of Parent or any of its Restricted Subsidiaries subsequent to the Issue Date upon conversion, exercise or exchange of such Indebtedness or Disqualified Stock into or for Capital Stock (other than Disqualified Stock) of Parent or the Partnership, *plus*, without duplication, the amount of any cash, and the fair market value of property or assets or marketable securities (excluding, for the avoidance of doubt, the securities converted or exchanged), received by Parent or its Restricted Subsidiaries upon such conversion, exercise or exchange (in each case, exclusive of any Disqualified Stock), *plus*

an amount equal to (i) the net reduction in Investments (other than reductions in Permitted Investments) in any Person after the Issue Date resulting from payments of interest on Indebtedness, dividends or other distributions, repayments of loans or advances, or other transfers of assets, in each case to Parent or any of its Restricted Subsidiaries or from the Net Cash Proceeds, and the fair market value of property or assets or marketable securities received, from the sale or other disposition of any such Investment (including, without limitation, through satisfaction, expiration, reduction, release, repurchase, purchase, discharge, defeasance, retirement, redemption, repayment or cancellation of such Investment and sales of Capital Stock or other securities of such other Person) (except, in each case, to the extent any such payment or proceeds are included in the calculation of Funds From Operations), and (ii) with respect to any Unrestricted Subsidiary that has been redesignated as a Restricted Subsidiary or that has been merged or consolidated with or into, or which has transferred or conveyed its assets to, or has been liquidated into, Parent or a Restricted Subsidiary of Parent, in each case after the Issue Date, the amount of Parent s and its Restricted Subsidiaries Investment in such Subsidiary (directly or indirectly) as of the date of such redesignation, merger, consolidation, transfer, conveyance or liquidation (valued, in the case of each of clauses (i) and (ii), as provided in the definition of Investments), not to exceed, in each case, the amount of Investments previously made by Parent and its Restricted Subsidiaries in such Person or Unrestricted Subsidiary and treated as a Restricted Payment, *plus* the fair market value of property or assets or Capital Stock representing interests in Persons (other than that of Parent or the Partnership) acquired in exchange for an issuance of Capital Stock (other than Disqualified Stock or Capital Stock issued in exchange for Capital Stock of Parent or the Partnership utilized pursuant to clause (3) or (4) of the second succeeding paragraph) of Parent or the Partnership subsequent to the Issue Date, *plus*

without duplication, in the event Parent or any Restricted Subsidiary of Parent makes any Investment in a Person that, as a result of or in connection with such Investment, becomes (including by redesignation) a Restricted Subsidiary of Parent, an amount not to exceed the amount of Investments previously made by Parent and its Restricted Subsidiaries in such Person and that was treated as a Restricted Payment.

Table of Contents

Notwithstanding the foregoing, Parent and any of its Restricted Subsidiaries may declare or pay any dividend or make any distribution or take other action (that would have otherwise been a Restricted Payment) which the Board of Directors of Parent believes in good faith is necessary to (i) maintain Parent s status as a real estate investment trust under the Code or (ii) avoid any excise tax or any income tax imposed on Parent, in each case including, but not limited to, pro rata dividends or other distributions by the Partnership to minority unitholders as a result of a distribution from the Partnership to Parent for the purpose of funding any such dividend, distribution or other action); provided that (i) (A) on or before June 30, 2016, the aggregate principal amount of all outstanding Indebtedness of Parent and its Restricted Subsidiaries on a consolidated basis at the time of declaration is not greater than 65% of Parent s Adjusted Total Assets, and (B) after June 30, 2016, the aggregate principal amount of all outstanding Indebtedness of Parent and its Restricted Subsidiaries on a consolidated basis at the time of declaration is not greater than 60% of Parent s Adjusted Total Assets, and (ii) no Default or Event of Default shall have occurred and be continuing.

The foregoing provisions shall not be violated by reason of:

(1) the payment of any dividend or distribution or the consummation of any redemption within 60 days after the date of declaration thereof or the giving of a redemption notice related thereto, as the case may be, if, at the date of declaration or notice, such payment would comply with the foregoing paragraph;

(2) the payment, repayment, purchase, redemption, repurchase, defeasance, discharge or other acquisition or retirement for value of Indebtedness that is subordinated in right of payment to the Notes or to a Notes Guarantee including premium, if any, and accrued and unpaid interest, with the proceeds of, or in exchange for, Indebtedness Incurred pursuant to paragraphs (1), (2) and (3) or (4)(N) of the covenant described under Limitation on Indebtedness ;

(3) (a) the making of any Restricted Payment in exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of Parent or the Partnership (other than any Disqualified Stock or any Capital Stock sold to a Restricted Subsidiary of Parent or to an employee stock ownership plan or any trust established by Parent) or from substantially concurrent contributions to the equity capital of Parent or the Partnership (collectively, including any such contributions, *Refunding Capital Stock*) (with any sale or contribution within 60 days deemed as substantially concurrent); and (b) the declaration and payment of accrued dividends (and any premium) on any Capital Stock redeemed, repurchased, purchased, retired, defeased, discharged or acquired out of the proceeds of the sale of Refunding Capital Stock within 60 days of such sale; provided, that the amount of any such proceeds or contributions that are utilized for any Restricted Payment pursuant to this clause (3) shall be excluded from the amount described in the second bullet of clause (4)(C) of this covenant;

(4) the making of any principal payment on, or the repayment, repurchase, purchase, redemption, retirement, defeasance, discharge or other acquisition for value of Indebtedness of the Issuers that is subordinated in right of payment to the Notes or Indebtedness of a Guarantor that is subordinated in right of payment to the Notes Guarantee of such Guarantor, including premium, if any, and accrued and unpaid interest, in exchange for, or out of the proceeds of an issuance of, shares of Capital Stock (other than Disqualified Stock) of Parent or the Partnership or from contributions to the equity capital of Parent or the Partnership, in each case within

90 days of such principal payment, repayment, repurchase, purchase, redemption, retirement, defeasance, discharge or other acquisition;

(5) payments or distributions to dissenting holders of limited partnership units of the Partnership or stockholders of Parent or any direct or indirect parent company of the Partnership pursuant to applicable law pursuant to or in connection with a consolidation, merger or transfer of assets that complies with the provisions of the indenture described under Consolidation, Merger and Sale of Assets ;

(6) the repurchase, purchase, redemption or other acquisition or retirement for value of any shares of Capital Stock of Parent held by any current or former officer, director, consultant or employee or manager of Parent or any of its Restricted Subsidiaries (or any permitted transferees, assigns, estates,

trusts or heirs of any of the foregoing); provided, however, the aggregate amount paid by Parent and its Restricted Subsidiaries pursuant to this clause (6) shall not exceed $5.0 million in any calendar year (excluding for purposes of calculating such amount the amount paid for Capital Stock repurchased, redeemed, acquired or retired with the cash proceeds from the repayment of outstanding loans previously made by Parent or a Restricted Subsidiary thereof for the purpose of financing the repurchase, purchase, redemption or other acquisition or retirement of such Capital Stock), with unused amounts in any calendar year being carried over for up to two succeeding calendar year periods until used; provided further, that such amount in any calendar year may be increased by an amount not to exceed: (A) the net cash proceeds from the sale of Capital Stock (other than Disqualified Stock) of Parent, in each case, to officers, directors, consultants or employees or managers of Parent or any of its Restricted Subsidiaries that occurs after the Issue Date, to the extent such cash proceeds (i) have not otherwise been applied to permit the payment of any other Restricted Payment or (ii) are not attributable to loans made by Parent or a Restricted Subsidiary thereof for the purpose of financing the repurchase, purchase, redemption or other acquisition or retirement of such Capital Stock, *plus* (B) the cash proceeds of key man life insurance policies received by Parent and its Restricted Subsidiaries after the Issue Date, ***less*** (without duplication of clause (A)(i) above) (C) the amount of any Restricted Payments previously made using the amounts from clause (A) and (B) of this clause (6); provided further, however, that cancellation of Indebtedness owing to Parent from any officer, director, consultant or employee or manager of Parent or any Restricted Subsidiary thereof in connection with a repurchase of Capital Stock of Parent shall not be deemed to constitute a Restricted Payment for purposes of the indenture;

(7) the repurchase of Capital Stock deemed to occur (i) upon the exercise of options, rights, warrants or other equivalents, or upon conversion or exchange, if such Capital Stock represents all or a portion of the exercise, conversion or exchange price thereof, and (ii) in connection with the withholding of a portion of the Capital Stock granted or awarded to an officer, director, consultant or employee or manager to pay for the taxes payable by such officer, director, consultant or employee or manager upon such grant or award;

(8) upon or in connection with or following the occurrence of a Change of Control (or similarly defined term in other Indebtedness or Disqualified Stock) and within 90 days after completion of the Offer to Purchase (including the purchase of all Notes validly tendered and not withdrawn) pursuant to the covenant described below under the caption Repurchase of Notes upon a Change of Control, any repayment, repurchase, purchase, redemption, defeasance, discharge or other acquisition or retirement for value of any Indebtedness of the Issuers or any Guarantor that is subordinated in right of payment to the Notes or to any Notes Guarantee, respectively, or any Disqualified Stock that is required to be repurchased or redeemed or otherwise acquired pursuant to the terms thereof as a result of such Change of Control (or similarly defined term in other Indebtedness or Disqualified Stock), at a purchase price not greater than 101% of the outstanding principal amount, accreted value or liquidation preference thereof (*plus* accrued and unpaid interest, dividends and liquidated damages, if any);

(9) within 90 days after completion of any Offer to Purchase Notes pursuant to the covenant described below under the caption Limitation on Asset Sales (including the purchase of all Notes tendered), any repayment, repurchase, purchase, redemption, defeasance, discharge or other acquisition or retirement for value of any Indebtedness of the Issuers or any Guarantor that is subordinated in right of payment to the Notes or to any Notes Guarantee, respectively, or any Disqualified Stock that is required to be repurchased or redeemed or otherwise acquired pursuant to the terms thereof as a result of such Asset Sale (or similarly defined term in

such other Indebtedness), at a purchase price not greater than 100% of the outstanding principal amount, accreted value or liquidation preference thereof (plus accrued and unpaid interest, dividends and liquidated damages, if any);

(10) the payment of cash in lieu of the issuance of fractional shares of Capital Stock upon exercise, exchange or conversion of securities exercisable, exchangeable or convertible into Capital Stock of Parent or the Partnership;

(11) Restricted Payments made pursuant to any Transaction Agreement or otherwise in connection with the Spin-Off and the other Transactions and fees and expenses related thereto;

(12) the Purging Distribution;

(13) Restricted Payments made pursuant to an exchange of or conversion into Capital Stock of Parent, including the redemption of Common Units for Common Stock of Parent pursuant to the terms of the Partnership Agreement;

(14) the declaration and payment of dividends to holders of Disqualified Stock issued in accordance with the indenture;

(15) the distribution, as a dividend or otherwise, of Capital Stock of, or Indebtedness owed to Parent or a Restricted Subsidiary of Parent by, Unrestricted Subsidiaries;

(16) to the extent constituting Restricted Payments, payments to counterparties under Hedging Obligations;

(17) (i) the making of cash payments in connection with any conversion or purchase of Convertible Indebtedness in an aggregate amount since the Issue Date not to exceed the sum of (a) the principal amount of such Convertible Indebtedness and any accrued and unpaid interest thereon plus (b) any payments received by Parent pursuant to the exercise, settlement, unwinding or termination of any related Permitted Bond Hedge Transaction; and

(ii) (a) any payments in connection with a Permitted Bond Hedge Transaction and (b) the exercise, settlement, unwinding or termination of any related Permitted Warrant Transaction (I) by delivery of shares of common stock of Parent upon settlement thereof, (II) by (A) set-off against the related Permitted Bond Hedge Transaction or (B) payment of an early termination amount thereof in common stock upon any early termination thereof or (III) by a cash payment not to exceed the amount received upon any exercise, settlement, unwinding or termination of a related Permitted Bond Hedge Transaction; and

(18) additional Restricted Payments in an aggregate amount not to exceed $20.0 million.
provided, however, that, except in the case of clauses (1) and (3), no Default or Event of Default shall have occurred and be continuing or occur as a direct consequence of the actions or payments set forth therein.

The net amount of any Restricted Payment permitted pursuant to the second paragraph of this covenant and clause (1) of the immediately preceding paragraph shall be included in calculating the amount available for Restricted Payments, if any, pursuant to clause (C) of the first paragraph of this covenant with respect to any subsequent Restricted Payments. The amount of any Restricted Payment permitted pursuant to clauses (2) through (18) of the immediately preceding paragraph shall be excluded in calculating the amount available for Restricted Payments, if any, pursuant to clause (C) of the first paragraph of this covenant with respect to any subsequent Restricted Payments.

The net amount of all Restricted Payments or portion thereof (other than cash) shall be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued to or by Parent or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. In determining whether any Restricted Payment is permitted by this covenant, Parent and its Restricted Subsidiaries may allocate all or any portion of such Restricted Payment among the categories described in clauses (1) through (18) of the immediately preceding paragraph or among such categories and the types of Restricted Payments described in the first paragraph of this covenant (including categorization in whole or in part as a Permitted Investment); provided that, at the time of such allocation, all such Restricted Payments, or allocated portions thereof, would be permitted under the various provisions of this covenant.

Table of Contents

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Issuers will not, and will not permit any of their Restricted Subsidiaries to, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Restricted Subsidiary of the Issuers to:

pay dividends or make any other distributions permitted by applicable law on any Capital Stock of such Restricted Subsidiary owned by the Issuers or any other Restricted Subsidiary of the Issuers,

pay any Indebtedness owed to the Issuers or any other Restricted Subsidiary of the Issuers,

make loans or advances to the Issuers or any other Restricted Subsidiary of the Issuers, or

transfer its property or assets to the Issuers or any other Restricted Subsidiary of the Issuers.

The foregoing provisions shall not restrict any encumbrances or restrictions:

(1) existing under, by reason of or with respect to, the indenture, the Notes, the Notes Guarantees, the Credit Agreement, any Existing Indebtedness, any other agreement in effect on the Issue Date as in effect on the Issue Date, and any Transaction Agreement as in effect on its date, and any amendments, modifications, restatements, extensions, increases, supplements, refundings, refinancing, renewals or replacements of such agreements; provided, however, that the encumbrances and restrictions in any such amendments, modifications, restatements, extensions, increases, supplements, refundings, refinancing, renewals or replacements are not materially more restrictive, taken as a whole, with respect to such dividend or other payment restrictions than those contained in those agreements on the Issue Date or such other date, as applicable;

(2) existing under, by reason of or with respect to any Credit Facility or other Indebtedness permitted under the indenture (and not included in clause (1) above); provided, however, that the encumbrances and restrictions contained in the agreement or agreements governing such Credit Facility or other Indebtedness (x) (A) are not materially more restrictive, taken as a whole, than those contained in the Credit Agreement (with respect to other credit agreements or Indebtedness other than under an indenture and other than Permitted Mortgage Indebtedness or other mortgage Indebtedness) or the indenture (with respect to other indentures), in each case, as in effect on the Issue Date, or (B) with respect to Permitted Mortgage Indebtedness or other mortgage Indebtedness, (i) are not materially more disadvantageous to the holders of the Notes than is customary in comparable financings and (ii) will not materially affect the Issuers ability to make principal or interest payments on the Notes (in each case as determined by Parent in good faith at the time any such Indebtedness is Incurred (and at the time of any modification of the terms of any such encumbrance or restriction)) or (y) apply only during the occurrence of an event of default with respect to such Credit Facility or other Indebtedness;

(3) existing under, by reason of or with respect to applicable law, rule, regulation, decree or administrative or court order;

(4) existing with respect to any Person (including Indebtedness or Capital Stock of such Person) or the property or assets of such Person acquired by Parent or any Restricted Subsidiary of Parent (or any such Person that otherwise becomes a Restricted Subsidiary of Parent including by designation or by merger or consolidation or sale of all or substantially all of its assets into or to Parent or another Restricted Subsidiary of Parent), existing at the time of such acquisition (or such Person so becoming a Restricted Subsidiary of Parent) and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired (or such Restricted Subsidiary) and any amendments, modifications, restatements, extensions, increases, supplements, refundings, refinancing, renewals or replacements thereof; provided, however, that the encumbrances and restrictions in any such amendments, modifications, restatements, extensions, increases, supplements, refundings, refinancing, renewals or replacements are entered into in the ordinary course of business or not

materially more restrictive, taken as a whole, than those contained in the instruments or agreements with respect to such Person or its property or assets as in effect on the date of such acquisition (or such Person so becoming a Restricted Subsidiary of Parent);

(5) existing under, by reason of or with respect to provisions in joint venture, operating or similar agreements entered into in connection with a Permitted Business;

(6) in the case of the last bullet in the first paragraph of this covenant:

that restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to, or that is, a lease, license, conveyance or contract or similar property or asset,

other encumbrances or restrictions contained in or with respect to the Master Leases and the properties subject thereto,

existing by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of Parent or any Restricted Subsidiary of Parent not otherwise prohibited by the indenture,

existing under, by reason of or with respect to (i) purchase money obligations for property acquired in the ordinary course of business or (ii) capital leases or operating leases, including purchase money Indebtedness, Capitalized Lease Obligations and other Indebtedness pursuant to be Incurred under paragraph (4)(Q) of Permitted Indebtedness, that impose encumbrances or restrictions on the property so acquired or covered thereby, or (iii) a contract with respect to an Asset Sale, Sale and Leaseback Transaction, stock sale agreement or other transfer, conveyance or disposition permitted under the indenture, which encumbrances or restrictions are applicable only to the property, assets or Capital Stock that are the subject of such contracts, or

arising or agreed to in the ordinary course of business, not relating to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of Parent or any Restricted Subsidiary of Parent in any manner material to Parent and its Restricted Subsidiaries taken as a whole;

(7) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of the Capital Stock of, or property and assets of, such Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending the closing of such sale or other disposition;

(8) existing under, by reason of or with respect to Indebtedness permitted to be Incurred pursuant to paragraph (4)(N) of, or other Permitted Refinancing Indebtedness permitted to be Incurred under, the covenant

described under Limitation on Indebtedness; provided, that the encumbrances and restrictions contained in the agreements governing such Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(9) contained in the terms of any Indebtedness or any agreement pursuant to which such Indebtedness was issued if:

the encumbrance or restriction applies only in the event of a payment default or a default with respect to a financial covenant contained in such Indebtedness or agreement,

the encumbrance or restriction is not materially more disadvantageous to the holders of the Notes than is customary in comparable financings (as determined by the good faith judgment of Parent), and

Parent, in its good faith, determines that such an encumbrance or restriction will not materially affect the Issuers ability to make principal or interest payments on the Notes;

(10) any encumbrance or restriction pursuant to Hedging Obligations or under Permitted Non-Recourse Guarantees;

Table of Contents

(11) restrictions on deposits made to secure letters of credit or surety or other bonds issued in connection therewith or deposits made in the ordinary course of business with respect to insurance premiums, worker s compensation, statutory obligations, utility deposits, rental obligations, unemployment insurance, performance of tenders, surety and appeal bonds and other similar obligations (or to secure letters of credit or surety or other bonds relating thereto);

(12) restrictions on the ability of any Restricted Subsidiary to make Investments in or transfer assets to any Person that is not a Subsidiary of such Restricted Subsidiary or that is not a direct or indirect parent of such Restricted Subsidiary; and

(13) any encumbrances or restrictions of the type referred imposed by any amendments, modifications, restatements, renewals, increases, supplements, refundings, restructurings, replacements or other refinancings of those agreements, instruments or obligations referred to in clauses (1) through (12) above, provided that the amendments, modifications, restatements, renewals, increases, supplements, refundings, restructurings, replacements or other refinancings are no more restrictive, taken as a whole, with respect to such encumbrances or restrictions than those contained in those agreements prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, restructuring, replacement or other refinancing.

Nothing contained in this covenant shall prevent Parent or any Restricted Subsidiary of Parent from (a) restricting the sale or other disposition of property or assets of Parent or any of its Restricted Subsidiaries that secure Indebtedness of the Issuers or any of their Restricted Subsidiaries or (b) creating, Incurring, assuming or suffering to exist any Liens otherwise permitted by the indenture. For purposes of determining compliance with this covenant, (1) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to distributions being paid on Common Stock shall not be deemed a restriction on the ability to make distributions on Capital Stock, and (2) the subordination of loans or advances made to a Restricted Subsidiary to other Indebtedness Incurred by such Restricted Subsidiary, or other subordination provisions in any Indebtedness, shall not be deemed a restriction on the ability to make loans or advances.

Future Guarantees by Restricted Subsidiaries

Parent will not permit any Domestic Restricted Subsidiary of the Issuers to guarantee any Indebtedness under the Credit Agreement, any other syndicated loan facility or any capital markets Indebtedness of the Issuers or a Subsidiary Guarantor (*Guaranteed Indebtedness*), unless such Restricted Subsidiary within 30 calendar days after so guaranteeing such Guaranteed Indebtedness executes and delivers a supplemental indenture to the indenture providing for a Subsidiary Guarantee by such Restricted Subsidiary; provided, however, that this paragraph shall not be applicable to any guarantee of any Person that existed (or any other guarantee required pursuant to the terms of any Acquired Indebtedness of any Person, which Acquired Indebtedness existed) at the time such Person became (including by redesignation) a Restricted Subsidiary of, or was merged into, the Issuers or a Restricted Subsidiary and was not Incurred in connection with, or in contemplation of, such person becoming a Restricted Subsidiary. Parent may elect, in its sole discretion, to cause any Subsidiary that is not otherwise required to be a Subsidiary Guarantor to become a Subsidiary Guarantor, in which case such Subsidiary shall not be required to comply with the 30 calendar day period described above. For the avoidance of doubt, Indebtedness of a Person that is guaranteed by an Issuer or a Subsidiary Guarantor shall not be deemed to be Guaranteed Indebtedness solely as a result of such guarantee by such Issuer or Subsidiary Guarantor.

If the Guaranteed Indebtedness:

ranks equally with the Notes (or the applicable Subsidiary Guarantee) in right of payment, then the guarantee of such Guaranteed Indebtedness shall rank equally with, or subordinate to, the Subsidiary Guarantee issued pursuant to this covenant in right of payment; or

is subordinate in right of payment to the Notes (or the applicable Subsidiary Guarantee), then the guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee issued pursuant to this covenant at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes (or the applicable Subsidiary Guarantee).

Table of Contents

Any such Subsidiary Guarantee by a Restricted Subsidiary shall be automatically and unconditionally released and discharged:

(1) upon any sale, exchange or transfer (including through merger or consolidation), to any Person that is not a Subsidiary of Parent of Capital Stock held by Parent and its Restricted Subsidiaries in, or all or substantially all the assets of, such Subsidiary Guarantor (which sale, exchange or transfer is not prohibited by the indenture) such that, immediately after giving effect to such transaction, such Subsidiary Guarantor would no longer constitute a Restricted Subsidiary of Parent,

(2) in connection with the merger or consolidation of such Subsidiary Guarantor with (a) an Issuer or (b) any other Guarantor (provided that in the case of this clause (b) the surviving entity remains or becomes a Guarantor upon consummation thereof),

(3) if Parent designates such Restricted Subsidiary as an Unrestricted Subsidiary in accordance with the indenture,

(4) upon the Legal Defeasance or Covenant Defeasance or satisfaction and discharge of the indenture,

(5) upon a liquidation or dissolution or winding-up of such Restricted Subsidiary not prohibited by the indenture,

(6) upon the release or discharge of the Indebtedness or guarantee that resulted in the creation of such Subsidiary Guarantee (and any other guarantee given as a result thereof), except a discharge or release by or as a result of payment under such guarantee, or

(7) upon payment in full of the principal of, and accrued and unpaid interest on, the Notes.

In addition, any Notes Guarantee provided by a Subsidiary Guarantor shall provide by its terms that it shall be automatically and unconditionally released and discharged if (i) such Subsidiary ceases to guarantee obligations under the Credit Agreement or ceases to constitute a co-borrower with respect to the Credit Agreement, in either case in connection with a Permitted Mortgage Indebtedness financing transaction by such entity and (ii) the proceeds from any such financing transaction are applied solely for one or more of the uses described in clauses (1) through (7) of the third paragraph under the Limitation on Asset Sales covenant.

Limitation on Transactions with Affiliates

Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into, renew or extend any transaction (including the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with any Affiliate of Parent or any of its Restricted Subsidiaries, in each case involving consideration in excess of $2.5 million, except upon terms that are not materially less favorable to Parent or such Restricted Subsidiary than could be obtained, at the time of such transaction or, if such transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefor, in a comparable arm s length transaction (to the extent there is such a transaction) with a Person that is not such an Affiliate.

The foregoing paragraph does not limit, and shall not apply to:

(1) transactions (A) approved by a majority of the disinterested directors of the Board of Directors of Parent or (B) for which Parent or any Restricted Subsidiary of Parent delivers to the trustee a written opinion of a nationally recognized investment banking, appraisal or accounting firm stating that the transaction is fair to Parent or such Restricted Subsidiary from a financial point of view;

(2) any transaction solely between or among Parent and any of its Restricted Subsidiaries or solely between or among Restricted Subsidiaries of Parent (in each case, including any entity that becomes (including by redesignation) a Restricted Subsidiary of Parent as a result of such transaction);

(3) the payment of reasonable fees and compensation to, and indemnification, reimbursement of expenses and similar arrangements on behalf of, current, former or future directors of Parent or any Restricted Subsidiary of Parent;

Table of Contents

(4) the issuance or sale of Capital Stock (other than Disqualified Stock) of Parent or the Partnership;

(5) any Restricted Payments not prohibited by the Limitation on Restricted Payments covenant or any Permitted Investment;

(6) any contracts, instruments or other agreements or arrangements in each case as in effect on the Issue Date (or, if entered into in connection with the Spin-Off and not in effect on the Issue Date, as in effect on the Spin-Off Effective Date), and any transactions pursuant thereto or contemplated thereby, or any amendment, modification or supplement thereto or any replacement thereof entered into from time to time, as long as such agreement or arrangements as so amended, modified, supplemented or replaced, taken as a whole, is not materially more disadvantageous to Parent and its Restricted Subsidiaries at the time executed than the original agreement or arrangements as in effect on the Issue Date or the Spin-Off Effective Date, as applicable;

(7) any employment, consulting, service or termination agreement, or customary indemnification arrangements, entered into by Parent or any Restricted Subsidiary of Parent with current, former or future directors, officers and employees of Parent or such Restricted Subsidiary and the payment of compensation and reimbursement of expenses and the providing of other benefits (including retirement, health, disability, option, deferred compensation, insurance and other employment benefits) to such directors, officers and employees of Parent or any Restricted Subsidiary of Parent (including amounts paid pursuant to employee benefit plans, employee stock option or similar plans and including issuances of Capital Stock or other securities, loans or other payments, grants and awards), in each case in the ordinary course of business;

(8) loans and advances to officers and employees of Parent or any Restricted Subsidiary of Parent or guarantees in respect thereof (or cancellation of such loans, advances or guarantees), for bona fide business purposes, including for reasonable moving and relocation, entertainment and travel expenses and similar expenses, made in the ordinary course of business;

(9) transactions with a Person that is an Affiliate of Parent solely because Parent, directly or indirectly, owns Capital Stock of, or controls such Person;

(10) any transaction with a Person who is not an Affiliate immediately before the consummation of such transaction that becomes an Affiliate as a result of such transaction;

(11) payments to an Affiliate in respect of the Notes or any other Indebtedness of the Issuers or any Restricted Subsidiary on the same basis as concurrent payments made or offered to be made in respect thereof to non-Affiliates, any contribution to the capital of Parent or its Restricted Subsidiaries and the issuance of Capital Stock of Parent or its Restricted Subsidiaries and the granting of registration and other customary rights in connection therewith;

(12) any transactions (a) pursuant to the Transactions, the Transaction Agreements and any actions pursuant thereto or contemplated thereby, (b) with Ensign or any of its Affiliates pursuant to the contracts or agreements described in the Offering Memorandum under the caption Our Relationship with Ensign Following the Spin-Off, or (c) in the case of each of clauses (a) and (b), any amendment, modification, or supplement thereto or replacement thereof, as long as such agreement or arrangement, as so amended, modified, supplemented or replaced, taken as a whole, is not materially more disadvantageous to Parent and its Restricted Subsidiaries than the original agreement or arrangement in existence on the Issue Date (or if such agreement or contract is not in effect on the Issue Date or in the case of the Transaction Agreements, their respective dates);

(13) the entering into or amending of any tax sharing, allocation or similar agreement between Parent and the Partnership and any payments thereunder;

(14) transactions between Parent or any of its Restricted Subsidiaries and any Person that would constitute an Affiliate Transaction solely because a director of such Person is also a director of Parent or any of

its Restricted Subsidiaries or any direct or indirect parent of Parent; provided, however, that such director abstains from voting as a director of Parent or such Restricted Subsidiary or such direct or indirect parent, as the case may be, on any matter involving such other Person;

(15) transactions with joint ventures and Subsidiaries thereof and Unrestricted Subsidiaries relating to the provision of management services, overhead or similar services or transactions that are approved by a majority of the disinterested members of Parent s Board of Directors (a director shall be disinterested if he or she has no interest in such joint venture or Unrestricted Subsidiary other than through Parent and its Restricted Subsidiaries); provided that no Affiliate of Parent (other than Parent s Restricted Subsidiaries) has an interest (other than indirectly through Parent and other than such joint venture or Unrestricted Subsidiary) in any such joint venture or Unrestricted Subsidiary; and

(16) pledges of Capital Stock of Unrestricted Subsidiaries.

Notwithstanding the foregoing, any transaction or series of related transactions covered by the first paragraph of this covenant and not covered by clauses (2) through (16) of the immediately foregoing paragraph:

the aggregate amount of which exceeds $10.0 million of consideration, must be approved or determined to be fair in the manner provided for in clause (1)(A) or (B) of the immediately foregoing paragraph; and

the aggregate amount of which exceeds $50.0 million in value, must be determined to be fair in the manner provided for in clause (1)(B) above.

Limitation on Asset Sales

Parent will not, and will not permit any of its Restricted Subsidiaries to, consummate any Asset Sale, unless:

(1) the consideration received (or to be received) by Parent or such Restricted Subsidiary is at least equal to the fair market value (determined at the time of contractually agreeing to such Asset Sale) of the assets or Capital Stock sold or disposed of; and

(2) at least 75% of the consideration received (or to be received) consists of cash, Temporary Cash Investments or Replacement Assets, or a combination of cash, Temporary Cash Investments or Replacement Assets; provided, however, that, with respect to the sale of one or more properties up to 75% of the consideration may consist of Indebtedness of the purchaser of such properties so long as such Indebtedness is secured by a first priority Lien on the property or properties sold.

For purposes of this provision, each of the following shall be deemed to be cash:

(a) any liabilities of Parent or any Restricted Subsidiary of Parent (as shown on the most recent consolidated balance sheet of Parent and its Restricted Subsidiaries or in the footnotes thereto, or if Incurred or accrued subsequent to the date of such balance sheet, such liabilities that would have been shown on Parent s or such Restricted Subsidiary s balance sheet or in the footnotes thereto if such Incurrence or accrual had taken place on the date of such balance sheet, in each case other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Notes Guarantee) that are assumed by the transferee of any such assets pursuant to an agreement that releases Parent or any such Restricted Subsidiary from further liability with respect to such liabilities or that are assumed by contract or operation of law;

(b) any securities, notes or other obligations received (or to be received) by Parent or any such Restricted Subsidiary from such transferee that are converted by the Issuers or such Restricted Subsidiary into cash or Temporary Cash Investments within 180 days of receipt (to the extent of the cash or Temporary Cash Investments received in that conversion); and

(c) any stock or assets of the kind referred to in clauses (2), (5) or (6) of the next paragraph of this covenant.

Table of Contents

Within 365 days after the receipt of any Net Cash Proceeds from an Asset Sale, Parent or any such Restricted Subsidiary may apply such Net Cash Proceeds to:

(1) prepay, repay, redeem, defease, discharge, repurchase or purchase Pari Passu Indebtedness of an Issuer or a Guarantor that is Secured Indebtedness (in each case other than Indebtedness owed to Parent or an Affiliate of Parent);

(2) make an Investment in (provided such Investment is in the form of Capital Stock), acquire all or substantially all of the assets of, a Person engaged in a Permitted Business if such Person is, or will become as a result thereof, a Restricted Subsidiary of Parent or acquire Permitted Mortgage Investments;

(3) prepay, repay, redeem, defease, discharge, repurchase or purchase Pari Passu Indebtedness of an Issuer or of any Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary of Parent that is not an Issuer or a Subsidiary Guarantor; provided, however, that if Parent, the Issuers or a Subsidiary Guarantor shall so prepay, repay, redeem, defease, discharge or purchase any such Pari Passu Indebtedness of the Issuer or of any Subsidiary Guarantor, the Issuers will equally and ratably reduce obligations under the Notes through (x) open market purchases (to the extent such purchases are at or above 100% of the principal amount thereof), (y) as provided under Optional Redemption or (z) by making an Offer to Purchase (in accordance with the procedures set forth below);

(4) fund (x) all or a portion of an optional redemption of the Notes as described under Optional Redemption, (y) open market purchases of the Notes (to the extent such purchases are at or above 100% of the principal amount thereof) or (z) an Offer to Purchase (in accordance with the procedures set forth below);

(5) make a capital expenditure;

(6) acquire Replacement Assets to be used or that are useful in a Permitted Business; or

(7) any combination of the foregoing;

provided, that Parent will be deemed to have complied with the provisions described in clauses (2), (5) and (6) of this paragraph if and to the extent that, within 365 days after the Asset Sale that generated the Net Cash Proceeds, Parent or any of its Restricted Subsidiaries has entered into and not abandoned or rejected a binding agreement to apply such Net Cash Proceeds in compliance with the provisions described in clauses (2), (5) and (6) of this paragraph, and such application of such Net Cash Proceeds is thereafter completed within 180 days after the end of such 365-day period. Pending the final application of any such Net Cash Proceeds, Parent may temporarily reduce the revolving Indebtedness under any Credit Facility or otherwise invest such Net Cash Proceeds in any manner that is not prohibited by the indenture. The amount of such Net Cash Proceeds not applied (or to be committed to be applied) as set forth in this paragraph by the end of the applicable period shall constitute *Excess Proceeds*.

If, as of the first day of any calendar month, the aggregate amount of Excess Proceeds not previously subject to an Offer to Purchase pursuant to this covenant totals at least $15.0 million, the Issuers must commence, not later than the fifteenth Business Day of such month, and consummate an Offer to Purchase from the holders of the Notes and, to the extent required by the terms of any Pari Passu Indebtedness, to all holders of such Pari Passu Indebtedness on a *pro rata* basis an aggregate principal amount of Notes (and Pari Passu Indebtedness, as applicable) equal to the Excess Proceeds on such date, at a purchase price equal to 100% of the principal amount of the Notes (and Pari Passu Indebtedness or such lesser price provided in the terms of such Pari Passu Indebtedness), *plus*, in each case, accrued and unpaid interest (if any) to, but not including, the Payment Date. If any Excess Proceeds remain after consummation of an Offer to Purchase, Parent may use such Excess Proceeds for any purpose not prohibited by the indenture. If the aggregate purchase price of the Notes and the other Pari Passu Indebtedness validly tendered (and not withdrawn) into such Offer to Purchase exceeds the amount of Excess Proceeds, Parent shall select the Notes and such other Pari Passu Indebtedness (to the extent such selection is not prohibited by the terms thereof) to be purchased on a pro rata basis but in round denominations, which in the case of the Notes will be denominations of $2,000 initial principal amount and multiples of $1,000 thereafter. Upon completion of each Offer to Purchase, the amount of Excess Proceeds related to such Asset Sale Offer shall be reset at zero. Parent may satisfy the foregoing obligation with respect to any Net Cash Proceeds prior to the expiration of the relevant 365-day period (as such period may be extended as described in the immediately preceding paragraph). Nothing in this paragraph shall preclude the Issuers from making an Offer to Purchase even if the amount of Excess Proceeds not previously subject to an Offer to Purchase pursuant to this covenant totals less than $15.0 million.

The Credit Agreement contains restrictions on the Issuers ability to purchase Notes with Asset Sale proceeds. Any future credit agreements or other agreements may contain similar restrictions. In the event an Asset Sale occurs at a time when the Issuers are prohibited from purchasing Notes, the Issuers could seek the consent of their lenders to the purchase of Notes or could attempt to refinance the borrowings that contain such prohibition. If the Issuers do not obtain such a consent or repay such borrowings, the Issuers would remain prohibited from so purchasing Notes. In such case, the Issuers failure to purchase tendered Notes would constitute a default under the indenture which could, in turn, constitute a default under such other Indebtedness.

The provisions under the indenture relative to the Issuers obligation to make an Offer to Purchase the Notes as a result of an Asset Sale may be waived or modified with the written consent of the holders of a majority in then outstanding principal amount of the Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the indenture, the Issuers will comply with the applicable securities laws and regulations and will not be deemed to have breached their obligations under the Asset Sale provisions of the indenture by virtue of such compliance.

Consolidation, Merger and Sale of Assets

None of Parent, General Partner, nor either of the Issuers will consolidate with or merge with or into, or sell, convey, transfer or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries (taken as a whole) property and assets (as an entirety or substantially an entirety in one transaction or a series of related transactions) to, any Person or permit any Person to merge with or into Parent, General Partner or an Issuer, as applicable, unless:

(1) Parent, General Partner or such Issuer, as applicable, shall be the continuing Person, or the Person (if other than Parent, General Partner or such Issuer, as applicable) formed by such consolidation or into which Parent, General Partner or such Issuer, as applicable, is merged or that acquired such property and assets of Parent, General Partner or such Issuer, as applicable shall be a corporation, limited liability company, partnership (including a limited partnership) or trust organized and existing under the laws of the United States of America or any state or jurisdiction thereof and shall expressly assume, by a supplemental indenture, executed and delivered to the trustee, all of the obligations of Parent, General Partner or such Issuer, as applicable, under its Notes Guarantee (in the case of Parent or General Partner) and under the indenture (provided, however, that Capital Corp. may not consolidate or merge with or into any Person other than a corporation satisfying such requirement so long as the Partnership is not a corporation);

(2) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness that becomes an obligation of the resulting, surviving or transferee Person as a result of such

transaction as having been issued by such Person at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction and any related financing transactions (including the application of the proceeds thereof) as if the same had occurred at the beginning of the applicable Four

129

Quarter Period, on a pro forma basis, (A) either (x) the Issuers and their Restricted Subsidiaries, or any Person becoming the successor obligor of the Notes, as the case may be, would be permitted to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (1) under Covenants Limitation on Indebtedness or (y) the ratio referred to in such paragraph (1) would be equal to or less than such ratio immediately prior to such merger, consolidation or other acquisition, (B) the Issuers and their Restricted Subsidiaries, or any Person becoming the successor obligor of the Notes, as the case may be, would be permitted to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (2) under Covenants Limitation on Indebtedness or (y) the ratio referred to in such paragraph (2) would be equal to or less than such ratio immediately prior to such merger, consolidation or other acquisition and (C) either (x) the Issuers and the Subsidiary Guarantors, or any Person becoming the successor obligor of the Notes, as the case may be, would be permitted to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (3) under Covenants Limitation on Indebtedness or (y) the ratio referred to in such paragraph (3) would be equal to or greater than such ratio immediately prior to such merger, consolidation or other acquisition; and

(4) Parent, General Partner or such Issuer, as applicable, delivers to the trustee an Officer s Certificate and an opinion of counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this covenant and that all conditions precedent provided for herein relating to such transaction have been complied with and, with respect to the opinion of counsel, that the supplemental indenture constitutes a valid and binding obligation enforceable against Parent, General Partner or such Issuer, as applicable, or the Person (if other than Parent, General Partner or such Issuer, as applicable) formed by such consolidation or into which Parent, General Partner or such Issuer, as applicable, is merged or that acquired all or substantially all of Parent s, General Partner s or such Issuer s and their Restricted Subsidiaries property and assets;

provided, however, that clause (3) above does not apply (x) if the principal purpose of such transaction is to change the state of domicile or incorporation of Parent or to form or collapse a holding company structure or to convert Parent, General Partner or such Issuer, as applicable, into a corporation, partnership, limited partnership, limited liability company or trust organized under the laws of the jurisdiction of organization of Parent or under the laws of the United States, any state thereof or the District of Columbia (provided, however, that Capital Corp. may not consolidate or merge with or into any Person other than a corporation satisfying such requirement so long as the Partnership is not a corporation) or (y) to a consolidation or merger or sale, conveyance, transfer or other disposition of all or substantially all of Parent s, General Partner s or such Issuer s and their Restricted Subsidiaries (taken as a whole) property and assets to a Wholly Owned Restricted Subsidiary of Parent that is a Subsidiary Guarantor; provided further, however, that any such transaction shall not have as one of its purposes the evasion of the foregoing limitations.

Parent will not permit (except as provided in the provisions governing release of a Notes Guarantee upon the sale, disposition or transfer of a Subsidiary Guarantor as described under Covenants Future Guarantees by Restricted Subsidiaries above) any Subsidiary Guarantor to consolidate with or merge with or into, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its assets to any Person unless:

(1) the resulting, surviving or transferee Person (if not such Subsidiary) shall be a Person organized and existing under the laws of the jurisdiction under which such Subsidiary Guarantor was organized or under the laws of the United States of America, or any State thereof or the District of Columbia, and such Person shall expressly assume, by a supplemental indenture, all the obligations of such Subsidiary Guarantor, if any, under its Subsidiary Guarantee;

(2) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness that becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been issued by such Person at the time of such transaction), no Default or Event of Default shall have occurred and be continuing; and

(3) Parent delivers to the trustee an Officer s Certificate and an opinion of counsel, each stating that such consolidation, merger or transfer and such supplemental indenture, if any, complies with the indenture

and, with respect to the opinion of counsel, that the supplemental indenture constitutes a valid and binding obligation enforceable against the Issuers, the Subsidiary Guarantors, Parent and the surviving Persons.

Notwithstanding the foregoing two paragraphs of this covenant:

an Issuer or any Guarantor may consolidate or merge with or into, or sell, convey, transfer or otherwise dispose of all of its property and assets to, an Issuer or another Guarantor;

any Restricted Subsidiary of Parent that is not an Issuer or a Subsidiary Guarantor may consolidate or merge with or into, or sell, convey, transfer or otherwise dispose of all of its property and assets to, Parent or any of its Restricted Subsidiaries;

in addition, any Restricted Subsidiary of Parent may (i) merge with an Affiliate of Parent or a Restricted Subsidiary of Parent if the principal purpose of such transaction is to change the state of domicile or incorporation of such Restricted Subsidiary or to form or collapse a holding company structure or (ii) convert into a corporation, partnership, limited partnership, limited liability company or trust organized under the laws of the jurisdiction of organization of such Restricted Subsidiary or under the laws of the United States, any state thereof or the District of Columbia.

Notwithstanding any of the foregoing, (1) the Transactions and any other transaction entered into in connection with and for purposes of effecting the Spin-Off shall not be subject to this covenant, and (2) for the avoidance of doubt, the lease of all or substantially all of the assets or real estate assets of Parent and its Restricted Subsidiaries (taken as a whole) or of any of its Restricted Subsidiaries shall not be subject to this covenant.

The paragraphs above include a phrase relating to the conveyance or transfer of all or substantially all of the property and assets of the specified Person. Although there is a limited body of case law interpreting the phase substantially all, there is no precise definition of the phrase under applicable law.

Repurchase of Notes upon a Change of Control

Except as described in the third paragraph of this covenant, the Issuers must commence, within 30 days after the occurrence of a Change of Control, and, subject to the terms and conditions of such Offer to Purchase, thereafter consummate an Offer to Purchase all Notes then outstanding, at a purchase price equal to 101% of the principal amount of the Notes, *plus* accrued and unpaid interest (if any) to, but not including, the Payment Date.

There can be no assurance that the Issuers will have sufficient funds available at the time of any Change of Control to make any debt payment (including repurchases of Notes) required by the foregoing covenant (as well as any covenant that may be contained in other securities of the Issuers that might be outstanding at the time).

The Issuers will not be required to make an Offer to Purchase as a result of a Change of Control if a third party makes the Offer to Purchase in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to an Offer to Purchase made by the Issuers and purchases all Notes validly tendered and not withdrawn under such Offer to Purchase or if notice of redemption has been given pursuant to Optional Redemption above. Notwithstanding anything to the contrary contained herein, an Offer to Purchase may be made in advance of a Change of Control, subject to one or more conditions precedent, including but not limited to the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Offer to

Purchase is made.

If holders of not less than 90% in aggregate principal amount of the outstanding Notes held by non-Affiliates validly tender and do not withdraw such Notes in an Offer to Purchase and the Issuers, or any third party making the Offer to Purchase in lieu of the Issuers as described above, purchases all of the Notes validly

Table of Contents

tendered and not withdrawn by such holders, the Issuers or such third party will have the right, upon not less than 30 nor more than 60 days prior notice, given not more than 30 days following such purchase pursuant to the Offer to Purchase, to redeem all Notes that remain outstanding following such purchase at a price in cash equal to 101% of the principal amount thereof *plus* accrued and unpaid interest to, but not including, the date of redemption.

The Change of Control purchase feature of the Notes may in certain circumstances make more difficult or discourage a sale or takeover of Parent and, thus, the removal of incumbent management. The Change of Control purchase feature is a result of negotiations between the initial purchasers of the Old Notes and Parent. As of the Issue Date and except as contemplated by the Spin-Off and related transactions, we have no present intention to engage in a transaction involving a Change of Control, although it is possible that we could decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the indenture, but that could increase the amount of Indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to Incur additional Indebtedness are contained in the covenant described under Covenants Limitations on Indebtedness. Such restrictions in the indenture can be waived only with the consent of the holders of a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes). Except for the limitations contained in such covenants, however, the indenture does not contain any covenants or provisions that may afford holders of the Notes protection in the event of a highly leveraged transaction.

The Credit Agreement also provides that the occurrence of certain change of control events with respect to Parent would constitute a default thereunder. Future credit agreements that Parent enters into may contain similar provisions. Such defaults could result in amounts outstanding under the Credit Agreement and such other agreements being declared immediately due and payable or lending commitments being terminated. In the event a Change of Control occurs at a time when the Issuers are prohibited from purchasing Notes, the Issuers could seek the consent of their lenders or other counterparties to the purchase of Notes or could attempt to refinance the borrowings, as applicable, that contain such prohibition. If the Issuers do not obtain such a consent or repay such borrowings, as applicable, the Issuers would remain prohibited from purchasing Notes. In such case, the Issuers failure to purchase tendered Notes would constitute a default under the indenture which could, in turn, constitute a default under such other Indebtedness.

The definition of Change of Control includes a phrase relating to the sale, exchange or other transfer of all or substantially all of the properties or assets of Parent and its Subsidiaries, taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require the Issuers to repurchase such Notes as a result of a sale, exchange or other transfer of less than all of the assets of Parent and its Subsidiaries taken as a whole to another Person or group may be uncertain. Because Parent and its Subsidiaries are in the business of leasing their assets, the lease of all or substantially all of the assets of Parent and its Subsidiaries would not constitute a Change of Control.

A Change of Control would be triggered at such time as the majority of the members of the Board of Directors of Parent no longer include individuals who constitute the Board of Directors of Parent on the Spin-Off Effective Date (together with any new or replacement directors whose election or nomination was approved by a vote of at least a majority of the members of the Board of Directors then in office who were members on the Issue Date or whose election, appointment or nomination was so approved). You should note, however, that recent case law suggests that, in the event that incumbent directors are replaced as a result of a contested election, Parent may nevertheless avoid triggering a Change of Control under a clause similar to the provision described in the prior sentence if the outgoing directors were to approve the new directors for the purpose of such Change of Control clause.

Table of Contents

The provisions under the indenture relative to the Issuers obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of the holders of a majority in then outstanding principal amount of the Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, the Issuers will comply with the applicable securities laws and regulations and will not be deemed to have breached their obligations under the Change of Control provisions of the indenture by virtue of such compliance.

SEC Reports and Reports to Holders

Whether or not Parent is then required to file reports with the SEC, Parent shall file with the SEC all such reports and other information as it would be required to file with the SEC by Sections 13(a) or 15(d) under the Exchange Act (including giving effect to any extension period under Rule 12b-25 under the Exchange Act) if it was subject thereto; provided, however, that, if filing such documents by Parent with the SEC is not permitted under the Exchange Act, Parent (i) shall, within 15 days after the time Parent would be required to file such information with the SEC if it were subject to Section 13 or 15(d) under the Exchange Act (including giving effect to any extension period under Rule 12b-25 under the Exchange Act), provide such documents and reports to the trustee and upon written request supply copies of such documents and reports to any holder of Notes (which in each case may be delivered pursuant to applicable DTC procedures) and (ii) shall post such documents and reports on a website (which may be non-public) to which any holder of Notes, prospective investors that certify that they are qualified institutional buyers, institutional accredited investors or able to acquire the Notes in reliance on Regulation S under the Securities Act, securities analysts and market makers are given access; provided, however, that the trustee shall have no liability whatsoever to determine if such materials have been so posted. Delivery of such information, documents and reports to the trustee is for informational purposes only and the trustee s receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuers compliance with any of its covenants hereunder (as to which the trustee is entitled to rely exclusively on Officer s Certificates).

The availability of the foregoing materials on the SEC s EDGAR service (or any successor thereto) shall be deemed to satisfy Parent s obligations to furnish such materials to the trustee or the holders; provided, however, that the trustee shall have no obligation whatsoever to determine whether or not such information, documents or reports have been filed pursuant to the EDGAR service (or its successor).

In the event that another parent entity of the Issuers becomes a Guarantor of the Notes, the obligations to furnish the reports and other information described above may be satisfied by furnishing such reports filed by, or such information of, such other parent Guarantor, and the availability of such other parent Guarantor s information on the SEC s EDGAR service (or any successor thereto) shall be deemed to satisfy such obligations; provided, however, that the trustee shall have no liability whatsoever to determine if such materials have been so posted.

So long as not prohibited by the SEC, at any time that either (x) one or more Subsidiaries of Parent is an Unrestricted Subsidiary or (y) Parent holds directly any material assets (including Capital Stock) other than the Capital Stock of the Issuers and, in either case, such Unrestricted Subsidiary or other assets taken together would represent 5% or more of the Total Assets of Parent and its Subsidiaries as of the latest quarterly financial statements, then the quarterly and annual financial information required by this covenant will include a reasonably detailed presentation, either in Management s Discussion and Analysis of Financial Condition and Results of Operations or any other comparable section, of the financial condition and results of operations of the Issuers and their Restricted Subsidiaries separate from the financial condition and results of operations of such Unrestricted Subsidiaries and other material assets of Parent.

Table of Contents

Parent shall also, within a reasonably prompt period of time following the disclosure of the annual and quarterly information required above, conduct a conference call with respect to such information and results of operations for the relevant reporting period; provided that the foregoing obligation shall be satisfied to the extent such conference call, to which holders of the Notes have access, is conducted with Parent s public stockholders. No fewer than three Business Days prior to the later of (i) the disclosure of the annual, quarterly and periodic information required above and (ii) the date of the conference call required to be held in accordance with the preceding sentence, Parent shall issue a press release to the appropriate internationally recognized wire services announcing the date that such information will be available and the time and date of such conference call.

Notwithstanding anything herein to the contrary, Parent will not be deemed to have failed to comply with any of its obligations under this covenant for purposes of clause (4) under Events of Default until 30 days after the date any report is required to be filed or provided pursuant to this covenant.

Limitations on Activities of Capital Corp.

Capital Corp. will not hold any material assets, become liable for any material obligations or engage in any significant business activities; provided that Capital Corp. may be a co-obligor or guarantor with respect to Indebtedness if the Partnership is an obligor on such Indebtedness and the net proceeds of such Indebtedness are received by (or applied at the direction of) the Partnership, Capital Corp. or one or more Subsidiary Guarantors. At any time after the Partnership becomes a corporation by conversion, merger or otherwise, Capital Corp. may consolidate or merge with or into the Partnership or any Restricted Subsidiary of Parent (without such Restricted Subsidiary becoming a co-obligor in respect of the Notes).

Events of Default

The following are Events of Default under the indenture:

(1) default in the payment of principal of, or premium, if any, on any Note when they are due and payable at maturity, upon acceleration, redemption or otherwise;

(2) default in the payment of interest on any Note when due and payable, and such default continues for a period of 30 days;

(3) default in the performance or breach of the provisions of the indenture described under Covenants Consolidation, Merger and Sale of Assets, or the failure by the Issuers to make or consummate an Offer to Purchase in accordance with the covenants described above under the captions Covenants Limitation on Asset Sales or Repurchase of Notes upon a Change of Control ;

(4) Parent defaults in the performance of or breaches any other covenant or agreement of Parent in the indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for 60 consecutive days after written notice by the trustee or the holders of 25% or more in aggregate principal amount of the Notes;

(5) there occurs with respect to any issue or issues of Indebtedness of Parent or any Significant Subsidiary of Parent:

an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and such Indebtedness has not been discharged in full or such acceleration has not been rescinded or annulled within 30 days of such acceleration (the *accelerated debt*), and/or

the failure to make a principal payment at the final (but not any interim) fixed maturity of such Indebtedness and such defaulted payment shall not have been made, waived or extended within 30 days of such payment default (the *payment default debt*), and

in each case, the aggregate principal amount of such accelerated debt and payment default debt exceeds $25.0 million;

Table of Contents

(6) any final and non-appealable judgment or order (not covered by insurance) for the payment of money shall be rendered against Parent or any Significant Subsidiary of Parent and shall not be paid or discharged for a period of 60 consecutive days following entry of such final judgment or order and during such 60-day period a stay of enforcement of such final judgment or order, by reason of a pending appeal or otherwise, shall not be in effect, and the aggregate amount for such unpaid or undischarged final judgments shall exceed $25.0 million;

(7) a court of competent jurisdiction enters a decree or order for:

relief in respect of Parent or any Significant Subsidiary of Parent in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect,

appointment of a receiver, liquidator, assignee custodian, trustee, sequestrator or similar official of Parent or any Significant Subsidiary of Parent or for all or substantially all of the property and assets of Parent or any Significant Subsidiary of Parent, or

the winding up or liquidation of the affairs of Parent or any Significant Subsidiary of Parent and, in each case, such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

(8) Parent or any Significant Subsidiary of Parent:

commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under such law,

consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of Parent or such Significant Subsidiary or for all or substantially all of the property and assets of Parent or such Significant Subsidiary, or

effects any general assignment for the benefit of its creditors.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above that occurs with respect to Parent or the Issuers) occurs and is continuing under the indenture, the trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Issuers (and to the trustee if such notice is given by the holders), may, and the trustee at the request of the holders of at least 25% in aggregate principal amount of the Notes then outstanding shall, declare the principal of, premium, if any, and accrued interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued interest shall be immediately due and payable. In the event of a declaration of acceleration because an Event of Default set forth in clause (5) above has occurred and is continuing, such declaration of acceleration shall be automatically rescinded and annulled if the event triggering such Event of Default pursuant to clause (5) shall be remedied or cured by Parent or the relevant Significant Subsidiary or waived by the holders of the relevant

Indebtedness within 60 days after the declaration of acceleration with respect thereto.

If an Event of Default specified in clause (7) or (8) above occurs with respect to Parent or the Issuers, the principal of, premium, if any, and accrued interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder. The holders of at least a majority in principal amount of the outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) by written notice to the Issuers and to the trustee, may waive all past defaults (other than a payment default as described under clause (6) under Modification and Waiver) and rescind and annul a declaration of acceleration and its consequences if:

all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and

the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Table of Contents

As to the waiver of defaults, see Modification and Waiver.

The holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee. However, the trustee may refuse to follow any direction that conflicts with law or the indenture, that may involve the trustee in personal liability, or that the trustee determines in good faith may be unduly prejudicial to the rights of holders of Notes not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from holders of Notes. A holder may not pursue any remedy with respect to the indenture or the Notes unless:

(1) the holder gives the trustee written notice of a continuing Event of Default;

(2) the holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the trustee to pursue the remedy;

(3) such holder or holders offer the trustee indemnity satisfactory to the trustee against any costs, liability or expense;

(4) the trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) during such 60-day period, the holders of a majority in aggregate principal amount of the outstanding Notes do not give the trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note or to bring suit for the enforcement of any such payment on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the holder.

The indenture will require Parent to deliver, on or before a date not more than 120 days after the end of each fiscal year, an Officer s Certificate certifying that a review has been conducted of the activities of Parent and its Restricted Subsidiaries and of Parent s performance under the indenture and that Parent has fulfilled all obligations thereunder, or, if there has been a default in fulfillment of any such obligation, specifying each such default and the nature and status thereof. Parent will also be obligated to notify the trustee in writing of any default or defaults in the performance of any covenants or agreements under the indenture within 30 days of becoming aware of any such default unless such default has been cured before the end of the 30 day period.

Defeasance

The Issuers may, at their option and at any time, elect to have their obligations and the obligations of the Guarantors discharged with respect to the indenture and the outstanding Notes and Notes Guarantees (*Legal Defeasance*) and cure all then existing Events of Default. Legal Defeasance means that the Issuers and the Guarantors shall be deemed to have paid and discharged the entire indebtedness represented by the Notes and the Notes Guarantees, and the indenture shall cease to be of further effect as to all outstanding Notes and Notes Guarantees, except as to

(1) rights of holders to receive payments in respect of the principal of and interest on the Notes when such payments are due from the trust funds referred to below,

(2) the Issuers obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes, and the maintenance of an office or agency for payment and money for security payments held in trust,

(3) the rights, powers, trust, duties, and immunities of the trustee, and the Issuers obligations in connection therewith, and

(4) the Legal Defeasance provisions of the indenture.

Table of Contents

In addition, the Issuers may, at their option and at any time, elect to have their obligations and the obligations of the Guarantors released with respect to most of the covenants under the indenture, except as described otherwise in the indenture (*Covenant Defeasance*), and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default. In the event Covenant Defeasance occurs, certain Events of Default (not including the events described in clauses (1), (2) and, solely with respect to the Issuers, (7) and (8) under Events of Default) will no longer apply. The Issuers may exercise their Legal Defeasance option regardless of whether they previously exercised Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuers must irrevocably deposit with the trustee, in trust, for the benefit of the holders, U.S. legal tender, U.S. Government Obligations or a combination thereof, in such amounts as will be sufficient (without reinvestment) in the opinion or based on a report of a nationally recognized firm of independent public accountants, investment bank or appraisal firm selected by the Issuers, to pay the principal of and interest on the Notes on the stated date for payment or on the redemption date of the Notes; provided that, with respect to any redemption pursuant to Optional Redemption that requires the payment of the Applicable Premium, the redemption price deposited shall be sufficient for purposes of the indenture to the extent that the redemption price so deposited with the trustee is calculated using an amount equal to the Applicable Premium computed using the Adjusted Treasury Rate as of the third business day preceding the date of such deposit with the trustee;

(2) in the case of Legal Defeasance, the Issuers shall have delivered to the trustee an opinion of counsel in the United States confirming that:

(A) the Issuers have received from, or there has been published by the Internal Revenue Service, a ruling, or

(B) since the Issue Date, there has been a change in the applicable U.S. federal income tax law,

in either case to the effect that, and based thereon this opinion of counsel shall confirm that, the holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred,

(3) in the case of Covenant Defeasance, the Issuers shall have delivered to the trustee an opinion of counsel in the United States reasonably acceptable to the trustee confirming that the holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred,

(4)

no Default shall have occurred and be continuing on the date of such deposit (other than a Default resulting from the borrowing of funds to be applied to such deposit and any similar and substantially simultaneous deposit relating to other Indebtedness and, in each case, the granting of Liens on the funds deposited in connection therewith),

(5) the Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any other material agreement or material instrument (other than the indenture) to which Parent or any of its Subsidiaries is a party or by which Parent or any of its Subsidiaries is bound (other than any such default relating to any Indebtedness being repaid, discharged, defeased, redeemed or repurchased from any borrowing of funds to be applied to such deposit and any similar and substantially simultaneous deposit relating to such Indebtedness, and the granting of Liens on the funds deposited in connection therewith), and

(6) the Issuers shall have delivered to the trustee an Officer s Certificate and an opinion of counsel, each stating that the conditions provided for in, in the case of the Officer s Certificate, clauses (1) through (5) and, in the case of the opinion of counsel, clauses (2) and/or (3) of this paragraph have been complied with.

Table of Contents

Notwithstanding the foregoing, the opinion of counsel required by clause (2) above with respect to a Legal Defeasance need not to be delivered if all Notes not theretofore delivered to the trustee for cancellation (x) have become due and payable, or (y) will become due and payable at stated maturity within one year or are to be called for redemption within one year under irrevocable written arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in the name, and at the expense, of the Issuers.

Satisfaction and Discharge

The indenture (and the Notes and the Notes Guarantees) will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the Notes, as expressly provided for in the indenture) as to all outstanding Notes when:

(1) either:

(A) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuers and thereafter repaid to the Issuers or discharged from such trust) have been delivered to the trustee for cancellation; or

(B) all Notes not theretofore delivered to the trustee for cancellation (1) have become due and payable or (2) will become due and payable within one year, or are to be called for redemption within one year, under arrangements reasonably satisfactory to the trustee for the giving of notice of redemption by the trustee in the name, and at the expense, of the Issuers, and the Issuers have irrevocably deposited or caused to be deposited with the trustee funds in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not theretofore delivered to the trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of maturity or redemption, as the case may be, together with irrevocable written instructions from the Issuers directing the trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be; provided that, with respect to any redemption pursuant to Optional Redemption that requires the payment of the Applicable Premium, the redemption price deposited shall be sufficient for purposes of the indenture to the extent that the redemption price so deposited with the trustee is calculated using an amount equal to the Applicable Premium computed using the Adjusted Treasury Rate as of the third business day preceding the date of such deposit with the trustee;

(2) the Issuers have paid all other sums then due and payable under the indenture by Parent or the Issuers; and

(3) the Issuers have delivered to the trustee an Officer s Certificate and an opinion of counsel stating that all conditions precedent under the indenture relating to the satisfaction and discharge of the indenture have been complied with.

Modification and Waiver

Except as described below in clauses (1) through (9) of this paragraph and in the immediately following paragraph, modifications and amendments of the indenture may be made by the Issuers and the trustee with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes); provided, however, that no such modification or amendment may, without the consent of each holder affected thereby (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes):

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Note (in each case other than the provisions relating to the covenants described under the captions Repurchase of Notes upon a Change of Control or Covenants Limitation on Asset Sales),

138

Table of Contents

(2) reduce the principal amount of, or premium, if any, or interest on, any Note (in each case other than the provisions relating to the covenants described under the captions Repurchase of Notes upon a Change of Control or Covenants Limitation on Asset Sales),

(3) change the place of payment of principal of, or premium, if any, or interest on, any Note,

(4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note,

(5) reduce the above-stated percentages of outstanding Notes the consent of whose holders is necessary to modify or amend the indenture,

(6) waive a default in the payment of principal of, premium, if any, or interest on the Notes (except a rescission of the declaration of acceleration of the Notes by the holders of at least a majority in aggregate principal amount of the Notes then outstanding and a waiver of the payment default that resulted from such acceleration, so long as all other existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived),

(7) voluntarily release a Guarantor of the Notes, except as permitted by the indenture,

(8) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose holders is necessary for waiver of compliance with provisions of the indenture or for waiver of defaults, or

(9) subordinate the Notes or the Notes Guarantees as to right of payment to any other Indebtedness of the Issuers or any Notes Guarantor.

Notwithstanding the preceding, without the consent of any holder, Parent, the Issuers, the Subsidiary Guarantors and the trustee may amend the indenture:

(1) to cure any ambiguity, omission, defect, mistake or inconsistency;

(2) to provide for the assumption by a successor corporation or other entity of the obligations of Parent, the Issuers or any Subsidiary Guarantor under the indenture, the Notes and the Notes Guarantees;

(3) to provide for uncertificated Notes in addition to or in place of certificated Notes;

(4) to add guarantees with respect to the Notes, including any Subsidiary Guarantees, or to secure the Notes;

(5) to add to the covenants of Parent, the Issuers or a Restricted Subsidiary of Parent for the benefit of the holders or to surrender any right or power conferred upon Parent, the Issuers or a Restricted Subsidiary of Parent or to add additional Events of Default;

(6) to make any change that does not adversely affect the rights of any Holder in any material respect;

(7) to comply with any requirement of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act;

(8) to make any amendment to the provisions of the indenture relating to the transfer and legending of Notes; provided, however, that (a) compliance with the indenture as so amended would not result in Notes being transferred in violation of the Securities Act or any other applicable securities law and (b) such amendment does not materially and adversely affect the rights of holders to transfer Notes;

(9) to conform the text of the indenture or the Notes Guarantees or the Notes to any provision of the Description of Notes contained in the Offering Memorandum to the extent that such provision of the Description of Notes in the Offering Memorandum was intended to be a recitation of a provision of the indenture or the Notes Guarantees or the Notes as set forth in an Officer s Certificate delivered to the trustee;

(10) to evidence and provide for the acceptance of appointment by a successor trustee, provided that the successor trustee is otherwise qualified and eligible to act as such under the terms of the indenture;

(11) to release a Subsidiary Guarantor from its Subsidiary Guarantee as permitted by and in accordance with the indenture;

(12) to provide for a reduction in the minimum denominations of the Notes;

(13) to comply with the rules of any applicable securities depositary; or

(14) to provide for the issuance of additional notes and related guarantees in accordance with the limitations set forth in the indenture.

The consent of the holders is not necessary under the indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment under the indenture becomes effective, Parent is required to give to holders a notice (which may be given in accordance with applicable DTC procedures) briefly describing such amendment. However, the failure to give such notice to all holders, or any defect therein, will not impair or affect the validity of the amendment.

Payments for Consent

Neither Parent nor any Affiliate of Parent may, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the indenture or the Notes unless such consideration is offered to all holders and is paid to all holders that so consent, waive or agree to amend in the time frame set forth in solicitation documents relating to such consent, waiver or agreement.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

The indenture provides that no recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of Parent, the Issuers or the Guarantors in the indenture, or in any of the Notes or Notes Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, member, manager, partner, officer, director, employee or controlling person in their capacity as such of Parent, the Issuers or the Subsidiary Guarantors or of any successor Person thereof. Each holder, by accepting the Notes, waives and releases all such liability.

Concerning the Trustee

Wells Fargo Bank, National Association acts as trustee under the indenture.

The indenture provides that, except during the continuance of a Default, the trustee will not be liable, except for the performance of such duties as are specifically set forth in the indenture. If an Event of Default has occurred and is continuing, the trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the indenture as a prudent person would exercise under the circumstances in the conduct of such person s own affairs.

The indenture and provisions of the Trust Indenture Act incorporated by reference into the indenture contain limitations on the rights of the trustee, should it become a creditor of Parent or the Issuers, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The trustee is permitted to engage in other transactions; provided, however, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

Table of Contents

Certain Definitions

Set forth below are definitions of certain terms contained in the indenture that are used in this description. Please refer to the indenture for the definition of other capitalized terms used in this description that are not defined below.

Acquired Indebtedness means Indebtedness of a Person existing at the time such Person is merged into or consolidated with Parent or any of its Restricted Subsidiaries or becomes (including by redesignation) a Restricted Subsidiary of Parent or that is assumed in connection with an Asset Acquisition from such Person by a Restricted Subsidiary of Parent and Indebtedness encumbering any property or asset acquired from such Person; provided, however, that Indebtedness of such Person that is redeemed, repurchased, defeased, discharged, retired or otherwise repaid (or for which an irrevocable deposit is made in an amount sufficient to effect the foregoing) at the time of or immediately upon consummation of or substantially concurrently with the transactions by which such Person is merged into or consolidated with Parent or any of its Restricted Subsidiaries or becomes (including by redesignation) a Restricted Subsidiary of Parent or such Asset Acquisition shall not be deemed to be Indebtedness.

Adjusted Consolidated Net Income means, for any period, the aggregate net income (or loss) (before giving effect to cash dividends on preferred stock of Parent or charges resulting from the redemption of preferred stock of Parent, but without giving effect to deductions for non-controlling or minority interests in the Partnership) of Parent and its Restricted Subsidiaries for such period determined on a consolidated basis in conformity with GAAP; provided, however, that the following items shall be excluded in computing Adjusted Consolidated Net Income, without duplication:

(1) the net income of any Person, other than Parent or a Restricted Subsidiary of Parent, except to the extent of the amount of dividends or other distributions or payments actually paid in cash (or to the extent converted into cash) or Temporary Cash Investments to Parent or any of its Restricted Subsidiaries by such Person during such period;

(2) solely for the purpose of determining the amount available for Restricted Payments under the first bullet point of clause (C) of Covenants Limitation on Restricted Payments, the net income of any Restricted Subsidiary of Parent to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary, except to the extent that such restrictions with respect to the declaration and payment of dividends or distributions have been waived or approval for such declaration or payment has been obtained; provided, however, that such exclusions shall not apply with respect to limitations imposed either pursuant to Indebtedness which has been irrevocably called for redemption, repurchase or other acquisition or in respect of which the required steps have been taken to have such Indebtedness defeased or discharged, or an irrevocable deposit has been made in an amount sufficient to effect the foregoing; provided further, that Adjusted Consolidated Net Income will be increased by the amount of dividends or other distributions or other payments made or permitted to be made in cash (or to the extent converted into cash) or Temporary Cash Investments to Parent or a Restricted Subsidiary thereof in respect of such period, to the extent not already included therein;

(3) the cumulative effect of a change in accounting principles;

(4) gains and losses (i) resulting from fluctuations in currency values or exchange rates and the related tax effects, and mark-to-market of Hedging Obligations and other obligations, and including charges relating to Accounting Standards Codification Nos. 815 and 820 or (ii) attributable to the extinguishment, retirement or conversion of Indebtedness or the settlement or termination of Hedging Obligations;

(5) (i) costs associated with initiating public company reporting, information technology implementation, and other similar start-up costs, not to exceed, in the case of this clause (5)(i), an aggregate of $5.0 million and (ii) any Spin-Off Expenses and any other charges, fees, costs or expenses associated with becoming a separate operating company;

(6) any after-tax gains or losses attributable to Asset Sales or other Asset Dispositions, including any disposition of any securities, or disposed, discontinued or abandoned operations;

(7) any non-cash compensation expense or charges related or attributable to grants, issuances, repurchases, repricings or other modifications of stock options, restricted stock, restricted stock units, stock appreciation rights, other Capital Stock or equity-based awards or similar rights or otherwise with respect to stock-based compensation plans to or with respect to officers, directors and employees of Parent and any of its Subsidiaries; and

(8) all after-tax extraordinary gains or extraordinary losses;

provided, however, that proceeds from any business interruption insurance shall be added to Adjusted Consolidated Net Income to the extent such proceeds were not included in the computation thereof.

Adjusted Total Assets means, for any Person, the sum of:

(1) Total Assets for such Person and its Restricted Subsidiaries on a consolidated basis as of the end of the last completed fiscal quarter preceding the applicable determination date; and

(2) any increase in Total Assets for such Person and its Restricted Subsidiaries on a consolidated basis following the end of such quarter determined on a pro forma basis, including any pro forma increase in Total Assets for such Person and its Restricted Subsidiaries on a consolidated basis resulting from the application of the proceeds of any additional Indebtedness.

Affiliate means, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, control (including, with correlative meanings, the terms *controlling*, *controlled by* and *under common control with*), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of clarity, Ensign and its Subsidiaries (other than Parent and its Subsidiaries) will not be deemed to be directly or indirectly controlling, controlled by, or under direct or indirect common control with, Parent or its Subsidiaries.

Asset Acquisition means:

(1) an investment by Parent or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become (including by redesignation) a Restricted Subsidiary of Parent or shall be merged into or consolidated with Parent or any of its Restricted Subsidiaries; provided, however, that such Person s primary business is related, ancillary, incidental or complementary to the businesses of the Issuers or any of their Restricted Subsidiaries on the date of such investment or a Permitted Business; or

(2) an acquisition by Parent or any of its Restricted Subsidiaries from any other Person of assets that constitute all or substantially all of a division or line of business, or one or more properties or operations, of such

Person; provided, however, that the assets and properties acquired are related, ancillary, incidental or complementary to the businesses of the Issuers or any of their Restricted Subsidiaries on the date of such acquisition or a Permitted Business.

Asset Disposition means the sale, transfer, conveyance or other disposition (including by merger or consolidation) by Parent or any of its Restricted Subsidiaries, other than to Parent or any of its Restricted Subsidiaries, of:

(1) Capital Stock of or other securities of or interests in any Subsidiary; or

(2) all or substantially all of the assets that constitute a division or line of business, or one or more properties or operations, of Parent or any of its Restricted Subsidiaries.

Table of Contents

Asset Sale means any sale, transfer or other disposition, including by way of merger, consolidation or Sale and Leaseback Transaction, in one transaction or a series of related transactions by Parent or any of its Restricted Subsidiaries to any Person other than Parent or any of its Restricted Subsidiaries of:

(1) all or any of the Capital Stock of any Restricted Subsidiary of Parent (other than the Partnership);

(2) all or substantially all of the assets that constitute a division or line of business of Parent or any of its Restricted Subsidiaries; or

(3) any property and assets of Parent or any of its Restricted Subsidiaries outside the ordinary course of business of Parent or such Restricted Subsidiary;

provided, however, that Asset Sale shall not include:

the lease or sublease of any Real Estate Asset and guarantees of any such lease or sublease;

sales, leases, assignments, licenses, sublicenses, subleases or other dispositions of inventory, receivables and other current assets;

the sale, conveyance, transfer, disposition or other transfer (including by way of merger or consolidation) of all or substantially all of the assets of Parent and its Restricted Subsidiaries taken as a whole in accordance with the covenant described under Consolidation, Merger and Sale of Assets ;

the license or sublicense of software, intellectual property or other general intangibles;

the issuance of Capital Stock by a Restricted Subsidiary of Parent to Parent or another Restricted Subsidiary of Parent or in which the percentage interest (direct and indirect) in the Capital Stock of such Restricted Subsidiary owned, directly or indirectly, by Parent after giving effect to such issuance is at least equal to the percentage interest prior to such issuance;

any issuance of Capital Stock (other than Disqualified Stock) by the Partnership in order to acquire assets used or useful in a Permitted Business (including Capital Stock of a Person primarily owning such assets);

the surrender or waiver of contract rights; expirations or terminations or unwindings of contracts or agreements; or settlement, release or surrender of a contract, tort or other litigation claim in the ordinary course of business;

any Restricted Payment not prohibited by the Limitation on Restricted Payments covenant (including any transaction expressly permitted thereby) or a Permitted Investment;

sales, transfers or other dispositions of assets or the sale or issuance of Capital Stock with a fair market value not in excess of $7.5 million in any transaction or series of related transactions;

sales or other dispositions of assets for consideration at least equal to the fair market value of the assets sold or disposed of, to the extent that the consideration received would satisfy clause (2), (5) or (6) of the third paragraph of the Limitation on Asset Sales covenant;

sales or other dispositions of cash or Temporary Cash Investments;

dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in a bankruptcy or similar proceeding and factoring and similar arrangements;

terminations of Hedging Obligations;

the creation, granting, perfection or realization of any Lien not prohibited under the indenture and any exercise of remedies in respect thereof;

Section 1031 exchanges and other exchanges for Replacement Assets or other replacement property or assets in the ordinary course of business;

the lease, assignment or sublease of property in the ordinary course of business so long as the same does not materially interfere with the business of Parent and its Restricted Subsidiaries, taken as a whole;

sales, exchanges, transfers or other dispositions or the abandonment of damaged, worn-out or obsolete or otherwise unsuitable or unnecessary equipment or assets that, in Parent s reasonable judgment, are no longer used or useful in the business of Parent or its Restricted Subsidiaries and any sale or disposition of property in connection with scheduled turnarounds, maintenance and equipment and facility updates;

foreclosure, condemnation or any similar action with respect to any property or other assets, including transfers or dispositions of such property or other assets subject thereto;

any disposition of Equity Interests of a Restricted Subsidiary of Parent pursuant to an agreement or other obligation with or to a Person (other than Parent or any of its Restricted Subsidiaries) from whom such Restricted Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;

any financing transaction with respect to property constructed, acquired, replaced, repaired or improved (including any reconstruction, refurbishment, renovation and/or development of real property) by Parent or any of its Restricted Subsidiaries otherwise permitted by the indenture;

sales of Unrestricted Subsidiaries or joint ventures that are not Subsidiaries, or Capital Stock or other Investments therein, or assets thereof;

any sales, transfers or other dispositions pursuant to the Transaction Agreements or otherwise in connection with the Transactions and any transactions related thereto, including sales, transfers or other dispositions of Capital Stock and other property to Ensign or any of its Subsidiaries; and

(a) the issuance or sale of directors qualifying shares; and (b) the issuance, sale or transfer of Capital Stock of foreign Restricted Subsidiaries of Parent to foreign nationals to the extent required by applicable law.

Attributable Debt in respect of a Sale and Leaseback Transaction means, at the time of determination, the present value of the total obligations of the lessee for net rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction. For purposes hereof such present value shall be calculated using a discount rate equal to the rate of interest implicit in such Sale and Leaseback Transaction, determined by the lessee in good faith on a basis consistent with comparable determinations of Capitalized Lease Obligations under GAAP; provided, however, that if such Sale and Leaseback Transaction results in a Capitalized Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of Capitalized Lease Obligations.

Average Life means at any date of determination with respect to any debt security, the quotient obtained by dividing:

(1) the sum of the products of:

- the number of years from such date of determination to the dates of each successive scheduled principal payment of such debt security; and

- the amount of such principal payment, by

(2) the sum of all such principal payments.

Board of Directors means, as to any Person, the board of directors (or similar governing body) of such Person or its manager (or, in the case of a limited partnership, of its general partner) or any duly authorized committee thereof.

Table of Contents

Business Day means a day other than a Saturday, Sunday or any other day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close.

Capital Stock means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting), including partnership or limited liability company interests, whether general or limited, in the equity of such Person, whether outstanding on the Issue Date or issued thereafter, including all Common Stock and Preferred Stock and all options, warrants or other rights issued by such Person to purchase Capital Stock of such Person; provided that, for the avoidance of doubt, Convertible Indebtedness and any other debt securities convertible into or exchangeable (in whole or in part) for such shares, interests, participations or other equivalents shall not constitute Capital Stock unless and until (and to the extent) actually converted into or exchanged for such shares, interests, participations or other equivalents.

Capitalized Lease means, as applied to any Person, any lease of any property, whether real, personal or mixed, of which the discounted present value of the rental obligations of such Person as lessee, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person. For clarity purposes, (i) GAAP for purposes of this definition shall be deemed GAAP as in effect on the Issue Date, (ii) for the avoidance of doubt, any lease that is properly accounted for by such Person as an operating lease as of the Issue Date and any similar lease entered into after the Issue Date by such Person will be accounted for as an operating lease and not as a Capitalized Lease and (iii) the Master Leases will be accounted for as operating leases and not as Capitalized Leases.

Capitalized Lease Obligations means, at the time any determination is to be made, the amount of the liability in respect of a Capitalized Lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

Change of Control means the occurrence of one or more of the following events:

(1) any sale, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of Parent and its Subsidiaries taken as a whole to any person or group (as such terms are defined in Sections 13(d) and 14(d)(2) of the Exchange Act), together with any Affiliates thereof (whether or not otherwise in compliance with the provisions of the indenture) (other than to Parent or its Restricted Subsidiaries), provided, however, that for the avoidance of doubt, the lease of all or substantially all of the assets of Parent and its Subsidiaries taken as a whole shall not constitute a Change of Control;

(2) a person or group (as such terms are defined in Sections 13(d) and 14(d)(2) of the Exchange Act), becomes the ultimate beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of more than 50% of the total voting power of the Voting Stock of Parent on a fully diluted basis (other than, prior to the Spin-Off, by Ensign and its Subsidiaries);

(3) the approval by the holders of Capital Stock of Parent of any plan or proposal for the liquidation or dissolution of Parent (whether or not otherwise in compliance with the provisions of the indenture); or

(4) individuals who on the Issue Date constitute the Board of Directors of Parent (together with any new or replacement directors whose election or appointment by the Board of Directors of Parent or whose

nomination by the Board of Directors of Parent for election by Parent s shareholders was approved by a vote of at least a majority of the members of the Board of Directors of Parent then still in office who either were members of the Board of Directors of Parent on the Issue Date or whose election or nomination for election was so approved) cease for any reason to constitute a majority of the members of the Board of Directors of Parent then in office.

Notwithstanding the foregoing: (A) any holding company all of substantially of the assets of which are comprised of Parent or any 100% direct or indirect parent company of Parent shall not itself be considered a person or group ; (B) the transfer of assets between or among Parent s Restricted Subsidiaries and Parent

145

Table of Contents

shall not itself constitute a Change of Control; (C) the term Change of Control shall not include a merger or consolidation of Parent with or the sale, assignment, conveyance, transferor other disposition of all or substantially all of Parent s assets to, an Affiliate incorporated or organized solely for the purpose of reincorporating or reorganizing Parent in another jurisdiction and/or for the sole purpose of forming or collapsing a holding company structure; (D) a person or group shall not be deemed to have beneficial ownership of securities subject to a stock or asset purchase agreement, merger agreement or similar agreement (or voting or option or similar agreement related thereto) until the consummation of the transactions contemplated by such agreement; and (E) the Transactions and any transactions related thereto shall not constitute a Change of Control.

Code means the Internal Revenue Code of 1986, as amended.

Common Stock means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) that have no preference on liquidation or with respect to distributions over any other class of Capital Stock, including partnership interests, whether general or limited, of such Person s equity, whether outstanding on the Issue Date or issued thereafter, including all series and classes of common stock.

Common Units means the limited partnership units of the Partnership, that by their terms are redeemable at the option of the holder thereof and that, if so redeemed, at the election of Parent are redeemable for cash or Common Stock of Parent.

Consolidated EBITDA means, for any period, Adjusted Consolidated Net Income for such period *plus*, to the extent such amount was deducted in calculating such Adjusted Consolidated Net Income (without duplication):

(1) Consolidated Interest Expense;

(2) provision for taxes based on income or profits or capital gains, including federal, state, provincial, franchise, excise and similar taxes and foreign withholding taxes;

(3) depreciation and amortization (including without limitation amortization or impairment write-offs of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period);

(4) any cost, charge, fee or expense (including discounts and commissions and fees and charges incurred in respect of letters of credit or bankers acceptance financings, all legal, accounting, advisory or other transaction-related charges, fees, costs and expenses and amortization or write-offs of debt issuance costs, deferred financing costs, premiums and prepayment penalties, or any amortization of the foregoing) associated with any Financing Activity not prohibited by the indenture or any such proposed Financing Activity (whether or not successful) not to exceed $5.0 million in aggregate during any 12 month period;

(5) the amount of integration costs deducted (and not added back) in such period in computing Adjusted Consolidated Net Income, including any direct transaction or restructuring costs incurred in connection with

acquisitions or dispositions, not to exceed for any period 10% of Consolidated EBITDA (calculated on a pro forma basis for any relevant transaction giving rise to the calculation of Consolidated EBITDA but before giving effect to the costs described in this clause (5));

(6) all after-tax unusual or non-recurring charges or items of loss or expense, net of all after-tax unusual or non-recurring gains, not to exceed for any period 10% of Consolidated EBITDA (calculated on a pro forma basis for any relevant transaction giving rise to the calculation of Consolidated EBITDA but before giving effect to the costs described in this clause (6));

(7) impairment charges or asset write-offs or write-downs related to intangible assets (including goodwill), long-lived assets, receivables, investments or as a result of a change in a law of regulation, in each case pursuant to GAAP; and

(8) all other non-cash items reducing Adjusted Consolidated Net Income (other than items that will require cash payments and for which an accrual or reserve is, or is required by GAAP to be, made), less all non-cash items increasing Adjusted Consolidated Net Income, all as determined on a consolidated basis for Parent and its Restricted Subsidiaries in conformity with GAAP.

Notwithstanding the preceding, the income taxes of, and the depreciation and amortization and other non-cash items of, a Subsidiary shall be added to (or subtracted from) Adjusted Consolidated Net Income to compute Consolidated EBITDA only to the extent (and in the same proportion) that net income of such Subsidiary was included in calculating Adjusted Consolidated Net Income.

Consolidated Interest Expense means, for any period, the aggregate amount of interest expense, less the aggregate amount of interest income for such period, in respect of Indebtedness of Parent and its Restricted Subsidiaries during such period, all as determined on a consolidated basis in conformity with GAAP including (without duplication):

the interest portion of any deferred payment obligations;

all commissions, discounts and other fees and expenses owed with respect to letters of credit and bankers acceptance financing;

the net cash costs associated with Interest Rate Agreements and Indebtedness that is guaranteed or secured by assets of Parent or any of its Restricted Subsidiaries; and

all but the principal component of rentals in respect of Capitalized Lease Obligations paid, accrued or scheduled to be paid or accrued by Parent and its Restricted Subsidiaries;

provided, that Consolidated Interest Expense shall exclude, to the extent included in interest expense above, (i) accretion of accrual of discounted liabilities not constituting Indebtedness, (ii) any expense resulting from the discounting of any outstanding Indebtedness in connection with the application of purchase accounting in connection with any acquisition, (iii) amortization of deferred financing fees, debt issuance costs, commissions, fees and expenses, (iv) any expensing of bridge, commitment or other financing fees (but not revolving loan commitment fees) and (v) non-cash costs associated with Hedging Obligations or attributable to mark to market valuation of derivative instruments pursuant to GAAP and gains and losses attributable to the settlement, unwinding or termination of Hedging Obligations.

Convertible Indebtedness means Indebtedness of Parent or the Partnership permitted to be incurred under the terms of the indenture that is (i) convertible into common stock of Parent (and cash in lieu of fractional shares) and/or cash (in an amount determined by reference to the price of such common stock) or (ii) sold as units with call options, warrants or rights to purchase (or substantially equivalent derivative transactions) that are exercisable for common stock of Parent and/or cash (in an amount determined by reference to the price of such common stock).

Credit Agreement means the Credit Agreement, to be entered into on or about the Issue Date, by and among certain Restricted Subsidiaries of Parent as borrowers or guarantors, Parent as guarantor, the lenders party thereto in their capacities as lenders thereunder and SunTrust Bank, as administrative agent, together with the related documents thereto (including any notes, guarantee agreements and security documents).

Credit Facility means one or more credit or debt facilities (including any credit or debt facilities provided under the Credit Agreement), financings, commercial paper facilities, receivables financings, note purchase agreements or other debt instruments, indentures or agreements, providing for revolving credit loans, term loans, swingline loans, notes, securities, letters of credit or other debt obligations, in each case, as amended, restated, modified, renewed, refunded, restructured, supplemented, replaced or refinanced in whole or in part from time to time, including any amendment increasing the amount of Indebtedness Incurred or available to be borrowed thereunder, extending the maturity of any Indebtedness Incurred thereunder or contemplated thereby or deleting, adding or substituting one or more parties thereto (whether or not such added or substituted parties are banks or other lenders or investors).

Table of Contents

Currency Agreement means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement.

Default means any event that is, or after notice or passage of time or both would be, an Event of Default.

defeasance means either Legal Defeasance or Covenant Defeasance.

Disqualified Stock means any class or series of Capital Stock of any Person that by its terms or otherwise is:

(1) required to be redeemed on or prior to the date that is 91 days after the Stated Maturity of the Notes;

(2) redeemable at the option of the holder of such class or series of Capital Stock, at any time on or prior to the date that is 91 days after the Stated Maturity of the Notes (other than in exchange for Capital Stock that is not Disqualified Stock); or

(3) convertible into or exchangeable for Capital Stock of the type referred to in clause (1) or (2) above or Indebtedness having a scheduled final maturity on or prior to the date that is 91 days after the Stated Maturity of the Notes;

provided, however, that only the portion of Capital Stock which is so redeemable or required to be redeemed prior to such date will be deemed to be Disqualified Stock; provided further that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an asset sale or change of control occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the asset sale or change of control provisions applicable to such Capital Stock specifically provide that such Person will not repurchase or redeem any such stock pursuant to such provisions (x) unless such repurchase or redemption complies with the covenant described above under the caption Covenants Limitation on Restricted Payments or (y) prior to any purchase of the Notes as are required to be purchased pursuant to the provisions of the Indenture as described under Repurchase of Notes upon a Change of Control and Covenants Limitation on Asset Sales. Disqualified Stock shall not include (i) Capital Stock which is issued to any plan for the benefit of employees of Parent or its Subsidiaries or by any such plan to such employees solely because it may be required to be redeemed or repurchased by Parent or its Subsidiaries in order to satisfy applicable statutory or regulatory obligations, or (ii) Capital Stock issued to any future, present or former employee, director, officer or consultant of Parent or its Subsidiaries (or any direct or indirect parent thereof) which is redeemable or subject to repurchase pursuant to any management equity subscription agreement, stock option agreement, stock ownership plan, put agreement, shareholders agreement or similar agreement. Disqualified Stock shall not include Common Units.

Domestic Restricted Subsidiary means any Restricted Subsidiary that is organized under the laws of the United States, any state thereof or the District of Columbia other than any Restricted Subsidiary substantially all the assets of which are Controlled Foreign Corporations as defined in Section 957 of the Code.

DTC means The Depository Trust Company.

Ensign means The Ensign Group, Inc.

Equity Offering means a public or private offering of Capital Stock (other than Disqualified Stock) of Parent or the Partnership.

Exchange Act means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

Existing Indebtedness means (i) the aggregate principal amount of Indebtedness of Parent and its Subsidiaries in existence on the Issue Date (including guarantees thereof), until such amounts are repaid and (ii) Indebtedness under the GECC Loan in an aggregate principal amount not to exceed $99.3 million.

fair market value means the price that would be paid in an arm s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy or a value that is fair and otherwise on market terms. For purposes of determining compliance with the provisions of the indenture described under the caption Covenants, any determination that the fair market value of assets other than cash or Temporary Cash Investments is equal to or greater than $30.0 million will be as determined in good faith by the Board of Directors of Parent and otherwise by the principal financial or accounting officer of Parent acting in good faith, each of whose determination will be conclusive.

Financing Activity means any of the following: (a) the actual or attempted Incurrence of any Indebtedness or the issuance of any Capital Stock or other securities by Parent or any Restricted Subsidiary of Parent, activities related to any such actual or attempted Incurrence or issuance, or the issuance of commitments in respect thereof, (b) amending or modifying, or redeeming, refinancing, tendering for, refunding, defeasing, discharging, repaying, retiring or otherwise acquiring for value, any Indebtedness prior to the Stated Maturity thereof (including any premium, penalty, commissions or fees) or (c) the termination of any Hedging Obligations or other derivative instruments or any fees paid to enter into any Hedging Obligations or other derivative instruments.

Four Quarter Period means, for purposes of calculating the Interest Coverage Ratio with respect to any Transaction Date, the then most recently completed four fiscal quarters prior to such Transaction Date for which reports have been filed with the SEC or provided to the trustee pursuant to the Covenants SEC Reports and Reports to Holders covenant or for which internal financial statements are available; provided, however, that with respect to calculating the Interest Coverage Ratio for any four quarter period ending on or prior to March 31, 2015:

(1) Consolidated EBITDA (A) shall be deemed to be $12.9 million for each of the fiscal quarters ended (i) March 31, 2014, (ii) December 31, 2013, (iii) September 30, 2013, and (iv) June 30, 2013, and (B) for the period from March 31, 2014 through the Spin-Off Effective Date, shall be determined as if the Spin-Off and the other Transactions occurred at the beginning of such period, and the Master Leases had been entered into as of such date, as reasonably determined by the Issuers; and

(2) Consolidated Interest Expense shall be computed as follows:

(A) for the four (4) fiscal quarter period ended March 31, 2014, Consolidated Interest Expense shall be deemed to be $22.5 million;

(B) for the four (4) fiscal quarter period ended June 30, 2014, Consolidated Interest Expense for the period from the Spin-Off Effective Date to the end of such fiscal quarter shall be annualized;

(C) for the four (4) fiscal quarter period ended September 30, 2014, Consolidated Interest Expense for the one-fiscal quarter then ended shall each be multiplied by 4;

(D) for the four (4) fiscal quarter period ended December 31, 2014, Consolidated Interest Expense for the two fiscal-quarter period then ended shall each be multiplied by 2; and

(E) for the four (4) fiscal quarter period ended March 31, 2015, Consolidated Interest Expense for the three fiscal-quarter period then ended shall each be multiplied by 1-1/3.

Funds From Operations for any period means the Adjusted Consolidated Net Income of Parent and its Restricted Subsidiaries for such period determined in conformity with GAAP after adjustments for unconsolidated partnerships and joint ventures, *plus* depreciation and amortization of real property (including furniture and equipment), including below market lease amortization net of above market lease amortization, and other real estate assets and excluding (to the extent such amount was deducted and not added back in calculating such Adjusted Consolidated Net Income (without duplication)):

(1) gains or losses from (a) the restructuring or refinancing of Indebtedness or (b) sales of properties;

(2) non-cash asset impairment charges;

149

(3) non-cash charges related to redemptions or repurchases of Preferred Stock of Parent;

(4) one-time direct transaction or restructuring costs incurred in connection with acquisitions or dispositions;

(5) deferred rental income (loss); and

(6) amortization or write-offs of debt issuance and deferred financing costs;

provided, however, that Funds From Operations for the period from March 31, 2014 through the Spin-Off Effective Date shall be determined as if the Spin-Off and the other Transactions occurred at the beginning of such period, and the Master Leases had been entered into as of such date, as reasonably determined by the Issuers.

GAAP means generally accepted accounting principles in the United States of America as in effect as of the date of determination, including those set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession. Except as otherwise specifically provided in the indenture, all ratios and computations contained or referred to in the indenture shall be computed in conformity with GAAP. For clarity purposes, any change in GAAP requiring leases that were previously classified as operating leases (or which, had they been entered into prior to the Issue Date, would have been treated as an operating lease on the Issue Date) to be treated as Capitalized Leases shall be disregarded and such leases shall continue to be, or shall be, treated as operating leases consistent with GAAP as in effect immediately before such change in GAAP became effective.

GECC Loan means the loan agreement to be entered into on or about the Issue Date by the Real Property Non-Guarantor Subsidiaries as borrowers, General Electric Capital Corporation and the financial institutions who are or become parties to the loan agreement as lenders together with the related guaranty agreement by Parent, as guarantor, in favor of General Electric Capital Corporation, as agent for the lenders.

guarantee means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner, including by way of a pledge of assets, of all or any part of any Indebtedness. The term *guarantee* used as a verb has a corresponding meaning.

Guarantor means Parent, the General Partner and each Subsidiary Guarantor and any other Person that enters into a Notes Guarantee.

Hedging Obligations means obligations, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired under (i) Currency Agreements and Interest Rate Agreements, commodity swap agreement, commodity cap agreement, commodity collar agreement or foreign exchange contract and any other agreements or arrangements designed to hedge or protect such Person against, or transfer or mitigate, fluctuations in interest rates or currency exchange rates and (ii) other hedge or swap or option or put/call agreements entered into as part of or in connection with an issuance of convertible Indebtedness (including, for the avoidance of doubt, Permitted Bond Hedge Transactions and Permitted Warrant Transactions), and, in the case of clause (i), not for speculative purposes.

Incur means, with respect to any Indebtedness, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness, including an Incurrence of Acquired Indebtedness; provided, however, that neither the accrual of interest, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, nor the accretion of original issue discount shall be considered an Incurrence of Indebtedness.

Table of Contents

Indebtedness means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, Notes or other similar instruments;

(3) the face amount of letters of credit or other similar instruments (excluding obligations with respect to letters of credit (including trade letters of credit) securing obligations (other than obligations described in (1) or (2) above or (5), (6) or (7) below) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the tenth Business Day following receipt by such Person of a demand for reimbursement);

(4) all unconditional obligations of such Person to pay the deferred and unpaid purchase price of property or services, which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto or the completion of such services, except Trade Payables and obligations to the extent payable through the issuance of Capital Stock;

(5) all Capitalized Lease Obligations and Attributable Debt;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided, however, that the amount of such Indebtedness shall be the lesser of (A) the fair market value of such asset at that date of determination and (B) the amount of such Indebtedness;

(7) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person (excluding Permitted Non-Recourse Guarantees until such time as they become primary obligations of, and payments are due and required to be made thereunder by, such Person or any of its Restricted Subsidiaries); and

(8) to the extent not otherwise included in this definition or the definition of Consolidated Interest Expense, obligations under Hedging Obligations; provided, however, that in no event will any Permitted Warrant Transaction constitute Indebtedness.

The amount of Indebtedness of any Person at any date, unless otherwise specified above or below, shall be the outstanding balance at such date of all unconditional obligations of the type described above appearing (other than letters of credit and Hedging Obligations) as a liability on a balance sheet of the specified Person prepared in accordance with GAAP and, with respect to obligations under any guarantee, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided, however, that:

the amount outstanding at any time of any Indebtedness issued with original issue discount shall be deemed to be the face amount with respect to such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at the date of determination in conformity with GAAP;

Indebtedness shall not include any liability for foreign, federal, state, local or other taxes;

Indebtedness shall not include any liability required to be recognized as a result of variable interest accounting unless such Person is otherwise legally liable for such liability;

Indebtedness shall not include any indemnification, earnouts, adjustment or holdback of purchase price or similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business, assets or a Subsidiary, other than guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Subsidiary for the purpose of financing such acquisition;

Indebtedness shall not include contingent obligations under performance bonds, performance guarantees, surety bonds, appeal bonds or similar obligations Incurred in the ordinary course of business;

Table of Contents

In the case of clause (4) above, the amount of such Indebtedness shall be the net present value thereof determined in accordance with GAAP; and

In the case of clause (8) above, the amount of such Indebtedness shall be zero unless and until such Indebtedness shall be terminated, modified or replaced in part, in which case the amount of such Indebtedness shall be the termination, modification or replacement payment then due thereunder by such Person.

For the avoidance of doubt, it is understood and agreed that (i) any obligations of such Person in respect of cash management or similar agreements and (ii) any obligations of such Person in respect of employee deferred compensation and benefit plans or similar arrangements shall not constitute Indebtedness. For the avoidance of doubt, for purposes of calculating the total amount of Indebtedness or Secured Indebtedness, there shall be excluded any Indebtedness or portion thereof which has been defeased, discharged, repurchased, retired, redeemed, otherwise acquired or repaid (or for which an irrevocable deposit is made in an amount sufficient to effect the foregoing).

Interest Coverage Ratio means, on any Transaction Date, the ratio of:

the aggregate amount of Consolidated EBITDA for the then applicable Four Quarter Period to

the aggregate Consolidated Interest Expense during such Four Quarter Period.

In making the foregoing calculation,

(1) pro forma effect (including to the application of proceeds thereof) shall be given to any Indebtedness Incurred, assumed, guaranteed, defeased, discharged, repurchased, retired, redeemed, otherwise acquired or repaid (or for which an irrevocable deposit is made in an amount sufficient to effect the foregoing) during the period (*Reference Period*) commencing on the first day of the Four Quarter Period and ending on the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement), in each case as if such Indebtedness had been Incurred, assumed, guaranteed, defeased, discharged, repurchased, retired, redeemed, otherwise acquired or repaid (or such an irrevocable deposit made) on the first day of such Reference Period;

(2) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(3) pro forma effect shall be given to Asset Dispositions, Asset Acquisitions and Permitted Mortgage Investments (including giving pro forma effect to the application of proceeds of any Asset Disposition and any Indebtedness Incurred, assumed, guaranteed, defeased, discharged, repurchased, retired, redeemed, otherwise acquired or repaid (or for which an irrevocable deposit is made in an amount sufficient to effect

the foregoing) in connection with any such Asset Acquisitions, Asset Dispositions or Permitted Mortgage Investments, as described in clause (1) above) that occur during such Reference Period as if they had occurred and such proceeds had been applied (and such Indebtedness had been Incurred, assumed, guaranteed, defeased, discharged, repurchased, retired, redeemed, otherwise acquired or repaid (or such an irrevocable deposit made)) on the first day of such Reference Period and after giving effect to expense and cost reductions calculated on a basis (except as described in the next paragraph, including with respect to Pro Forma Cost Savings) consistent with Regulation S-X under the Exchange Act and Pro Forma Cost Savings;

(4) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to (i) the application of proceeds of any asset disposition and any Indebtedness Incurred,

assumed, guaranteed, defeased, discharged, repurchased, retired, redeemed, otherwise acquired or repaid (or for which an irrevocable deposit is made in an amount sufficient to effect the foregoing) in connection with any such asset acquisitions or asset dispositions, as described in clause (1) above, (ii) expense and cost reductions and other pro forma adjustments calculated on a basis consistent with Regulation S-X under the Exchange Act and (iii) Pro Forma Cost Savings) that have been made by any Person that has become (including by redesignation) a Restricted Subsidiary of Parent or has been merged with or into Parent or any of its Restricted Subsidiaries during such Reference Period but subsequent to the end of the related Four Quarter Period and that would have constituted Asset Dispositions or Asset Acquisitions during such Reference Period but subsequent to the end of the related Four Quarter Period had such transactions occurred when such Person was a Restricted Subsidiary of Parent as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions and had occurred on the first day of such Reference Period;

(5) any Person that is a Restricted Subsidiary of Parent on the Transaction Date will be deemed to have been a Restricted Subsidiary of Parent at all times during the applicable Reference Period, and any Person that is not a Restricted Subsidiary of Parent on the Transaction Date will be deemed to not have been a Restricted Subsidiary of Parent at any time during the applicable Reference Period;

(6) the Consolidated Interest Expense attributable to discontinued operations, as determined in accordance with GAAP, shall be excluded, but only to the extent that the obligations giving rise to such Consolidated Interest Expense will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Transaction Date;

(7) Consolidated Interest Expense attributable to interest on Indebtedness that may optionally be determined at an interest rate based on a factor of a prime or similar rate, a Eurocurrency interbank offered rate, or other rate, shall be deemed to have been based upon the rate actually chosen, or, if not, then based upon such operational rate chosen as Parent may designate;

(8) Consolidated Interest Expense attributable to interest on any Indebtedness under a revolving credit facility computed on a pro forma basis shall be computed based on the average daily balance of such Indebtedness during the applicable period except as set forth in clause (1) of this definition; and

(9) Consolidated Interest Expense attributable to interest on a Capitalized Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by a financial or accounting officer of Parent to be the rate of interest implicit in such Capitalized Lease Obligation in accordance with GAAP;

provided, however, that to the extent that clause (3) or (4) of this paragraph requires that pro forma effect be given to an Asset Acquisition, Asset Disposition, Permitted Mortgage Investment, asset acquisition or asset disposition, as the case may be, such pro forma calculation shall be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division, operations or line of business, or one or more properties or assets, or attributable to such investment, that is acquired or disposed of to the extent that such financial information is available or otherwise a reasonable estimate thereof is available.

Interest Rate Agreement means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement with respect to interest rates.

Investment in any Person means any direct or indirect advance, loan or other extension of credit (including by way of guarantee or similar arrangement but excluding (i) advances to customers, distributors, operators and trade credit in the ordinary course of business that are, in conformity with GAAP, recorded as accounts or rents receivable on the consolidated balance sheet of Parent and its Restricted Subsidiaries and endorsements for collection or deposits arising in the ordinary course of business, and (ii) commission, travel and

153

Table of Contents

similar advances to employees, directors, officers, managers and consultants in each case made in the ordinary course of business) or capital contribution to (by means of any transfer of cash or other property (tangible or intangible) to others or any payment for property or services solely for the account or use of others, or otherwise), or any purchase or acquisition of Capital Stock, bonds, notes, debentures or other similar instruments issued by, such Person and shall include:

(1) the designation of a Restricted Subsidiary as an Unrestricted Subsidiary; and

(2) the fair market value of the Capital Stock (or any other Investment), held by Parent or any of its Restricted Subsidiaries of (or in) any Person that has ceased to be a Restricted Subsidiary of Parent;

provided, however, that the fair market value of the Investment remaining in any Person that has ceased to be a Restricted Subsidiary of Parent shall be deemed not to exceed the aggregate amount of Investments previously made in such Person valued at the time such Investments were made, less the net reduction of such Investments. For purposes of the definition of Unrestricted Subsidiary and the Limitation on Restricted Payments covenant described above:

Investment shall include the fair market value of the assets (net of liabilities (other than liabilities to Parent or any of its Restricted Subsidiaries)) of any Restricted Subsidiary of Parent at the time such Restricted Subsidiary is designated an Unrestricted Subsidiary;

the fair market value of the assets (net of liabilities (other than liabilities to Parent or any of its Restricted Subsidiaries)) of any Unrestricted Subsidiary at the time that such Unrestricted Subsidiary is designated as (or is merged or consolidated or liquidated into or otherwise becomes (including by redesignation)) a Restricted Subsidiary of Parent shall be considered a reduction in outstanding Investments; and

any property transferred to or from an Unrestricted Subsidiary shall be valued at its fair market value at the time of such transfer;

provided further, that the amount of any Investment shall be reduced by the amounts received by Parent and its Restricted Subsidiaries with respect to such Investment, including sale or liquidation proceeds from dispositions of any portion of such Investment (including from sales of Capital Stock, bonds, notes, debentures or other similar instruments) and principal, interest, dividends, distributions, other payments, repayments of loans or advances, other transfers of assets, the satisfaction, release, expiration, discharge, defeasance, repurchase, redemption cancellation or reduction (other than by means of payments by Parent or any of its Restricted Subsidiaries) of Indebtedness or other obligations payable to (or guaranteed by) Parent or any Restricted Subsidiary of Parent.

Investment Grade Status means, with respect to the Notes, when the Notes have both (1) a rating of Baa3 or higher from Moody s and (2) a rating of BBB- or higher from S&P (or, if either such agency ceases to rate the Notes for reasons outside the control of Parent, the equivalent investment grade credit rating from any other nationally recognized statistical rating organization within the meaning of Rule 15c3-l(c)(2)(vi)(F) under the Exchange Act (or any successor provision) selected by Parent as a replacement agency), in each case published by the applicable agency.

Issue Date means May 30, 2014.

last completed fiscal quarter means the last completed fiscal quarter preceding the applicable date of determination for which reports have been filed with the SEC or provided to the trustee pursuant to the SEC Reports and Reports to Holders covenant or for which internal financial statements are available; *provided* that prior to the filing of the report for the fiscal quarter ended June 30, 2014 with the SEC, the last completed fiscal quarter shall be deemed to be March 31, 2014 and pro forma effect shall be given to the Spin-Off and the other Transactions as if the same had occurred at the beginning of such quarter (or, for calculations to be made as of the end of such quarter, at the end of such quarter), based on the most recent financial information (including pro forma financial information) available to the Issuers.

Lien means any mortgage, pledge, security interest, encumbrance or lien of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to give any security interest) that has not been terminated or released.

Master Leases means those certain Master Leases, entered into before or promptly following the Spin-Off, between the Partnership (and/or any subsidiaries of the Partnership), acting as landlord or co-landlord, and subsidiaries of Ensign, as tenants, as they may be amended, restated, replaced or otherwise modified from time to time.

Moody s means Moody s Investors Service, Inc. and its successors.

Net Cash Proceeds means:

(1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments (except to the extent such obligations are financed or sold with recourse to Parent or any of its Restricted Subsidiaries) and proceeds from the conversion or sale of other property received when converted to or sold for cash or cash equivalents, net of:

brokerage commissions, sales commissions and other fees and expenses (including fees and expenses of counsel, accountants and investment bankers) related to such Asset Sale;

provisions for all taxes actually paid or payable as a result of such Asset Sale by Parent and its Restricted Subsidiaries, taken as a whole, after taking into account any available tax credits or deductions and any tax sharing arrangements;

payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (A) is secured by a Lien on the property or assets sold or (B) is required to be paid as a result of such sale;

so long as after giving pro forma effect to any such distribution (i) (A) on or before June 30, 2016, the aggregate principal amount of all outstanding Indebtedness of Parent and its Restricted Subsidiaries on a consolidated basis at the time of declaration is not greater than 65% of Parent s Adjusted Total Assets, and (B) after June 30, 2016, the aggregate principal amount of all outstanding Indebtedness of Parent and its Restricted Subsidiaries on a consolidated basis at the time of declaration is not greater than 60% of Parent s Adjusted Total Assets, and (ii) no Default or Event of Default shall have occurred and be continuing, the amount required to be distributed to the holders of Parent s Capital Stock as a result of such Asset Sale in order to (i) maintain Parent s status as a real estate investment trust under the Code or (ii) avoid any excise tax or any income tax imposed on Parent, including, but not limited to, pro rata dividends or other distributions by the Partnership to minority unitholders as a result of a distribution from the Partnership to Parent for the purpose of funding any such dividend, distribution or other action); and amounts reserved by Parent and its Restricted Subsidiaries against any liabilities associated with such Asset Sale, including pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined on a consolidated basis in conformity with GAAP; and

(2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments (except to the extent such obligations are financed or sold with recourse to Parent or any of its Restricted Subsidiaries) and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of attorney s fees,

accountants fees, underwriters or placement agents fees, discounts or commissions and brokerage, consultant and other fees and expenses actually Incurred in connection with such issuance or sale and net of taxes actually paid or payable as a result thereof after taking into account any available tax credits or deductions and any tax sharing arrangements.

Notes Guarantee means a guarantee by each Guarantor for payment of the Notes by such Guarantor.

Offer to Purchase means an offer to purchase Notes by the Issuers from the holders commenced by sending a notice to the trustee and each holder electronically or by first class mail at its registered address or otherwise in accordance with the procedures of DTC stating:

(1) the covenant pursuant to which the offer is being made and that, subject to the satisfaction or waiver of any conditions to such offer, all Notes validly tendered and not withdrawn will be accepted for payment on a pro rata basis or otherwise as provided in the applicable covenant;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed or given) (the Payment Date);

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Issuers default in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Payment Date;

(5) that holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled Option of the Holder to Elect Purchase on the reverse side of the Note completed, to the paying agent at the address specified in the notice or otherwise in accordance with DTC s applicable procedures prior to the close of business on the Business Day immediately preceding the Payment Date;

(6) subject to the terms of such offer, that holders will be entitled to withdraw their election by using the ATOP System in accordance with DTC s applicable procedures or if the paying agent receives, not later than the expiration date of the offer, facsimile transmission or letter or instruction to DTC, as applicable, setting forth the name of such holder, the principal amount of Notes delivered for purchase and, if applicable, a statement that such holder is withdrawing its election to have such Notes purchased;

(7) that holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; provided, however, that each Note purchased and each new Note issued shall be in a principal amount of $2,000 or integral multiples of $1,000 in excess thereof; and

(8) if applicable and to the extent not prohibited by the indenture, that such offer may be subject to satisfaction of one or more conditions precedent; provided that in such case, the offer shall describe each such condition or conditions, and if applicable, shall state that, in the Issuers discretion, the Payment Date may be delayed until such time as any or all such conditions shall be satisfied (or waived by the Issuers in the Issuers sole discretion), or such purchase may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied (or waived by the Issuers in the Issuers sole discretion) by the stated expiration date, or by the expiration date as so delayed.

On the Payment Date, subject to the terms and conditions of the offer, the Issuers shall:

accept for payment on a *pro rata* basis (or otherwise as provided in the applicable covenant) Notes or portions thereof validly tendered and not withdrawn pursuant to an Offer to Purchase;

deposit with the paying agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and promptly thereafter deliver, or cause to be delivered, to the trustee all Notes or portions thereof so accepted together with an Officer s Certificate specifying the Notes or portions thereof accepted for payment by the Issuers.

The paying agent shall promptly wire to the holders of Notes so accepted (or otherwise in accordance with DTC procedures) payment in an amount equal to the purchase price, and the trustee shall promptly authenticate and mail to such holders a new Note equal in principal amount to any unpurchased portion of any Note surrendered (except that in the case of Notes held in book entry form, the trustee shall hold such global notes as custodian for DTC); provided, however, that each Note purchased and each new Note issued shall be in a principal amount of $2,000 or integral multiples of $1,000 in excess thereof. The Issuers will comply with Rule 14e-l under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Issuers are required to repurchase Notes pursuant to an Offer to Purchase.

Offering Memorandum means the offering memorandum of CTR Partnership, L.P. and CareTrust Capital Corp, dated May 15, 2014, with respect to the Old Notes.

Officer means, with respect to any Person, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Chief Accounting Officer, the Controller, the Assistant Controller, the Secretary or any Vice-President of such Person.

Officer s Certificate means a certificate signed on behalf of the Issuers by one Officer of Parent or the Issuers.

Pari Passu Indebtedness means any Indebtedness of the Issuers or any Guarantor that ranks pari passu in right of payment with the Notes or the Notes Guarantee thereof by such Guarantor, as applicable. For purposes of determining whether Indebtedness ranks pari passu in right of payment with other Indebtedness, there shall not be taken into account collateral securing any such Indebtedness, structural subordination, lien subordination or provisions that apply proceeds or amounts received by the borrower, obligor or issuer following a default or exercise of remedies in a certain order of priority.

Partnership Agreement means the Amended and Restated Agreement of Limited Partnership of the Partnership, as in effect as of the Issue Date, as such agreement may be amended, restated, replaced or otherwise modified from time to time.

Permitted Bond Hedge Transaction means any call or capped call option (or substantively equivalent derivative transaction) on common stock of Parent or the Partnership purchased by Parent or the Partnership in connection with the issuance of any Convertible Indebtedness; provided that the purchase price for such Permitted Bond Hedge Transaction, less the proceeds received by Parent or the Partnership from the sale of any related Permitted Warrant Transaction, does not exceed the net proceeds received by Parent or the Partnership from the sale of such Convertible Indebtedness issued in connection with the Permitted Bond Hedge Transaction.

Permitted Business means any business activity (including Permitted Mortgage Investments) in which Parent and its Restricted Subsidiaries are engaged or propose to be engaged in (as described in the Offering Memorandum) upon or following the Spin-Off Effective Date, any business activity related to properties customarily constituting assets of a REIT engaged in the healthcare or senior housing industry, including through the ownership, operation, development, acquisition, financing and leasing of healthcare facilities, including skilled nursing home centers, hospitals, ALFs, ILFs, medical office buildings, life sciences, long-term acute care, senior living or rehabilitation facilities, or any business or assets reasonably related, ancillary, incidental or complementary thereto, or reasonable expansions or extensions thereof.

157

Table of Contents

Permitted Investment means:

(1) an Investment in (a) Parent or any of its Restricted Subsidiaries or (b) a Person that will, upon the making of such Investment, become (including by redesignation) a Restricted Subsidiary of Parent or be merged or consolidated with or into, or liquidated or wound-up into or transfer or convey all or substantially all its assets to, Parent or any of its Restricted Subsidiaries and, in each case, any Investment held by such Person, provided that such Investment held by such Person was not acquired by such Person in contemplation of such Person so becoming a Restricted Subsidiary of Parent;

(2) investments in cash and Temporary Cash Investments;

(3) Investments made by Parent or its Restricted Subsidiaries as a result of consideration received in connection with an Asset Sale made in compliance with the Limitation on Asset Sales covenant or from any other disposition or transfer of assets not constituting an Asset Sale;

(4) Investments represented by guarantees that are otherwise permitted under the indenture;

(5) payroll, travel, moving, relocation and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(6) Investments received in satisfaction of judgments or in settlements of debt or compromises of obligations incurred in the ordinary course of business, and receivables created or acquired in the ordinary course of business;

(7) any Investment acquired solely in exchange for Capital Stock (other than Disqualified Stock) of Parent or the Partnership, which Parent or the Partnership did not receive in exchange for a cash payment, Indebtedness or Disqualified Stock, but excluding any new cash Investments made thereafter;

(8) any Investment existing on the Issue Date or otherwise made in connection with the consummation of the Transactions;

(9) Investments in Unrestricted Subsidiaries and joint ventures in an aggregate amount, taken together with all other Investments made in reliance on this clause and all Indebtedness then outstanding pursuant to clause 4(O) of the covenant described under Covenants Limitation on Indebtedness, not to exceed the greater of $20.0 million and 3.0% of Parent s Adjusted Total Assets (net of, with respect to the Investment in any particular Person, the cash return thereon received after the Issue Date, including as a result of any sale for cash, repayment, redemption, liquidating distribution or other cash realization (not included in Adjusted Consolidated Net Income), and as otherwise calculated in the definition of Investment ; not to exceed the

amount of Investments in such Person made after the Issue Date in reliance on this clause);

(10) obligations under Hedging Obligations otherwise permitted under the indenture;

(11) Permitted Mortgage Investments;

(12) any transaction which constitutes an Investment to the extent permitted and made in accordance with the provisions of the second paragraph of the covenant described under Covenants Limitation on Transactions with Affiliates (except transactions described under clauses (1), (5), (9) and (10) of such paragraph):

(13) any Investment consisting of prepaid expenses, negotiable instruments held for collection and lease, endorsements for deposit or collection in the ordinary course of business, utility or workers compensation, performance and similar deposits entered into as a result of the operations of the business in the ordinary course of business;

(14) pledges or deposits by a Person under workers compensation laws, unemployment insurance laws or similar legislation, or deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case incurred in the ordinary course of business;

Table of Contents

(15) any Investment acquired by Parent or any of its Restricted Subsidiaries (a) in exchange for any other Investment or accounts or rents receivable held by Parent or any such Restricted Subsidiary in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization of the issuer of such other Investment or accounts or rents receivable or (b) as a result of a foreclosure by Parent or any of its Restricted Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;

(16) any Investment consisting of a loan or advance to officers, directors or employees of Parent or any of its Restricted Subsidiaries (a) in connection with the purchase by such Persons of Capital Stock of Parent or (b) made in the ordinary course of business not to exceed $3.5 million at any one time outstanding;

(17) any Investment made in connection with the funding of contributions under any non-qualified employee retirement plan or similar employee compensation plan in an amount not to exceed the amount of compensation expenses recognized by Parent and any of its Restricted Subsidiaries in connection with such plans;

(18) entering into Permitted Non-Recourse Guarantees (it being understood that any payments or other transfers made pursuant to such Permitted Non-Recourse Guarantees will not be permitted by this clause (18));

(19) additional Investments not to exceed the greater of (x) $20.0 million and (y) 3.0% of Parent s Adjusted Total Assets at any time outstanding;

(20) Investments in tenants and property managers (a) in an aggregate amount not to exceed the greater of (x) $20.0 million and (y) 3.0% of Parent s Adjusted Total Assets at any time outstanding or (b) constituting advances to fund the alteration, improvement, exchange, replacement, modification or expansion of leased improvements or fixtures required to be made pursuant to Section 6.7 of the Master Leases or a comparable or similar provision of another lease; and

(21) any purchase of Indebtedness under the Notes or the Credit Facilities, in each case, including the guarantees related thereto.

Permitted Mortgage Indebtedness means Indebtedness secured by real property owned or ground leased by a Restricted Subsidiary (and personal property or intangibles of such Restricted Subsidiary, as applicable) and the terms of such Indebtedness prohibit such Restricted Subsidiary from providing or remaining obligated under a Notes Guarantee.

Permitted Mortgage Investment means any Investment in secured Notes, mortgage, deeds of trust, collateralized mortgage obligations, commercial mortgage-backed securities, other secured debt securities, secured debt derivative or other secured debt instruments, so long as such investment relates directly or indirectly to real property that constitutes or is used as a healthcare facility, including skilled nursing home center, hospital, ALF, ILF, medical office building, life sciences, long-term acute care, senior living or rehabilitation facility or other property customarily constituting an asset of a real estate investment trust specializing in healthcare or senior housing property.

Permitted Non-Recourse Guarantees means customary indemnities or guarantees (including by means of separate indemnification agreements or carve-out guarantees) provided in the ordinary course of business by the Issuers or any of their Restricted Subsidiaries in financing transactions that are directly or indirectly secured by real property or other real property-related assets (including Capital Stock) of a joint venture, operator or Unrestricted Subsidiary and that may be full recourse or non-recourse to the joint venture, operator or Unrestricted Subsidiary that is the borrower in such financing, but is non- recourse to the Issuers or any of their Restricted Subsidiaries; provided that Permitted Non-Recourse Guarantees shall not lose their character as such because there is recourse to the Issuers or any of their Restricted Subsidiaries for or in respect of (a) indemnities and limited contingent guarantees as are consistent with customary industry practice (such as environmental

Table of Contents

indemnities and recourse triggers based on violation of transfer restrictions and indemnities for and liabilities arising from fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance and condemnation proceeds and other sums actually received by the obligor from secured assets to be paid to the lender, waste and mechanics liens), (b) a voluntary bankruptcy filing (or similar filing or action) or involuntary bankruptcy filings by such borrower, and other events, actions and circumstances customarily excluded by institutional lenders from exculpation provisions and/or included in separate indemnification agreements or guarantees in non-recourse financings of real estate or (c) performance and completion guarantees.

Permitted Refinancing Indebtedness means any Indebtedness of Parent or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease, discharge or refund other Indebtedness of Parent or any of its Restricted Subsidiaries (other than intercompany Indebtedness); provided that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness so refinanced, (plus all accrued interest thereon and any premiums owed, including the amount of any reasonably determined premium necessary to accomplish such refinancing, and costs, fees and expenses incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has:

(A) a final maturity date later than the final maturity date of the Indebtedness being refinanced or, if earlier, the maturity date of the Notes, and

(B) an Average Life equal to or greater than the Average Life of the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded or, if less, the Average Life of the Notes;

(3) if the Indebtedness being refinanced is contractually subordinated in right of payment to the Notes or any Notes Guarantee, such Permitted Refinancing Indebtedness is contractually subordinated in right of payment to the Notes or such Notes Guarantee on terms at least as favorable to the holders of Notes as those contained in the documentation governing the Indebtedness being refinanced;

(4) if the Indebtedness being refinanced is Pari Passu Indebtedness, such Permitted Refinancing Indebtedness is pari passu in right of payment with, or subordinated in right of payment to, the Notes or such Notes Guarantee; and

(5) such Indebtedness is Incurred (a) by an Issuer or a Guarantor, (b) by the Restricted Subsidiary that is the obligor on the Indebtedness being refinanced or (c) if the obligor on such Indebtedness is not a Subsidiary Guarantor, by another Restricted Subsidiary that is not a Subsidiary Guarantor.

Permitted Warrant Transaction means any call option, warrant or right to purchase (or substantively equivalent derivative transaction) on common stock of Parent sold by Parent or the Partnership substantially concurrently with any purchase by Parent of a related Permitted Bond Hedge Transaction.

Person means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

Preferred Stock means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) that have a preference on liquidation or with respect to distributions over any other class of Capital Stock, including preferred partnership interests, whether general or limited, or such Person s preferred or preference stock, whether outstanding on the Issue Date or issued thereafter, including all series and classes of such preferred or preference stock.

Pro Forma Cost Savings means, with respect to any period, the reductions in costs (including such reductions resulting from employee terminations, facilities consolidations and closings, standardization of

Table of Contents

employee benefits and compensation policies, consolidation of property, casualty and other insurance coverage and policies, standardization of sales and distribution methods, reductions in taxes other than income taxes) that occurred or have been realized during such period or are reasonably anticipated to be realized in good faith within twelve (12) months of the date of the applicable event, as if all such reductions in costs had been effected as of the beginning of such period, decreased by any incremental expenses incurred or to be incurred during such period in order to achieve such reduction in costs, all such costs to be determined in good faith by the principal financial or accounting officer of Parent.

Purging Distribution means the declaration or payment of any dividend or making of any distribution after the Spin-Off Effective Date to distribute to the holders of Parent s Common Stock any accumulated earnings and profits attributable to Parent for any years Parent did not qualify as a REIT under the Code, including any earnings and profits allocated to Parent in connection with the Spin-Off, as described in the Offering Memorandum under the caption The Transactions The Spin-Off.

Real Estate Assets of a Person means, as of any date, the real estate assets of such Person and its Restricted Subsidiaries on such date, on a consolidated basis determined in accordance with GAAP.

Real Estate Revenues means, with respect to any Real Estate Asset of Parent and its Restricted Subsidiaries owned as of the Issue Date, (1) at any time before internal financial statements are available for the quarter ended June 30, 2015, the pro forma rental revenues generated by such Real Estate Asset during the four fiscal quarters ending March 31, 2014 assuming such Real Estate Asset had been held by Parent or any Restricted Subsidiary during such period and the Master Leases had been in effect during all of such period, all as set forth on a schedule attached to the indenture prepared substantially consistent with the pro forma income statement included in the Offering Memorandum and (2) at any time after internal financial statements are available for the quarter ended June 30, 2015, the rental revenues generated by such Real Estate Assets during the most recently completed four fiscal quarters preceding the applicable determination date.

refinance means refinance, renew, replace, defease, discharge, extend or refund, and *refinancing* or *refinanced* has a similar meaning.

Replacement Assets means (1) tangible non-current assets that will be used or useful in a Permitted Business, (2) substantially all the assets of a Permitted Business or (3) a majority of the Voting Stock of any Person or if such Person is a partnership, limited liability company, association, joint venture or other entity, a majority of the equity interests in such Person, in each case, engaged in a Permitted Business that will become on the date of acquisition thereof a Restricted Subsidiary of such Person (including by merger, consolidation, acquisition of assets or redesignation).

Restricted Subsidiary means, with respect to a Person, any Subsidiary of such Person other than an Unrestricted Subsidiary. Unless the context otherwise requires or it is otherwise stated, any reference herein to a Restricted Subsidiary shall be to a Restricted Subsidiary of the Partnership. For the avoidance of doubt, the Issuers are considered Restricted Subsidiaries of Parent for purposes of the indenture; provided that references to Restricted Subsidiaries that are not Subsidiary Guarantors shall not include the Issuers.

Sale and Leaseback Transaction means any direct or indirect arrangement with any Person or to which any such Person is a party, providing for the leasing to Parent or any Restricted Subsidiary of Parent of any property, whether owned by Parent or any such Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by Parent or any such Restricted Subsidiary to such Person or any other Person from whom funds have been or are to be advanced by such Person on the security of such property.

SEC means Securities and Exchange Commission.

Secured Indebtedness means any Indebtedness, to the extent secured by a Lien upon the property of Parent or any of its Restricted Subsidiaries.

161

Significant Subsidiary, with respect to Parent, means any Restricted Subsidiary of Parent that satisfies the criteria for a significant subsidiary set forth in Rule 1-02(w) of Regulation S-X under the Exchange Act.

Spin-Off means the distribution by Ensign to the holders of Ensign s Common Stock on a pro rata basis all of the outstanding shares of Parent s Common Stock, together with an additional cash distribution, as described in the Offering Memorandum under the caption The Transactions Spin-Off.

Spin-Off Effective Date means the effective date of the Spin-Off.

Spin-Off Expenses means any charges, fees, costs or expenses (including all legal, accounting, advisory, financing-related or other transaction-related charges, fees, costs and expenses and any bonuses or success fee payments and amortization or write-offs of debt issuance costs, deferred financing costs, premiums and prepayment penalties) incurred or paid by Parent or any of its Restricted Subsidiaries in connection with the Spin-Off and other Transactions.

S&P means Standard & Poor s Ratings Services and its successors.

Stated Maturity means:

(1) with respect to any debt security, the date specified in such debt security as the fixed date on which the final installment of principal of such debt security is due and payable; and

(2) with respect to any scheduled installment of principal of or interest on any debt security, the date specified in such debt security as the fixed date on which such installment is due and payable,

provided that Stated Maturity shall not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

subordinated and *subordinate* when used with respect to Indebtedness relative to other Indebtedness means that such first Indebtedness is subordinate or junior in right of payment to such other Indebtedness. Indebtedness will not be considered subordinate or junior in right of payment to any other Indebtedness solely by virtue of being unsecured or secured to a greater or lesser extent or with greater or lower priority or by virtue of structural subordination or with different collateral or as a result of provisions that apply proceeds or amounts received by the borrower, obligor or issuer following a default or exercise of remedies in a certain order of priority.

Subsidiary means, with respect to any Person, (i) any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and (ii) any partnership, limited liability company, association, joint venture or other entity in which such Person and/or one or more other Subsidiaries of such Person has more than a 50% equity interest at the time, and in each of clauses (i) and (ii) which would be consolidated with those of such Person in its consolidated financial statements in accordance with GAAP, if such statements were prepared as of such date.

Subsidiary Guarantors means (i) each Restricted Subsidiary of the Issuers on the Issue Date (other than the Real Property Non-Guarantor Subsidiaries) and (ii) each other Person that is required to become a Guarantor by the terms of the indenture after the Issue Date, in each case, until such Person is released from its Subsidiary Guarantee.

Subsidiary Guarantee means a Notes Guarantee by a Subsidiary Guarantor.

Temporary Cash Investment means any of the following:

(1) United States dollars;

(2) direct obligations of the United States of America or any agency, subdivision or instrumentality thereof or obligations fully and unconditionally guaranteed or insured by the United States of America or any agency, subdivision or instrumentality thereof;

Table of Contents

(3) time deposit accounts, term deposit accounts, time deposits, bankers acceptances, certificates of deposit, Eurodollar time deposits and money market deposits maturing within twelve months or less of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America or any state or jurisdiction thereof, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of $500.0 million and has outstanding debt which is rated A (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (within the meaning of Rule 15c3-l(c)(2)(vi)(F) under the Exchange Act) or any money-market fund sponsored by a registered broker dealer or mutual fund distributor (in each case, determined at the time of acquisition thereof);

(4) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (2) and (3) above entered into with a bank meeting the qualifications described in clause (3) above;

(5) commercial paper, maturing not more than one year after the date of acquisition, issued by a Person (other than an Affiliate of Parent) organized and in existence under the laws of the United States of America or any state or jurisdiction thereof with a rating at the time as of which any investment therein is made of P-2 (or higher) according to Moody s or A-2 (or higher) according to S&P (or if neither S&P nor Moody s shall be rating such commercial paper, a similar equivalent rating or higher by another nationally recognized statistical rating organization (within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act (or any successor provision))) (in each case, determined at the time of acquisition thereof);

(6) securities with maturities of one year or less from the date of acquisition issued or fully and unconditionally guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated with at least an investment grade rating by S&P or Moody s (or if neither S&P nor Moody s shall be rating such commercial paper, a similar equivalent rating or higher by another nationally recognized statistical rating organization (within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act (or any successor provision))) (in each case, determined at the time of acquisition thereof);

(7) commercial paper, maturing not more than 90 days after the date of acquisition, issued by any Person incorporated in the United States with a rating at the time as of which any investment therein is made of A-2 (or higher) according to S&P or P-2 (or higher) according to Moody s (or if neither S&P nor Moody s shall be rating such commercial paper, a similar equivalent rating or higher by another nationally recognized statistical rating organization (within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act (or any successor provision))); and

(8) mutual funds investing primarily in investments that constitute Temporary Cash Investments of the kinds described in clauses (1) through (7) of this definition.

Total Assets means, for any Person as of any date of determination, the sum of:

(1) in the case of any Real Estate Assets that were owned by such Person or any of its Restricted Subsidiaries as of the Issue Date, the Real Estate Revenues for such Real Estate Assets, divided by 0.0925; *plus*

(2) the cost (original cost *plus* capital improvements before depreciation and amortization) of all Real Estate Assets acquired after the Issue Date that are then owned by such Person or any of its Restricted Subsidiaries; *plus*

(3) the book value of all assets (excluding Real Estate Assets and intangibles) of such Person and its Restricted Subsidiaries on a consolidated basis determined in accordance with GAAP as of the end of the most recently completed fiscal quarter for which internal financial statements are available; provided, that at any time before internal financial statements are available for the quarter ended June 30, 2014, the book value of all assets (excluding Real Estate Assets and intangibles) of such Person and its Restricted Subsidiaries on a consolidated basis shall be determined substantially consistent with the pro forma balance sheet included in the Offering Memorandum.

Table of Contents

Total Unencumbered Assets means, for any Person as of any date, the Total Assets of such Person and its Restricted Subsidiaries as of such date, to the extent they do not secure any portion of Secured Indebtedness, on a consolidated basis determined in accordance with GAAP.

Trade Payables means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

Transaction Date means, with respect to the Incurrence of any Indebtedness by Parent or any of its Restricted Subsidiaries, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

Transaction Agreements means the Separation and Distribution Agreement (including the contribution agreement contemplated thereby), the Master Leases, the Opportunities Agreement, the Transition Services Agreement, the Tax Matters Agreement and the Employee Matters Agreement, in each case, as it may be amended, restated, replaced or otherwise modified from time to time in accordance with, or as not prohibited by, the indenture.

Transactions means, collectively, (a) the Spin-Off and the other transactions contemplated thereby, including the entering into of the Transaction Agreements, (b) the issuance of the Notes, (c) the entering into of the Credit Agreement and related documents and the borrowings thereunder on the Issue Date or the Spin-Off Effective Date, as applicable, (d) the entering into of the GECC Loan and related documents and the borrowings thereunder, (e) the Purging Distribution, (f) any other transactions defined as Transactions in the Offering Memorandum and (g) the payment of fees and expenses in connection with the foregoing.

Unrestricted Subsidiary means

(1) any Subsidiary of the Issuers that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors of Parent in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

Except during a Suspension Period, the Board of Directors of Parent may designate any Subsidiary (including any newly acquired or newly formed Subsidiary of the Issuers) to be an Unrestricted Subsidiary unless such Subsidiary owns any Capital Stock of, or owns or holds any Lien on any property of, Parent or any of its Restricted Subsidiaries; provided, however, that:

any guarantee by Parent or any of its Restricted Subsidiaries of any Indebtedness of the Subsidiary being so designated shall be deemed an Incurrence of such Indebtedness and an Investment by Parent or such Restricted Subsidiary (or all, if applicable) at the time of such designation;

either (i) the Subsidiary to be so designated has total assets of $1,000 or less or (ii) if such Subsidiary has assets greater than $1,000, such designation would be permitted under the Limitation on Restricted Payments covenant described above; and if applicable, the Incurrence of Indebtedness and the Investment referred to in the first bullet of this proviso would be permitted under the Limitation on Indebtedness and Limitation on Restricted Payments covenants described above.

The Board of Directors of Parent may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that:

no Default or Event of Default shall have occurred and be continuing at the time of or after giving effect to such designation; and

all Liens and Indebtedness of such Unrestricted Subsidiary outstanding immediately after such designation would, if Incurred at such time, have been permitted to be Incurred (and shall be deemed to have been Incurred) for all purposes of the indenture.

Table of Contents

Any such designation by the Board of Directors of Parent shall be evidenced to the trustee by delivering to the trustee an Officer s Certificate certifying that such designation complied with the foregoing provisions.

Unsecured Indebtedness means any Indebtedness of Parent or any of its Restricted Subsidiaries that is not Secured Indebtedness.

U.S. Government Obligations means direct obligations of, obligations guaranteed by, or participations in pools consisting solely of obligations of or obligations guaranteed by, the United States of America for the payment of which obligations or guarantee the full faith and credit of the United States of America is pledged and that are not callable or redeemable at the option of the issuer thereof.

Voting Stock means with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

Wholly Owned means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director s qualifying shares or Investments by individuals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person.

Table of Contents

U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a summary of the United States federal income tax consequences generally applicable to a holder of Old Notes relating to the exchange of Old Notes for New Notes. This summary is based upon United States federal income tax law in effect on the date of this prospectus, which is subject to differing interpretations or change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as Notes held by investors subject to special tax rules (e.g., financial institutions, insurance companies, broker-dealers, partnerships and their partners, and tax-exempt organizations (including private foundations)) or to persons that will hold the New Notes as part of a straddle, hedge, conversion, constructive sale, or other integrated security transaction for United States federal income tax purposes, all of whom may be subject to tax rules that differ significantly from those summarized below. This summary addresses investors who will hold the New Notes as capital assets (generally, property held for investment) under the Code. Each prospective investor is urged to consult its tax advisor regarding the United States federal, state, local, and non-United States income and other tax considerations of the purchase, ownership, and disposition of the New Notes.

Exchange of Old Notes for New Notes

An exchange of Old Notes for New Notes pursuant to the exchange offer will not be a taxable transaction for United States federal income tax purposes. Consequently, a holder of Old Notes will not recognize gain or loss, for United States federal income tax purposes, as a result of exchanging Old Notes for New Notes pursuant to the exchange offer. The holding period of the New Notes will be the same as the holding period of the Old Notes and the tax basis in the New Notes will be the same as the adjusted tax basis in the Old Notes as determined immediately before the exchange. A holder who does not exchange its Old Notes for New Notes pursuant to the exchange offer will not recognize any gain or loss, for United States federal income tax purposes, upon consummation of the exchange offer.

Table of Contents

PLAN OF DISTRIBUTION

Each broker-dealer that receives New Notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the New Notes. 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 New Notes received in exchange for Old Notes where such Old Notes were acquired as a result of market-making activities or other trading activities.

We will not receive any proceeds from any sale of New Notes by broker-dealers. New Notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions:

- in the over-the-counter market,
- in negotiated transactions,
- through the writing of options on the New Notes, or
- a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or at negotiated prices.

Any resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such New Notes. Any broker-dealer who holds Old Notes acquired for its own account as a result of market-making activities, and who receives New Notes in exchange for Old Notes pursuant to the exchange offer, and any broker or dealer that participates in a distribution of New Notes may be deemed to be an underwriter within the meaning of the Securities Act, and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction, including the delivery of a prospectus that contains information with respect to any selling holder required by the Securities Act in connection with any resale of the New Notes, and any profit of any such resale of New Notes and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver 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.

Furthermore, any broker-dealer that acquired any of the Old Notes directly from us:

- may not rely on the applicable interpretation of the staff of the SEC s position contained in *Exxon Capital Holdings Corp.*, SEC no-action letter (publicly available May 13, 1988), *Morgan Stanley & Co. Incorporated*, SEC no-action letter (publicly available June 5, 1991) and *Shearman & Sterling*, SEC no-action letter (publicly available July 2, 1993); and must also be named as a selling noteholder in connection with the registration and prospectus delivery requirements of the Securities Act relating to any resale transaction.

We have agreed to pay all expenses incident to the exchange offer (including the expenses of one counsel for the holders of the Old Notes) other than commissions or concessions of any broker-dealer and will indemnify the holders of the Old Notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

Table of Contents

LEGAL MATTERS

Certain legal matters in connection with this exchange offer will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, Los Angeles, California. Certain legal matters relating to Maryland law will be passed upon for us by DLA Piper LLP (US), Baltimore, Maryland. Certain legal matters relating to Nevada law will be passed upon for us by Albright, Stoddard, Warnick & Albright, PC, Las Vegas, Nevada.

EXPERTS

The financial statements and the related financial statement schedule of Ensign Properties as of December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein, which report expresses an unqualified opinion on the financial statements and financial statement schedule and includes an explanatory paragraph referring to related party transactions with The Ensign Group, Inc. Such financial statements and financial statement schedule have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The balance sheets of CareTrust REIT, Inc. as of December 31, 2013 and October 29, 2013, included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein. Such balance sheets have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

The Issuers are not currently subject to the periodic reporting and other informational reporting requirements of the Exchange Act. CareTrust, the parent guarantor and the parent company of the Issuers, is currently subject to the periodic reporting and other informational reporting requirements of the Exchange Act, and CareTrust is required to file annual, quarterly and current reports and other information with the SEC. You may read and copy any document that CareTrust files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain further information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. CareTrust s SEC filings are available to the public over the Internet at the SEC s website at *http://www.sec.gov***.**

You may find additional information about us and our subsidiaries on our website at *www.caretrustreit.com*. The information contained on or that can be accessed through our website is not incorporated by reference in, and is not part of, this prospectus, and you should not rely on any such information in connection with any decision to exchange the Old Notes. Information may also be obtained from us at 27101 Puerta Real, Suite 400, Mission Viejo, CA 92691, Attention: Chief Financial Officer, telephone (949) 540-2000.

The Issuers have filed with the SEC a registration statement on Form S-4 under the Securities Act with respect to the New Notes being offered hereby. This prospectus, which forms a part of the registration statement, does not contain all of the information set forth in the registration statement. For further information with respect to us and the New Notes, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, we refer you to the copy of the contract or document that has been filed. Each statement in this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit.

We have not authorized anyone to give you any information or to make any representations about us or the transactions we discuss in this prospectus other than those contained in this prospectus. If you are given any information or representations about these matters that is not discussed in this prospectus, you must not rely on that information. This prospectus is not an offer to sell or a solicitation of an offer to buy securities anywhere or to anyone where or to whom we are not permitted to offer or sell securities under applicable law.

Table of Contents

INDEX TO FINANCIAL STATEMENTS

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

The Ensign Group, Inc.

Mission Viejo, California

We have audited the accompanying combined balance sheets of Ensign Properties (the Company), as defined in the notes to the combined financial statements, as of December 31, 2013 and 2012, and the related combined statements of income (loss), comprehensive income (loss), invested equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index. These combined financial statements and the financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these combined financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of Ensign Properties as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic combined financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As described in Note 1 and Note 2, the accompanying combined financial statements of the Company are comprised of the real property interests and independent living facility businesses of The Ensign Group, Inc., and contain related party transactions that may not be reflective of the actual amounts which would have been incurred had the Company operated as a separate entity apart from The Ensign Group, Inc. Included in Note 5 to the combined financial statements is a summary of related party transactions.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California

March 14, 2014 (August 28, 2014 as to the earnings (loss) per share information described in Note 10 and the condensed combining information in Note 12)

F-2

Table of Contents

ENSIGN PROPERTIES

COMBINED BALANCE SHEETS

	December 31, 2013	December 31, 2012
	(In thousands)	
Assets:		
Real estate investments, net of accumulated depreciation of $97,981 and $75,035 as of December 31, 2013 and 2012, respectively	$ 425,003	$ 393,895
Cash and cash equivalents	895	735
Accounts receivable	20	25
Prepaid expenses and other assets	888	1,154
Deferred tax assets	859	399
Deferred financing costs, net	2,801	2,770
Total assets	$ 430,466	$ 398,978
Liabilities and Invested Equity:		
Mortgage notes payable	$ 114,982	$ 118,317
Senior secured revolving credit facility	78,701	20,000
Senior secured term loan	65,624	69,375
Fair value of interest rate swap	1,828	2,866
Accounts payable and accrued liabilities	5,783	3,473
Deferred tax liabilities	859	399
Total liabilities	267,777	214,430
Commitments and contingencies (Note 8)		
Invested Equity:		
Invested capital	164,517	187,414
Accumulated other comprehensive loss	(1,828)	(2,866)
Total equity	162,689	184,548
Total liabilities and invested equity	$ 430,466	$ 398,978

See accompanying notes to combined financial statements.

Table of Contents

ENSIGN PROPERTIES

COMBINED STATEMENTS OF INCOME (LOSS)

	Year Ended December 31,		
	2013	2012	2011
	(In thousands, except per share amounts)		
Revenues:			
Rental income from Parent (Note 5)	$ 41,242	$ 35,048	$ 26,213
Tenant reimbursement from Parent	5,168	4,470	3,912
Other revenue	2,386	2,545	1,816
Total revenues	48,796	42,063	31,941
Expenses:			
Depreciation and amortization	23,418	21,103	16,618
Interest expense	11,948	11,502	10,505
Interest amortization of deferred financing costs	699	705	601
Property taxes	5,168	4,470	3,912
Loss on extinguishment of debt			2,542
Acquisition costs	255	189	467
Operating expenses	2,138	2,074	1,433
General and administrative	5,442	1,788	2,377
Total expenses	49,068	41,831	38,455
(Loss) income before provision for income taxes	(272)	232	(6,514)
Provision (benefit) for income taxes	123	122	(1,173)
Net (loss) income	$ (395)	$ 110	$ (5,341)
Earnings (loss) per common share: (Note 10)			
Basic	$ (0.02)	$ 0.00	$ (0.24)
Diluted	$ (0.02)	$ 0.00	$ (0.24)
Weighted-average number of common shares:			
Basic	22,228	22,228	22,228
Diluted	22,228	22,436	22,228

See accompanying notes to combined financial statements.

Table of Contents

ENSIGN PROPERTIES

COMBINED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Net (loss) income	$ (395)	$ 110	$ (5,341)
Other comprehensive income (loss):			
Net unrealized gain (loss) on interest rate swap	1,038	(723)	(2,143)
Comprehensive income (loss)	$ 643	$ (613)	$ (7,484)

See accompanying notes to combined financial statements.

Table of Contents

ENSIGN PROPERTIES

COMBINED STATEMENTS OF INVESTED EQUITY

	Year Ended December 31,		
	2013	2012	2011
		(In thousands)	
Invested capital:			
Balance, beginning of year	$ 187,414	$ 181,752	$ 98,400
Net (loss) income	(395)	110	(5,341)
Net (distribution)/contribution to/from Parent (Note 5)	(22,502)	5,552	88,693
Balance, end of year	164,517	187,414	181,752
Accumulated other comprehensive loss:			
Balance, beginning of year	(2,866)	(2,143)	
Other comprehensive income (loss)	1,038	(723)	(2,143)
Balance, end of year	(1,828)	(2,866)	(2,143)
Total Invested Equity	$ 162,689	$ 184,548	$ 179,609

See accompanying notes to combined financial statements.

F-6

Table of Contents

ENSIGN PROPERTIES

COMBINED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2013	2012	2011
		(In thousands)	
Cash flows from operating activities:			
Net (loss) income	$ (395)	$ 110	$ (5,341)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	23,418	21,103	16,618
Amortization of deferred financing fees and debt discount	821	826	717
Deferred income taxes			(1,239)
Loss on extinguishment of debt			2,542
Loss on disposition of equipment, furniture and fixtures	206	127	70
Change in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	5	(4)	(19)
Prepaid expenses and other assets	266	2,911	52
Accounts payable	1,857	110	35
Accrued wages	79	(1,141)	72
Other accrued liabilities	375	94	505
Net cash provided by operating activities	26,632	24,136	14,012
Cash flows from investing activities:			
Acquisition of real estate businesses	(35,656)	(29,997)	(110,056)
Purchases of equipment, furniture, and fixtures	(19,931)	(19,757)	(34,460)
Cash proceeds from the sale of equipment, furniture and fixtures	854	249	759
Net cash used in investing activities	(54,733)	(49,505)	(143,757)
Cash flows from financing activities:			
Proceeds from issuance of debt	58,700	36,525	90,000
Principal payments on long-term debt	(7,207)	(16,825)	(44,758)
Cash paid for extinguishment of debt			(1,501)
Payments of deferred financing costs	(730)	(244)	(2,571)
Net (distribution)/contribution to/from Parent (Note 5)	(22,502)	5,552	88,693
Net cash provided by financing activities	28,261	25,008	129,863
Net increase (decrease) in cash and cash equivalents	160	(361)	118
Cash and cash equivalents beginning of period	735	1,096	978
Cash and cash equivalents end of period	$ 895	$ 735	$ 1,096

Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 12,657	$ 12,275	$ 13,603
Income taxes	$ 100	$ 111	$ 48

See accompanying notes to combined financial statements.

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS

(Dollars in thousands)

1. Overview

Separation from Ensign The Board of Directors of The Ensign Group, Inc. (collectively with its consolidated subsidiaries, Ensign or Parent) has authorized management to pursue a plan to separate its real estate business (Ensign Properties or the Company) into an independent publicly traded company. Prior to the separation, this business consists of all of Ensign s real property interests, the entities that own its three independent living facilities and the related assets and liabilities. The proposed separation is intended to take the form of a tax-free spin-off to Parent s stockholders of 100% of the shares of the Company.

The separation is conditioned on, among other things, final approval of the transaction by Parent s Board of Directors, the receipt of both a ruling from the Internal Revenue Service (IRS) that the separation, as disclosed, will not result in the recognition, for U.S. federal income tax purposes, of income, gain or loss to Parent or its stockholders (except to the extent of cash received by stockholders in lieu of fractional shares), opinions of tax advisors as to the satisfaction of certain requirements for such tax-free treatment and that, commencing with the Company s taxable year ending on December 31, 2014, the Company has been organized in conformity with the requirements for qualification as a Real Estate Investment Trust (REIT) under the U.S. Internal Revenue Code (Code).

In accordance with Accounting Standards Codification (ASC) 505-60, Equity Spinoffs and Reverse Spinoffs, the accounting for the separation of the Company follows its legal form, with Ensign as the legal and accounting spinnor and the Company as the legal and accounting spinnee, due to the relative significance of Ensign s healthcare business, the relative fair values of the respective companies, the retention of all senior management except Mr. Stapley by Ensign, and other relevant indicators.

Description of Business The Company s primary business consists of acquiring, financing and owning real property to be leased to third party tenants in the healthcare sector. As of December 31, 2013, the 94 skilled nursing, assisted and independent living facilities owned by the Company and leased to Parent, and the three independent living facilities owned and operated by the Company, had a total of 10,121 operational beds located in Arizona, California, Colorado, Idaho, Iowa, Nebraska, Nevada, Texas, Utah and Washington. The three independent living facilities operated by the Company had a total of 264 units located in Texas and Utah.

2. Summary of Significant Accounting Policies

Basis of Presentation The accompanying combined financial statements of the Company are presented on a carve-out basis from Ensign s consolidated financial statements based on the historical results of operations, cash flows, assets and liabilities attributable to its real estate business and were prepared in accordance with accounting principles generally accepted in the United States (GAAP). All intercompany transactions and account balances within the Company have been eliminated.

The combined balance sheets of the Company include Parent assets and liabilities that are specifically identifiable or otherwise attributable to the Company. The combined statements of income (loss) reflect allocations of general corporate expenses from Parent including, but not limited to, executive management, finance, legal, information technology, human resources, employee benefits administration, treasury, risk management, procurement, and other shared services. See further discussion in Note 5, *Related Party Transactions.*

Management believes that the assumptions and estimates used in preparation of the underlying combined financial statements are reasonable. However, the combined financial statements herein do not necessarily reflect

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

what the Company s financial position, results of operations or cash flows would have been if the Company had been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of the Company s future results of operations, financial position or cash flows.

Invested Capital Invested capital in the combined balance sheets represents Parent s historical investment in the Company, the net effect of cost allocations from transactions with Parent, net transfers of cash and assets to Parent and the Company s accumulated earnings. See further discussion of transactions with Parent in Note 5, *Related Party Transactions.*

Estimates and Assumptions The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Real Estate Properties Real estate properties consist of land, buildings and improvements, integral equipment, furniture and fixtures, and are stated at historical cost. Real estate costs related to the acquisition and improvement of properties are capitalized over the expected useful life of the asset. Repair and maintenance costs are charged to expense as incurred and significant replacements and betterments are capitalized.

In accordance with ASC 805, *Business Combinations*, the Company estimates as part of our allocation of the purchase price of acquisitions to the various components of the acquisition based upon the relative fair value of each component. In determining fair value, the Company uses current appraisals or other third party opinions of value. The most significant components of our allocations are typically the allocation of value to land and buildings. In the case of the value of buildings and the allocation of value to land and other intangibles, the estimates of the value of these components will affect the depreciation and amortization the Company records over the estimated useful life of the property acquired. Transaction costs related to acquisitions are expensed as incurred.

The Company considers the period of future benefit of an asset to determine its appropriate useful life. Depreciation on the Company s buildings and improvements is computed using the straight-line method over an estimated useful life of 5 to 40 years. If the Company uses a shorter or longer estimated useful life, it could have a material impact on the Company s results of operations. The Company believes that 5 to 40 years is an appropriate estimate of useful life. The Company continually monitors events and changes in circumstances that could indicate that the carrying amount of our property and equipment may not be recoverable or realized.

Impairment of Long-Lived Assets Management periodically evaluates the Company s real estate investments for impairment indicators, including the evaluation of the Company s assets useful lives. Management also assesses the carrying value of the Company s real estate investments whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The judgment regarding the existence of impairment indicators is based on factors such as, but not limited to, market conditions, operator performance and legal structure. If indicators of impairment are present, management evaluates the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying facilities. Provisions for impairment losses related to long-lived assets are recognized when expected future undiscounted cash flows are determined to be less than the carrying values of the assets. An adjustment is made to the net carrying value of the real estate investments for the excess of carrying value over fair value. All impairments are taken as a period cost at that time, and depreciation is adjusted going forward to reflect the new value assigned to the asset.

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

If the Company decides to sell real estate properties, we evaluate the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell.

In the event of impairment, the fair value of the real estate investment is determined by market research, which includes valuing the property in its current use as well as other alternative uses, and involves significant judgment. The Company s estimates of cash flows and fair values of the properties are based on current market conditions and consider matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties, and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers. The Company s ability to accurately estimate future cash flows and estimate and allocate fair values impacts the timing and recognition of impairments. While the Company believes its assumptions are reasonable, changes in these assumptions may have a material impact on financial results.

Fair Value of Financial Instruments The Company s financial instruments consist principally of cash and cash equivalents, interest rate swap agreement, accounts receivable and borrowings. The Company believes all of the financial instruments recorded values approximate fair values because of their nature or respective short durations. The interest rate swap is carried at fair value on the balance sheet. See further discussion in Note 4, *Fair Value Measurements.*

Cash and Cash Equivalents Cash and cash equivalents consist of bank term deposits and money market funds with original maturities of three months or less at time of purchase and therefore approximate fair value. The fair value of these investments is determined based on Level 1 inputs, which consist of unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets. The Company places its cash and short-term investments with high credit quality financial institutions.

Deferred Financing Costs External costs incurred from placement of our debt is capitalized and amortized on a straight-line basis over the terms of the related borrowings, which approximates the effective interest method. Amortization of financing costs is classified as interest amortization of deferred financing costs in our combined statements of operations. Accumulated amortization of deferred financing costs was $2,413 and $1,714 as of December 31, 2013 and 2012, respectively.

When financings are terminated, unamortized deferred financing costs, as well as charges incurred for the termination, are expensed at the time the termination is made. Gains and losses from the extinguishment of debt are presented within our combined financial statements.

Revenue Recognition The Company recognizes rental revenue, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, if any, from tenants under lease arrangements with minimum fixed and determinable increases on a straight-line basis over the non-cancellable term of the related leases when collectability is reasonably assured. Tenant recoveries related to the reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the expenses are incurred and presented gross if the Company is the primary obligor and, with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier and bears the associated credit risk. For the years ended December 31, 2013, 2012 and 2011, such tenant reimbursement revenues consist of real estate taxes. Contingent revenue, if any, is not recognized until all possible contingencies have been eliminated.

Income Taxes The Company s operations have historically been included in Parent s U.S. federal and state income tax returns and all income taxes have been paid by Parent. Income tax expense and other income tax related information contained in these combined financial statements are presented on a separate tax return basis

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

as if the Company filed its own tax returns. Management believes that the assumptions and estimates used to determine these tax amounts are reasonable. However, the combined financial statements herein may not necessarily reflect the Company s income tax expense or tax payments in the future, or what its tax amounts would have been if the Company had been a stand-alone company during the periods presented.

Deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of the Company s assets and liabilities at tax rates in effect when such temporary differences are expected to reverse. The Company generally expects to fully utilize its deferred tax assets; however, when necessary, the Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized.

When the Company takes uncertain income tax positions that do not meet the recognition criteria, it records a liability for underpayment of income taxes and related interest and penalties, if any. In considering the need for and magnitude of a liability for such positions, the Company must consider the potential outcomes from a review of the positions by the taxing authorities.

In determining the need for a valuation allowance or the need for and magnitude of liabilities for uncertain tax positions, the Company makes certain estimates and assumptions. These estimates and assumptions are based on, among other things, knowledge of operations, markets, historical trends and likely future changes and, when appropriate, the opinions of advisors with knowledge and expertise in certain fields. Due to certain risks associated with the Company s estimates and assumptions, actual results could differ.

Derivatives and Hedging Activities The Company evaluates variable and fixed interest rate risk exposure on a routine basis and to the extent the Company believes that it is appropriate, it will offset most of its variable risk exposure by entering into interest rate swap agreements. It is the Company s policy to only utilize derivative instruments for hedging purposes (i.e. not for speculation). The Company formally designates its interest rate swap agreements as hedges and documents all relationships between hedging instruments and hedged items. The Company formally assesses effectiveness of its hedging relationships, both at the hedge inception and on an ongoing basis, then measures and records ineffectiveness. The Company would discontinue hedge accounting prospectively (i) if it is determined that the derivative is no longer effective in offsetting change in the cash flows of a hedged item, (ii) when the derivative expires or is sold, terminated or exercised, (iii) if it is no longer probable that the forecasted transaction will occur, or (iv) if management determines that designation of the derivative as a hedge instrument is no longer appropriate. The Company s derivative is recorded on the balance sheet at its fair value.

Accumulated Other Comprehensive Loss and Comprehensive Income (Loss) Accumulated other comprehensive loss refers to revenue, expenses, gains, and losses that are recorded as an element of invested equity but are excluded from net income (loss). The Company s other comprehensive income (loss) consists of net deferred gains and losses on certain derivative instruments accounted for as cash flow hedges. As of December 31, 2013 and 2012, accumulated other comprehensive losses were $1,828 and $2,866, respectively, in invested equity.

Concentration of Credit Risk Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of operating leases on our owned properties. See Note 9, *Concentration of Risk* for a discussion of major operator concentration.

Segment Disclosures The FASB accounting guidance regarding disclosures about segments of an enterprise and related information establishes standards for the manner in which public business enterprises report information about operating segments. The Company has one reportable segment consisting of investments in healthcare related real estate properties.

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the FASB Accounting Standards Codification (ASC) is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. The Company has reviewed the FASB issued Accounting Standards Update (ASU) accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. The Company has carefully considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the Company s reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of the Company s financial management and certain standards are under consideration.

3. Real Estate Properties

The following tables summarize our investment in owned properties at December 31, 2013 and 2012, respectively:

ype of property	Gross Investments	Percentage of Investments	Number of Properties	SNF Beds	Number of ALF Units	IND Units	Average Investment per Bed/Unit
killed nursing	$ 339,115	74.4%	72	7,438			$ 46
killed nursing ampus	57,032	12.5%	10	937	462	44	40
ssisted living & ndependent living	49,207	10.8%	12		1,032	208	40
ndependent living perated by the ompany	10,698	2.3%	3			264	41
otal at ecember 31, 013	$ 456,052	100.0%	97	8,375	1,494	516	44

ype of property	Gross Investments	Percentage of Investments	Number of Properties	SNF Beds	Number of ALF Units	IND Units	Average Investment per Bed/Unit
killed nursing	$ 307,894	75.1%	65	6,759			$ 46
killed nursing ampus	56,329	13.7%	10	937	462	44	39
	35,116	8.6%	9		751	208	37

Assisted living & independent living								
Independent living operated by the Company		10,670	2.6%	3			264	40
Total at December 31, 2012	$	410,009	100.0%	87	7,696	1,213	516	44

	December 31, 2013	December 31, 2012
Land	$ 75,112	$ 68,174
Buildings and improvements	380,940	341,835
Integral equipment, furniture and fixtures	66,932	58,921
Real estate properties	522,984	468,930
Less: Accumulated depreciation	(97,981)	(75,035)
Real estate properties, net	$ 425,003	$ 393,895

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

Owned properties are leased pursuant to non-cancelable operating leases generally with an initial term of 10 to 15 years. Each triple net lease requires the lessee to pay all taxes, insurance, maintenance and repairs, capital and non-capital expenditures and other costs necessary in the operations of the facilities. All of the leases contain renewal options. The leases provide for minimum base rent during the initial and renewal periods and do not contain specified rent increases.

Acquisitions Parent has historically purchased operations to complement its existing portfolio. The historical business acquisitions have been attributed to the Company.

During the year ended December 31, 2013, the Parent acquired seven stand-alone skilled nursing facilities, and three stand-alone assisted living facilities. These acquisitions added a total of 692 operational skilled nursing beds and 281 operational assisted living units to the Company s operations.

During the year ended December 31, 2012, the Parent acquired four stand-alone skilled nursing facilities, one skilled nursing campus facility, one stand-alone assisted living facility, and acquired the assets of three previously leased facilities. These acquisitions added a total of 692 operational skilled nursing beds and 84 operational assisted living units to the Company s operations.

During the year ended December 31, 2011, the Parent acquired eight stand-alone skilled nursing facilities, six skilled nursing campus facilities, three stand- alone assisted living facilities, three stand-alone independent living facilities, and acquired the assets of five previously leased facilities. These acquisitions added a total of 1,780 operational skilled nursing beds, 522 operational assisted living units and 369 independent living units to the Company s operations.

The table below presents the purchase price for the real property acquired by the Parent during the years ended December 31, 2013 and 2012, and 2011 that has been attributed to the Company:

	December 31,		
	2013	2012	2011
Land	$ 9,312	$ 3,703	$ 16,070
Buildings and improvements	26,344	26,847	94,023
Integral equipment, furniture and fixtures	1,291	1,143	3,112
Total acquisitions	$ 36,947	$ 31,693	$ 113,205

4. Fair Value Measurements

Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3, defined as observable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and 2012:

	December 31,					
	2013			2012		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 895	$	$	$ 735	$	$
Fair value of interest rate swap	$	$ 1,828	$	$	$ 2,866	$

F-13

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

The Company s non-financial assets, which include long-lived assets, including real estate properties, are reported at carrying value and are not required to be measured at fair value on a recurring basis. However, whenever events or changes in circumstances indicate that their carrying value may not be recoverable, the Company assesses our long-lived assets for impairment. When impairment has occurred, such long-lived assets are written down to fair value. However, no impairment charges have been recorded in the years ended December 31, 2013, 2012 or 2011. This fair value determination is categorized as Level 3 in the fair value hierarchy. See Note 2 for further discussion of the Company s significant accounting policies.

Interest Rate Swap Agreement

In connection with the senior credit facility with a six-bank lending consortium arranged by SunTrust and Wells Fargo (the Senior Credit Facility), in July 2011, the Parent entered into an interest rate swap agreement to reduce risk from volatility in the combined statement of income (loss) due to changes in the LIBOR interest rate. In conjunction with the separation, the Parent has attributed its debt (including the Senior Credit Facility) to the Company. In addition, the corresponding interest rate swap agreement on the Senior Credit Facility has also been attributed to the Company. See further discussion in Note 7, *Debt.*

The swap agreement, with a notional amount of $75,000, amortizing concurrently with the related term loan portion of the Senior Credit Facility, was five years in length and is set to mature on July 15, 2016. The interest rate swap has been designated as a cash flow hedge and, as such, changes in fair value are reported in other comprehensive income (loss) in accordance with hedge accounting. Under the terms of this swap agreement, the net effect of the hedge was to record swap interest expense at a fixed rate of approximately 4.3%, exclusive of fees. Net interest paid under the swap was $1,047, $951, and $471 for the years ended December 31, 2013, 2012, and 2011. In addition, based on the December 31, 2013 interest rate swap valuation, the Company expects to record swap interest expense of approximately $1,100 during the year ended December 31, 2014.

The Company assesses hedge effectiveness at inception and on an ongoing basis by performing a regression analysis. The regression analysis compares to the historical monthly changes in fair value of the interest rate swap to the historical monthly changes in the fair value of a hypothetically perfect interest rate swap over the trailing 30 months. The change in fair value of the hypothetical derivative is regarded as a proxy for the present value of the cumulative change in the expected future cash flows on the hedged transaction. The regression analysis serves as the Company s prospective and retrospective assessment of hedge effectiveness. Assuming the hedging relationship qualifies as highly effective, the actual swap will be recorded at fair value on the balance sheet and accumulated other comprehensive income (loss) will be adjusted to reflect the lesser of either the cumulative change in the fair value of the actual swap or the cumulative change in the fair value of the hypothetical derivative.

The interest rate swap agreement is recorded at fair value based upon valuation models which utilize relevant factors such as the contractual terms of the interest rate swap agreements, credit spreads for the contracting parties and interest rate curves. Based on this valuation method, the Company categorized the interest rate swap as Level 2 and recorded accumulated other comprehensive losses as of December 31, 2013 and 2012, of $1,828 and $2,866. There are no amounts attributable to hedge ineffectiveness that were required to be recognized in earnings.

5. Related Party Transactions

Allocation of corporate expenses The combined balance sheets and statements of income (loss) of the Company include Parent assets and liabilities that are specifically identifiable or otherwise attributable to the Company. The specific identification methodology was utilized for all of the items on statements of income

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

(loss) excluding general corporate expenses. For each of the periods presented, Ensign Properties operations were fully integrated with the Parent, including executive management, finance, treasury, corporate income tax, human resources, legal services and other shared services. These costs are allocated to the Company on a systematic basis utilizing a direct usage basis when identifiable, with the remainder allocated on time study or percentage of the total revenues. The primary allocation method was a time study based on time devoted to Ensign Properties activities.

Allocation of expenses for these general and administrative services of $5,442, $1,788 and $2,377 for the years ended December 31, 2013, 2012 and 2011, respectively, are reflected in general and administrative expenses, in addition to direct expenses which are included in total expenses. The Company s financial statements may not be indicative of the future performance and do not necessarily reflect what the results of operations, financial position and cash flows would have been had the Company operated as an independent publicly traded company during the periods presented.

Rental income from Parent The Company has one operator, its Parent, from which it derives rental income through operating lease agreements, as well as reimbursement of certain costs. The Parent is a holding company with no direct operating assets, employees, or revenue. All of the Parent s operations are operated by separate independent subsidiaries, each of which has its own management, employees and assets. The rental income and reimbursement generated from the operating lease agreements is presented separately in the combined statements of income (loss). See Note 9, *Concentration of Risk* for a discussion of major operator concentration.

The future minimum rental payments that the Company is due to receive from the Parent for the remainder of the lease terms are as follows as of December 31, 2013:

Year	**Amount**
2014	$ 43,453
2015	43,114
2016	40,147
2017	36,656
2018	36,266
Thereafter	204,389
	$ 404,025

Centralized cash management system The Company participates in Parent s centralized cash management system. In conjunction therewith, the intercompany transactions between the Company and Parent have been considered to be effectively settled in cash in these financial statements. The net effect of the settlement of these intercompany transactions, in addition to cash transfers to and from Parent, are reflected in Net (distribution)/contribution to/from Parent on the combined statements of cash flows and the combined statements of invested equity. The Net (distributions)/contributions to/from Parent were $(22,502), $5,552, and $88,693 for the years ended December 31, 2013, 2012 and 2011, respectively.

6. Income Taxes

The Company s operations have historically been included in Parent s U.S. combined federal and state income tax returns and all income taxes have been paid by Parent. Income taxes are presented in these combined financial statements on a separate tax return basis as if the Company filed its own tax returns. These combined financial statements may not reflect tax positions taken or to be taken by Parent, tax positions available for use by Parent and tax positions which may remain with Parent after the separation.

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

The provision (benefit) for income taxes for the years ended December 31, 2013, 2012 and 2011 is summarized as follows:

	December 31, 2013	2012	2011
Current:			
Federal	$ 8	$ 43	$
State	115	79	67
	123	122	67
Deferred:			
Federal			(1,240)
State			
			(1,240)
Total	$ 123	$ 122	$ (1,173)

A reconciliation of the federal statutory rate to the effective tax rate for the years ended December 31, 2013, 2012 and 2011, respectively, is comprised as follows:

	December 31, 2013	2012	2011
Income tax expense at statutory rate	35.0%	35.0%	35.0%
State income taxes net of federal benefit	(51.9)	36.3	2.8
Other adjustments	0.1	0.0	0.0
Deferred tax adjustments	30.4	0.0	0.0
Change in valuation allowance	(58.8)	(18.3)	(19.8)
Total income tax provision	(45.2%)	53.0%	18.0%

The Company s deferred tax assets and liabilities as of December 31, 2013 and 2012 are summarized as follows:

December 31, 2013	2012

Deferred tax assets (liabilities):		
Accrued expenses	$ 2,131	$ 1,060
Tax credits	55	45
Net operating loss carryforwards	8,358	8,962
Subtotal	10,544	10,067
Less: valuation allowance	(2,225)	(2,454)
Total deferred tax assets	8,319	7,613
State taxes	(105)	(167)
Depreciation and amortization	(7,988)	(7,099)
Prepaid expenses	(226)	(347)
Total deferred tax liabilities	(8,319)	(7,613)
Net deferred tax assets	$	$

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

On a separate tax return basis, the Company had Federal net operating loss carryforwards as of December 31, 2013 and 2012 of $23,554 and $24,452, respectively. The Company also had state net operating losses as of December 31, 2013 and 2012 of $3,061 and $7,947, respectively. Because these losses were utilized in the Parent s combined federal and state income tax returns, they will not be available to the Company if it leaves the Parent s federal or state combined groups. In each of the years, the Company is required to pay state minimum income taxes in selected states.

Despite the Company s income in 2013, the operating losses the Company incurred on a separate tax return basis in recent years result in the Company s belief that it is more likely than not that the Company would not be able to realize the tax benefit associated with its deferred tax assets as of December 30, 2013 and 2012. Therefore, the Company has recorded a valuation allowance against its state net deferred tax assets in 2010. Beginning in 2011, the Company recorded a valuation allowance for all of its net deferred tax assets. A portion of the Company s valuation allowance relates to deferred tax assets for items in other comprehensive loss. During the year ended December 31, 2013, the Company reduced the valuation allowance by $388 for these specific items. During the year ended December 31, 2012, the Company recorded a valuation allowance of $277 for these specific items.

As of December 31, 2013 and 2012, the Company did not have any unrecognized tax benefits that would affect the Company s effective tax rate.

The Federal statute of limitations on the Parent s 2007, 2008, and 2009 income tax years lapsed during the third quarter of 2011, 2012, and 2013, respectively. During the fourth quarter of each year, various state statutes of limitations also lapsed. These lapses did not have any impact on the Company s unrecognized tax benefits.

During the first quarter of 2012, the State of California initiated an examination of the Parent s income tax returns for the 2008 and 2009 income tax years. The examination is primarily focused on the Parent s captive insurance subsidiary and the treatment of related insurance matters. To date, California has not proposed any adjustments. The Parent is not currently under examination by any other major income tax jurisdiction. At this time, the Company is not aware of any events that might significantly impact the balance of unrecognized tax benefits in the next twelve months.

The Company classifies interest and/or penalties on income tax liabilities or refunds as additional income tax expense or income. Such amounts are not material.

7. Debt

Debt, net of discount, as of December 31, 2013 and 2012 of $259,307 and $207,692, respectively, represents the balance from the Parent that is directly attributable to the Company. In addition to the attribution of debt, the Parent has also attributed the corresponding interest rate swap agreement on the Senior Credit Facility to the Company.

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

Debt consists of the following:

	December 31, 2013	December 31, 2012
Mortgage notes payable		
Promissory note with RBS, principal and interest payable monthly and continuing through March 2019, interest at a fixed rate, collateralized by real property, assignment of rents and Company guaranty.	$ 20,347	$ 21,032
Ten Project Note with GECC, principal and interest payable monthly; interest is fixed, balance due June 2016, collateralized by deeds of trust on real property, assignment of rents, security agreements and fixture financing statements.	48,865	50,072
Promissory note with RBS, principal and interest payable monthly and continuing through January 2018, interest at a fixed rate, collateralized by real property, assignment of rents and Company guaranty.	32,122	33,167
Promissory notes, principal, and interest payable monthly and continuing through October 2019, interest at fixed rate, collateralized by deed of trust on real property, assignment of rents and security agreement	8,919	9,203
Mortgage note, principal, and interest payable monthly and continuing through February 2027, interest at fixed rate, collateralized by deed of trust on real property, assignment of rents and security agreement	5,429	5,665
Senior secured revolving credit facility		
Senior secured revolving credit facility, with SunTrust and Wells Fargo, principal and interest payable quarterly, balance due at February 1, 2018, secured by substantially all of the Company s personal property	78,701	20,000
Senior secured term loan		
Senior secured term loan, with SunTrust and Wells Fargo, principal and interest payable quarterly, balance due at February 1, 2018, secured by substantially all of the Company s personal property	65,624	69,375
Debt	260,007	208,514
Less debt discount on mortgage notes payable	(700)	(822)
Debt, net of discount	259,307	207,692
Less current maturities	(7,411)	(7,187)
	$ 251,896	$ 200,505

Senior Credit Facility with Six-Bank Lending Consortium Arranged by SunTrust and Wells Fargo (the Senior Credit Facility)

On February 1, 2013, the Parent entered into the third amendment to the Senior Credit Facility (the Third Amendment), which amends the Company s existing Senior Credit Facility Agreement, dated as of July 15, 2011. The Third Amendment revises the Senior Credit Facility Agreement to, among other things, (i) increase the revolving credit portion of the Senior Credit Facility by $75,000 to an aggregate principal amount of $150,000, of which $20,000 was drawn as of December 31, 2012 and the date of the Third Amendment, and (ii) extend the maturity date of the Senior Credit Facility from July 15, 2016 to February 1, 2018. Except as set forth in the Third Amendment, all other terms and conditions of the Senior Credit Facility remain in full force and effect as described below.

On July 15, 2011, the Parent entered into the Senior Credit Facility in an aggregate principal amount of up to $150,000 comprised of a $75,000 revolving credit facility and a $75,000 term loan advanced in one drawing

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

on July 15, 2011. Borrowings under the term loan portion of the Senior Credit Facility amortize in equal quarterly installments commencing on September 30, 2011, in an aggregate annual amount equal to 5% per annum of the original principal amount. Interest rates per annum applicable to the Senior Credit Facility are, at the option of the Company, (i) LIBOR *plus* an initial margin of 2.5% or (ii) the Base Rate (as defined by the agreement) *plus* an initial margin of 1.5%. Under the terms of the Senior Credit Facility, the applicable margin adjusts based on the Parent s leverage ratio. In connection with the Senior Credit Facility, the Parent incurred financing costs of approximately $2,500. Further, the Company incurred a charge of $2,542 in termination and early extinguishment fees in connection with exiting the Six Project Loan which was recognized in the third quarter of 2011. In addition, the Parent has a commitment fee on the unused portion of the revolving credit facility that ranges from 0.3% to 0.5% based on the Parent s leverage ratio for the applicable period. Amounts borrowed pursuant to the Senior Credit Facility are guaranteed by certain of the Parent s wholly-owned subsidiaries, including certain of the subsidiaries combined in Ensign Properties, and secured by substantially all of their personal property. To reduce the risk related to interest rate fluctuations, the Parent, on behalf of the subsidiaries, entered into an interest rate swap agreement to effectively fix the interest rate on the term loan portion of the Senior Credit Facility. As noted above, the Senior Credit Facility and the corresponding interest rate swap have been attributed by the Parent to the Company.

Among other things, under the Senior Credit Facility, the Parent must maintain compliance with specified financial covenants measured on a quarterly basis, including a maximum net leverage ratio, minimum interest coverage ratio and minimum asset coverage ratio. The loan documents also include certain additional reporting, affirmative and negative covenants including limitations on the incurrence of additional indebtedness, liens, investments in other businesses, dividends declared in excess of 20% of combined net income (loss) and repurchases and capital expenditures. As of December 31, 2013, the Parent was in compliance with all loan covenants.

Promissory Note with RBS Asset Finance, Inc.

On February 17, 2012, two of the Parent s real estate holding subsidiaries, the RBS Borrowers, executed a promissory note in favor of RBS Asset Finance, Inc. (RBS) as lender for an aggregate of $21,525 (the 2012 RBS Loan). The 2012 RBS Loan is secured by Commercial Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filings on the properties owned by the RBS Borrowers, and other related instruments and agreements, including without limitation a promissory note and a Parent guaranty. The 2012 RBS Loan bears interest at a fixed rate of 4.75%. Amounts borrowed under the 2012 RBS Loan may be prepaid starting after the second anniversary of the note subject to certain prepayment fees. The term of the RBS Loan is for seven years, with monthly principal and interest payments commencing on April 1, 2012 and the balance due on March 1, 2019.

Among other things, under the 2012 RBS Loan the Company must maintain compliance with specified financial covenants measured on a quarterly basis, including a minimum debt service coverage ratio, an average occupancy rate and a minimum project yield. The loan documents also include certain additional affirmative and negative covenants, including limitations on the disposition of the Borrowers and the collateral and minimum average cash balance requirements. As of December 31, 2013, the Company was in compliance with all loan covenants.

Promissory Notes with RBS Asset Finance, Inc.

On December 31, 2010, four of the Parent s real estate holding subsidiaries executed a promissory note with RBS Asset Finance, Inc. (RBS) as lender for an aggregate of $35,000 (the 2010 RBS Loan). The 2010 RBS Loan is secured by Commercial Deeds of Trust, Security Agreements, Assignment of Leases and Rents and Fixture

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

Filings on the four properties and other related instruments and agreements, including without limitation a promissory note and a Parent guaranty. The 2010 RBS Loan bears interest at a fixed rate of 6.04%. Amounts borrowed under the 2010 RBS Loan may be prepaid subject to prepayment fees of 9.0% of the principal balance on the date of prepayment. These prepayment fees are reduced by 1.0% a year in each of years 2014, 2015, and 2016. The term of the 2010 RBS Loan is for seven years, with monthly principal and interest payments commencing on February 1, 2011 and the balance due on January 1, 2018.

Among other things, under the 2010 RBS Loan, the Company must maintain compliance with specified financial covenants measured on a quarterly basis, including a minimum debt service coverage ratio, an average occupancy rate and a minimum project yield. The loan documents also include certain additional affirmative and negative covenants, including limitations on the disposition of the Borrowers and the collateral. As of December 31, 2013, the Company was in compliance with all loan covenants.

Term Loan with General Electric Capital Corporation

On December 29, 2006, a number of the Parent s independent real estate holding subsidiaries jointly entered into the Third Amended and Restated Loan Agreement, with General Electric Capital Corporation (GECC), which consists of an approximately $55,700 multiple-advance term loan, further referred to as the Ten Project Note. The Ten Project Note matures in June 2016, and is currently secured by the real and personal property comprising the ten facilities owned by these subsidiaries. The Ten Project Note was funded in advances, with each advance bearing interest at a separate rate. The interest rates range from 6.95% to 7.50% per annum.

Under the Ten Project Note, the Company is subject to standard reporting requirements and other typical covenants for a loan of this type. Effective October 1, 2006 and continuing each calendar quarter thereafter, we are subject to restrictive financial covenants, including average occupancy, Debt Service (as defined in the agreement) and Project Yield (as defined in the agreement). As of December 31, 2013, the Company was in compliance with all loan covenants.

Promissory Notes with Johnson Land Enterprises, L.L.C

On October 1, 2009, four subsidiaries of the Parent entered into four separate promissory notes with Johnson Land Enterprises, L.L.C., for an aggregate of $10,000, as a part of the Parent s acquisition of three skilled nursing facilities in Utah. The unpaid balance of principal and accrued interest from these notes is due on September 30, 2019. The notes bear interest at a rate of 6.0% per annum. As a part of this transaction, the Company recorded a discount to the debt balance in the form of imputed interest of $1,218. This amount is amortized over the term of the promissory notes, or 10 years.

Mortgage Loan with Walker and Dunlop, LLC

Ensign Southland LLC, a subsidiary of the Parent, entered into a mortgage loan on January 30, 2001 with Continental Wingate Associates, Inc. The mortgage loan is insured with the U.S. Department of Housing and Urban Development, or HUD, which subjects the Company s Southland facility to HUD oversight and periodic inspections. As of

December 31, 2013, the balance outstanding on this mortgage loan was approximately $5,429. The unpaid balance of principal and accrued interest from this mortgage loan is due on February 1, 2027. The mortgage loan bears interest at the rate of 7.5% per annum.

This mortgage loan is secured by the real property comprising the Southland Care Center facility and the rents, issues and profits thereof, as well as all personal property used in the operation of the facility.

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

Based on Level 2, the carrying value of the Company s long-term debt is considered to approximate the fair value of such debt for all periods presented based upon the interest rates that the Company believes it can currently obtain for similar debt.

The debt matures in fiscal years ending after December 31, 2013 as follows:

Years Ending December 31,	**Amount**
2014	$ 7,411
2015	7,673
2016	52,589
2017	6,584
2018	157,790
Thereafter	27,960
	$ 260,007

8. Commitments and Contingencies

Litigation The Company is subject to various legal proceedings, claims and other actions arising out of the normal course of business. While any legal proceeding or claim has an element of uncertainty, the defense of these lawsuits may result in significant legal costs, regardless of the outcome, and can result in large settlement amounts or damage awards.

The Company cannot predict or provide any assurance as to the possible outcome of the investigations or any possible related proceedings, or as to the possible outcome of any litigation. If any litigation were to proceed, and the Company is subjected to, alleged to be liable for, or agrees to a settlement of, claims or obligations under state and federal statutes and related regulations, its business, financial condition and results of operations and cash flows could be materially and adversely affected and its stock price could be adversely impacted. Among other things, any settlement or litigation could involve the payment of substantial sums to settle any alleged civil violations, and may also include the Company s assumption of specific procedural and financial obligations going forward under a corporate integrity agreement and/or other arrangement with the government.

U.S. Government Inquiry In late 2006, Ensign learned that it might be the subject of an on-going criminal and civil investigation by the U.S. Department of Justice or DOJ . This was confirmed in March 2007. The investigation was prompted by a whistleblower complaint, and related primarily to claims submitted to the Medicare program for rehabilitation services provided at skilled nursing facilities in Southern California. Ensign, through its outside counsel and a special committee of independent directors established by its board, worked cooperatively with the U.S.

Attorney s office to produce information requested by the government as part of an ongoing dialogue designed to resolve the issue.

In December 2011, the DOJ notified Ensign that it had closed its criminal investigation without action although, as is typical, it reserved the right to reopen the criminal case if new facts came to light. This left only the civil investigation to resolve, and Ensign continued to supply requested information to the DOJ and the Office of the Inspector General of the United States Department of Health and Human Services (HHS), including specific patient records and documents from 2007 to 2011 from six Southern California skilled nursing facilities that had been the subject of previous requests.

In early 2013, discussions between government representatives and Ensign s special committee, its outside counsel and their experts had advanced sufficiently that Ensign recorded an initial estimated liability in the

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

amount of $15,000 in the fourth quarter of 2012 for the resolution of claims connected to the investigation. In April 2013, Ensign and government representatives reached an agreement in principle to resolve the allegations and close the investigation. Based on these discussions, Ensign recorded and announced an additional charge in the amount of $33,000 in the first quarter of 2013, increasing the total reserve to resolve the matter to $48,000 (the Reserve Amount).

In October 2013, Ensign completed and executed a settlement agreement (the Settlement Agreement) with the DOJ and received the final approval of the Office of Inspector General-HHS and the United States District Court for the Central District of California. The settlement agreement fully and finally resolves the previously disclosed DOJ investigation and any ancillary claims which have been pending since 2006. Pursuant to the settlement agreement, Ensign made a single lump-sum remittance to the government in the amount of $48,000 in October 2013. Ensign has denied engaging in any illegal conduct, and has agreed to the settlement amount without any admission of wrongdoing in order to resolve the allegations and to avoid the uncertainty and expense of protracted litigation.

In connection with the settlement and effective as of October 1, 2013, Ensign entered into a five-year corporate integrity agreement with the Office of Inspector General-HHS (the CIA). The CIA acknowledges the existence of Ensign s current compliance program, and requires that Ensign continue during the term of the CIA to maintain a compliance program designed to promote compliance with the statutes, regulations, and written directives of Medicare, Medicaid, and all other Federal health care programs. Ensign is also required to maintain several elements of its existing program during the term of the CIA, including maintaining a compliance officer, a compliance committee of the board of directors, and a code of conduct. The CIA requires that Ensign conduct certain additional compliance-related activities during the term of the CIA, including various training and monitoring procedures, and maintaining a disciplinary process for compliance obligations. Pursuant to the CIA, Ensign is required to notify the Office of Inspector General-HHS in writing of, among other things: (i) any ongoing government investigation or legal proceeding involving an allegation that Ensign has committed a crime or has engaged in fraudulent activities; (ii) any other matter that a reasonable person would consider a probable violation of applicable criminal, civil, or administrative laws related to compliance with federal healthcare programs; and (iii) any change in location, sale, closing, purchase, or establishment of a new business unit or location related to items or services that may be reimbursed by Federal health care programs. Ensign is also subject to periodic reporting and certification requirements attesting that the provisions of the CIA are being implemented and followed, as well as certain document and record retention mandates.

Participation in federal healthcare programs by Ensign is not affected by the Settlement Agreement or the CIA. In the event of an uncured material breach of the CIA, Ensign could be excluded from participation in federal healthcare programs and/or subject to prosecution. After the spin-off, the Company will remain subject to certain continuing obligations as part of Ensign s compliance program pursuant to the CIA, but otherwise has no liability related to the U.S. Government inquiry of Ensign.

Indemnities From time to time, the Parent enters into certain types of contracts that contingently require the Parent to indemnify parties against third-party claims. These contracts primarily include (i) certain real estate leases, under which the Parent may be required to indemnify property owners or prior facility operators for post-transfer environmental or other liabilities and other claims arising from the Parent s use of the applicable premises,

(ii) operations transfer agreements, in which the Parent agrees to indemnify past operators of facilities the Parent acquires against certain liabilities arising from the transfer of the operation and/or the operation thereof after the transfer, (iii) certain lending agreements, under which the Parent may be required to indemnify the lender against various claims and liabilities, (iv) agreements with certain lenders under which the Parent may be required to indemnify such lenders against various claims and liabilities, and (v) certain agreements with the Parent s officers, directors and employees, under which the Parent may be required to indemnify such persons for

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

liabilities arising out of their employment relationships. The terms of such obligations vary by contract and, in most instances, a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, because no claims have been asserted, no liabilities have been recorded for these obligations on the Parent s balance sheets for any of the periods presented.

9. Concentration of Risk

Major operator concentration The Company has one operator, Parent, from which the Company has derived a significant portion of its overall revenue during the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, the Company s 94 skilled nursing and assisted living facilities had a total of 10,121 licensed beds and are located in Arizona, California, Colorado, Idaho, Iowa, Nebraska, Nevada, Texas, Utah and Washington, and the three independent living facilities have a total of 264 units and are located in Texas and Utah. The three states in which the Company had its highest concentration of properties were California, Texas and Arizona.

10. Earnings (Loss) Per Share

The Company calculates earnings (loss) per share (EPS) in accordance with ASC 260, *Earnings Per Share*. Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially dilutive securities. Basic and diluted EPS for each of the three years in the period ended December 31, 2013, were retroactively restated for the number of basic and diluted shares outstanding immediately following the spin-off described in Note 1 (the Spin-Off).

The following table presents the calculation of basic and diluted EPS for the Company s common stock for each of the three years in the period ended December 31, 2013 and reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS for each of the three years in the period ended December 31, 2013.

		2013		2012		2011
Net (loss) income	$	(395)	$	110	$	(5,341)
Earnings (loss) per common share:						
Basic	$	(0.02)	$	0.00	$	(0.24)
Diluted	$	(0.02)	$	0.00	$	(0.24)
Determination of shares:						
Weighted-average common shares outstanding, basic		22,228		22,228		22,228

Assumed conversion of restricted stock awards		208	
Weighted-average common shares outstanding, diluted	22,228	22,436	22,228

11. Subsequent Events

The Company evaluates subsequent events in accordance with ASC 855, *Subsequent Events*.

12. Summarized Condensed Combining Information

The 5.875% Senior Notes due 2021 (the Notes) issued by CTR Partnership, L.P. (the Operating Partnership) and CareTrust Capital Corp. (Capital Corp. and, together with the Operating Partnership, the

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

Issuers) on May 30, 2014 are jointly and severally, fully and unconditionally, guaranteed by CareTrust REIT, Inc., as the parent guarantor (the Parent Guarantor), and certain 100% owned subsidiaries of the Parent Guarantor other than the Issuers (collectively, the Subsidiary Guarantors and, together with the Parent Guarantor, the Guarantors), subject to automatic release under certain customary circumstances, including if the Subsidiary Guarantor is sold or sells all or substantially all of its assets, the Subsidiary Guarantor is designated unrestricted for covenant purposes under the indenture governing the Notes, the Subsidiary Guarantor s guarantee of other indebtedness which resulted in the creation of the guarantee of the Notes is terminated or released, or the requirements for legal defeasance or covenant defeasance or to discharge the Indenture have been satisfied.

The following provides information regarding the entity structure of the Parent Guarantor, the Issuers and the Subsidiary Guarantors:

CareTrust REIT, Inc. The Parent Guarantor was formed on October 29, 2013 in anticipation of the Spin-Off and the related transactions and was a wholly owned subsidiary of Ensign prior to the effective date of the Spin-Off on June 1, 2014. The Parent Guarantor did not conduct any operations or have any business prior to the date of issuance of the Notes and the consummation of the Spin-Off related transactions.

CTR Partnership, L.P. and CareTrust Capital Corp. The Issuers, each of which is a 100% owned subsidiary of the Parent Guarantor, were formed on May 8, 2014 and May 9, 2014, respectively, in anticipation of the Spin-Off and the related transactions. The Issuers did not conduct any operations or have any business prior to the date of issuance of the Notes and the consummation of the Spin-Off related transactions.

Subsidiary Guarantors Each of the Subsidiary Guarantors is a 100% owned subsidiary of the Parent Guarantor. Prior to the consummation of the Spin-Off, each of the Subsidiary Guarantors was a wholly owned subsidiary of Ensign. The Ensign Properties entities consist of the Subsidiary Guarantors (other than the general partner of the Operating Partnership which was formed on May 8, 2014 in anticipation of the Spin-Off and the related transactions) and the subsidiaries of the Parent Guarantor that are not Subsidiary Guarantors or Issuers (collectively, the Non-Guarantor Subsidiaries).

Pursuant to Rule 3-10 of Regulation S-X, the following summarized consolidating information is provided for the Subsidiary Guarantors and the Non-Guarantor Subsidiaries with respect to the Notes. As described above, the Parent Guarantor and the Issuers did not conduct any operations or have any business during the periods covered by such financial information. This summarized financial information has been prepared from the financial statements of Ensign Properties and the books and records maintained by Ensign Properties.

The summarized financial information may not necessarily be indicative of the results of operations or financial position had the Parent Guarantor, the Issuers, the Subsidiary Guarantors or the Non-Guarantor Subsidiaries all been in existence or operated as independent entities during the relevant period or had the Ensign Properties entities been operated as subsidiaries of the Parent Guarantor during such period.

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

COMBINED BALANCE SHEETS

DECEMBER 31, 2013

(dollars in thousands)

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Assets:			
Real estate investments, net	$ 379,754	$ 45,249	$ 425,003
Cash and cash equivalents	895		895
Accounts receivable	20		20
Prepaid expenses and other assets	367	521	888
Deferred tax assets	705	154	859
Deferred financing costs, net	2,511	290	2,801
Total assets	$ 384,252	$ 46,214	$ 430,466
Liabilities and Invested Equity:			
Mortgage notes payable	$ 66,117	$ 48,865	$ 114,982
Senior secured revolving credit facility	78,701		78,701
Senior secured term loan	65,624		65,624
Fair value of interest rate swap	1,828		1,828
Accounts payable and accrued liabilities	5,316	467	5,783
Deferred tax liabilities	705	154	859
Total liabilities	218,291	49,486	267,777
Invested Equity:			
Invested capital	167,789	(3,272)	164,517
Accumulated other comprehensive loss	(1,828)		(1,828)
Total equity	165,961	(3,272)	162,689
Total liabilities and invested equity	$ 384,252	$ 46,214	$ 430,466

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

COMBINED BALANCE SHEETS

DECEMBER 31, 2012

(dollars in thousands)

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Assets:			
Real estate investments, net	$ 349,332	$ 44,563	$ 393,895
Cash and cash equivalents	735		735
Accounts receivable	25		25
Prepaid expenses and other assets	699	455	1,154
Deferred tax assets	260	139	399
Deferred financing costs, net	2,364	406	2,770
Total assets	$ 353,415	$ 45,563	$ 398,978
Liabilities and Invested Equity:			
Mortgage notes payable	$ 68,245	$ 50,072	$ 118,317
Senior secured revolving credit facility	20,000		20,000
Senior secured term loan	69,375		69,375
Fair value of interest rate swap	2,866		2,866
Accounts payable and accrued liabilities	3,047	426	3,473
Deferred tax liabilities	260	139	399
Total liabilities	163,793	50,637	214,430
Invested Equity:			
Invested capital	192,488	(5,074)	187,414
Accumulated other comprehensive loss	(2,866)		(2,866)
Total equity	189,622	(5,074)	184,548
Total liabilities and invested equity	$ 353,415	$ 45,563	$ 398,978

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

COMBINED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2013

(dollars in thousands)

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Revenues:			
Rental income (Note 5)	$ 35,730	$ 5,512	$ 41,242
Tenant reimbursement	4,602	566	5,168
Other revenue	2,386		2,386
Total revenues	42,718	6,078	48,796
Expenses:			
Depreciation and amortization	20,031	3,387	23,418
Interest expense	8,314	3,634	11,948
Interest amortization of deferred financing costs	584	115	699
Property taxes	4,602	566	5,168
Acquisition costs	255		255
Operating expenses	2,007	131	2,138
General and administrative	5,442		5,442
Total expenses	41,235	7,833	49,068
Income (loss) before provision for income taxes	1,483	(1,755)	(272)
Provision for income taxes	109	14	123
Net income (loss)	1,374	(1,769)	(395)
Other comprehensive income (loss):			
Net unrealized gain on interest rate swap	1,038		1,038
Comprehensive income (loss)	$ 2,412	$ (1,769)	$ 643

F-27

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

COMBINED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2012

(dollars in thousands)

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Revenues:			
Rental income (Note 5)	$ 29,800	$ 5,248	$ 35,048
Tenant reimbursement	3,901	569	4,470
Other revenue	2,545		2,545
Total revenues	36,246	5,817	42,063
Expenses:			
Depreciation and amortization	17,844	3,259	21,103
Interest expense	7,772	3,730	11,502
Interest amortization of deferred financing costs	590	115	705
Property taxes	3,901	569	4,470
Acquisition costs	189		189
Operating expenses	2,056	18	2,074
General and administrative	1,788		1,788
Total expenses	34,140	7,691	41,831
Income (loss) before provision for income taxes	2,106	(1,874)	232
Provision (benefit) for income taxes	110	12	122
Net income (loss)	1,996	(1,886)	110
Other comprehensive income (loss):			
Net unrealized loss on interest rate swap	(723)		(723)
Comprehensive income (loss)	$ 1,273	$ (1,886)	$ (613)

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

COMBINED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31, 2011

(dollars in thousands)

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Revenues:			
Rental income (Note 5)	$ 21,338	$ 4,875	$ 26,213
Tenant reimbursement	3,351	561	3,912
Other revenue	1,816		1,816
Total revenues	26,505	5,436	31,941
Expenses:			
Depreciation and amortization	13,480	3,138	16,618
Interest expense	6,706	3,799	10,505
Interest amortization of deferred financing costs	486	115	601
Property taxes	3,351	561	3,912
Loss on extinguishment of debt	2,542		2,542
Acquisition costs	467		467
Operating expenses	1,417	16	1,433
General and administrative	2,377		2,377
Total expenses	30,826	7,629	38,455
Loss before provision for income taxes	(4,321)	(2,193)	(6,514)
Benefit for income taxes	(967)	(206)	(1,173)
Net loss	(3,354)	(1,987)	(5,341)
Other comprehensive loss:			
Net unrealized loss on interest rate swap	(2,143)		(2,143)
Comprehensive loss	$ (5,497)	$ (1,987)	$ (7,484)

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

(dollars in thousands)

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Cash flows from operating activities:			
Net cash provided by operating activities	$ 24,793	$ 1,839	$ 26,632
Cash flows from investing activities:			
Acquisition of real estate businesses	(35,656)		(35,656)
Purchases of equipment, furniture, and fixtures	(15,728)	(4,203)	(19,931)
Cash proceeds from the sale of equipment, furniture and fixtures	854		854
Net cash used in investing activities	(50,530)	(4,203)	(54,733)
Cash flows from financing activities:			
Proceeds from issuance of debt	58,700		58,700
Principal payments on long-term debt	(5,999)	(1,208)	(7,207)
Payments of deferred financing costs	(730)		(730)
Net (distribution)/contribution to/from Ensign (Note 5)	(26,074)	3,572	(22,502)
Net cash provided by financing activities	25,897	2,364	28,261
Net increase in cash and cash equivalents	160		160
Cash and cash equivalents, beginning of period	735		735
Cash and cash equivalents, end of period	$ 895	$	$ 895

F-30

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

(dollars in thousands)

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Cash flows from operating activities:			
Net cash provided by operating activities	$ 19,796	$ 4,340	$ 24,136
Cash flows from investing activities:			
Acquisition of real estate businesses	(29,997)		(29,997)
Purchases of equipment, furniture, and fixtures	(17,955)	(1,802)	(19,757)
Cash proceeds from the sale of equipment, furniture and fixtures	224	25	249
Net cash used in investing activities	(47,728)	(1,777)	(49,505)
Cash flows from financing activities:			
Proceeds from issuance of debt	36,525		36,525
Principal payments on long-term debt	(15,713)	(1,112)	(16,825)
Payments of deferred financing costs	(244)		(244)
Net contribution/(distribution) from/to Ensign (Note 5)	7,003	(1,451)	5,552
Net cash provided by financing activities	27,571	(2,563)	25,008
Net decrease in cash and cash equivalents	(361)		(361)
Cash and cash equivalents, beginning of period	1,096		1,096
Cash and cash equivalents, end of period	$ 735	$	$ 735

F-31

Table of Contents

ENSIGN PROPERTIES

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

(dollars in thousands)

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Cash flows from operating activities:			
Net cash provided by operating activities	$ 14,322	$ (310)	$ 14,012
Cash flows from investing activities:			
Acquisition of real estate businesses	(110,056)		(110,056)
Purchases of equipment, furniture, and fixtures	(29,519)	(4,941)	(34,460)
Cash proceeds from the sale of equipment, furniture and fixtures	416	343	759
Net cash used in investing activities	(139,159)	(4,598)	(143,757)
Cash flows from financing activities:			
Proceeds from issuance of debt	90,000		90,000
Principal payments on long-term debt	(43,714)	(1,044)	(44,758)
Cash paid for extinguishment of debt	(1,501)		(1,501)
Payments of deferred financing costs	(2,571)		(2,571)
Net contribution from Ensign (Note 5)	82,741	5,952	88,693
Net cash provided by financing activities	124,955	4,908	129,863
Net increase in cash and cash equivalents	118		118
Cash and cash equivalents, beginning of period	978		978
Cash and cash equivalents, end of period	$ 1,096	$	$ 1,096

Table of Contents

ENSIGN PROPERTIES

SCHEDULE III

SCHEDULE OF REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION

December 31, 2013

(dollars in thousands)

			Initial Cost to Company			Gross Carrying Value						
Description	**Location**	**Encumbrances**	**Land**	**Building and Improvements**	**Costs Capitalized Since Acquisition**	**Land**	**Building Improvements**	**Total**	**Accumulated Depreciation**	**Construction/ Renovation Date**	**Acquisition Date**	**Life on w Deprecia in Late Incom Stateme is Comput**
Skilled Nursing Properties:												
Ensign Highland LLC	Phoenix, AZ	$ 2,999	$ 257	$ 976	$ 807	$ 257	$ 1,783	$ 2,040	$ 650	2013	2000	30
Meadowbrook Health Associates LLC	Tucson, AZ	3,947	425	3,716	1,958	425	5,674	6,099	1,446	2012	2000	32
Terrace Holdings AZ LLC	Phoenix, AZ	3,642	113	504	477	113	981	1,094	283	2004	2002	30
Rillito Holdings LLC	Tucson, AZ	3,902	471	2,041	2,921	471	4,962	5,433	1,104	2013	2003	30
Valley Health Holdings LLC	Phoenix, AZ	5,758	629	5,154	703	629	5,857	6,486	1,705	2009	2004	30
Cedar Avenue Holdings LLC	Upland, CA	6,518	2,812	3,919	1,983	2,812	5,902	8,714	1,975	2011	2005	30
Granada Investments LLC	Camarillo, CA	7,590	3,526	2,827	1,520	3,526	4,347	7,873	1,270	2010	2005	30
Plaza Health Holdings LLC	Walla Walla, WA	3,413	450	5,566	1,055	450	6,621	7,071	1,945	2009	2006	25
Mountainview Community Care LLC	Santa Rosa, CA	3,494	931	2,612	587	931	3,199	4,130	1,179	1963	2006	25
CM Health Holdings LLC	San Diego, CA	9,391	3,028	3,119	1,735	3,028	4,854	7,882	1,280	2012	2006	32

Polk Health Holdings LLC	Livingston, TX	6,629	60	4,391	1,156	60	5,547	5,607	1,629	2009	2006	30
Snohomish Health Holdings LLC	Lynnwood, WA		741	1,663	1,998	741	3,661	4,402	1,337	2009	2006	25
Cherry Health Holdings, Inc.	Hoquiam, WA		171	1,828	1,753	171	3,581	3,752	1,015	2010	2006	25
Golfview Holdings LLC	Richmond, TX	11,191	1,105	3,110	699	1,105	3,809	4,914	1,073	2007	2006	30
Tenth East Holdings LLC	Salt Lake City, UT	654	332	2,426	2,346	332	4,772	5,104	1,044	2013	2006	22
Trinity Mill Holdings LLC	Carrollton, TX		664	2,294	902	664	3,196	3,860	1,116	2007	2006	22
Cottonwood Health Holdings LLC	Salt Lake City, UT		965	2,070	897	965	2,967	3,932	1,162	2008	2007	20

Table of Contents

			Initial Cost to Company			Gross Carrying Value						Life on which Depreciation in Latest Income Statement is Computed
Description	Location	Encumbrances	Land	Building and Improvements	Costs Capitalized Since Acquisition	Land	Building Improvements	Total	Accumulated Depreciation	Construction/ Renovation Date	Acquisition Date	
Verde Villa Holdings LLC	Lewisville, TX		600	1,890	401	600	2,291	2,891	662	2011	2007	25
Mesquite Health Holdings LLC	Mesquite, TX		470	1,715	8,657	470	10,372	10,842	2,527	2012	2007	20
Arrow Tree Health Holdings LLC	Glendora, CA		2,165	1,105	304	2,165	1,409	3,574	480	1965	2007	20
Fort Street Health Holdings LLC	Draper, UT		443	2,394	746	443	3,140	3,583	713	2008	2007	30
Trousdale Health Holdings LLC	Downey, CA	9,156	1,415	1,841	1,858	1,415	3,699	5,114	752	2013	2007	30
Ensign Bellflower LLC	Bellflower, CA		937	1,168	357	937	1,525	2,462	431	2009	2007	25
RB Heights Health Holdings LLC	Scottsdale, AZ		2,007	2,793	1,750	2,007	4,543	6,550	1,103	2009	2008	30
San Corrine Health Holdings LLC	San Antonio, TX		310	2,090	705	310	2,795	3,105	720	2005	2008	35
Temple Health Holdings LLC	Temple, TX		529	2,207	1,131	529	3,338	3,867	757	2008	2008	30
Anson Health Holdings LLC	Abilene, TX		369	3,220	1,553	369	4,773	5,142	1,002	2012	2008	30
Willits Health Holdings	Willits, CA		490	1,231	461	490	1,692	2,182	331	2011	2008	30

LLC												
Lufkin Health Holdings LLC	Lufkin, TX	5,607	467	4,644	298	467	4,942	5,409	543	1988	2009	50
Lowell Health Holdings LLC	Littleton, CO		217	856	1,735	217	2,591	2,808	370	2012	2009	35
Jefferson Ralston Holdings LLC	Arvada, CO		280	1,230	829	280	2,059	2,339	286	2012	2009	40
Lafayette Health Holdings LLC	Englewood, CO		1,607	4,222	6,131	1,607	10,353	11,960	1,426	2012	2009	45
Hillendahl Health Holdings LLC	Dallas, TX		2,133	11,977	618	2,133	12,595	14,728	1,865	1984	2009	30
Price Health Holdings LLC	Price, UT	1,013	193	2,209	850	193	3,059	3,252	345	2012	2009	45
Silver Lake Health Holdings LLC	Provo, UT	4,359	2,051	8,362	1,373	2,051	9,735	11,786	1,014	2011	2009	50
Jordan Health Properties LLC	West Jordan, UT	2,893	2,671	4,244	1,123	2,671	5,367	8,038	461	2013	2009	50
Regal Road Health Holdings LLC	Youngstown, AZ		767	4,648	341	767	4,989	5,756	621	2012	2009	35
Paredes Health Holdings LLC	Brownsville, TX		373	1,354	190	373	1,544	1,917	162	1969	2009	45
Expressway Health Holdings LLC	Harlingen, TX		90	675	262	90	937	1,027	110	2011	2009	45
Rio Grande Health Holdings LLC	McAllen, TX		642	1,085	632	642	1,717	2,359	185	2012	2009	45

Table of Contents

Description	Location	Encumbrances	Initial Cost to Company: Land	Initial Cost to Company: Building and Improvements	Costs Capitalized Since Acquisition	Gross Carrying Value: Land	Gross Carrying Value: Building Improvements	Gross Carrying Value: Total	Accumulated Depreciation	Construction/ Renovation Date	Acquisition Date	Life on which Depreciation in Latest Income Statement is Computed
Fifth East Holdings LLC	Salt Lake City, UT		345	2,464	1,066	345	3,530	3,875	453	2011	2009	45
Emmett Healthcare Holdings LLC	Emmet, ID		591	2,383	39	591	2,422	3,013	276	1972	2010	35
Burley Healthcare Holdings LLC	Burley, ID		250	4,004	424	250	4,428	4,678	555	2011	2010	35
Northshore Healthcare Holdings LLC	Houston, TX		486	2,349	1,041	486	3,390	3,876	425	2012	2010	43
Josey Ranch Healthcare Holdings LLC	Carrollton, TX		1,382	2,293	201	1,382	2,494	3,876	231	1996	2010	40
Everglades Health Holdings LLC	Ventura, CA		1,847	5,377	662	1,847	6,039	7,886	763	1990	2011	50
Irving Health Holdings LLC	Beatrice, NE		60	2,931	237	60	3,168	3,228	262	2011	2011	32
Falls City Health Holdings LLC	Falls City, NE		170	2,141	11	170	2,152	2,322	168	1972	2011	32
Gillette Park Health Holdings LLC	Cherokee, IA		163	1,491	8	163	1,499	1,662	150	1967	2011	25
Gazebo Park Health Holdings LLC	Clarion, IA		80	2,541	93	80	2,634	2,714	273	1978	2011	25
Oleson Park Health Holdings LLC	Ft. Dodge, IA		90	2,341	573	90	2,914	3,004	341	2012	2011	20
Arapahoe Health Holdings LLC	Texas City, TX		158	4,810	602	158	5,412	5,570	460	2012	2011	30
Dixie Health Holdings LLC	Hurricane, UT		487	1,978	71	487	2,049	2,536	125	1978	2011	40
Memorial Health Holdings LLC	Pocatello, ID		537	2,138	260	537	2,398	2,935	296	2007	2011	30
Bogardus Health	Whittier, CA		1,425	5,307	728	1,425	6,035	7,460	699	2011	2011	35

Holdings LLC											
South Dora Health Holdings LLC	Ukiah, CA	297	2,087	1,622	297	3,709	4,006	1,005	2013	2011	35
Silverada Health Holdings LLC	Reno, NV	1,012	3,282	103	1,012	3,385	4,397	181	1970	2011	40
Orem Health Holdings LLC	Orem, UT	1,689	3,896	3,235	1,689	7,131	8,820	924	2011	2011	50
Renne Avenue Health Holdings LLC	Pocatello, ID	180	2,481	711	180	3,192	3,372	171	2013	2012	30
Stillhouse Health Holdings LLC	Paris, TX	129	7,139		129	7,139	7,268	198	2009	2012	57
Fig Street Health Holdings LLC	Escondido, CA	329	2,653	875	329	3,528	3,857	931	2007	2012	35
Lowell Lake Health Holdings LLC	Owyhee, ID	49	1,554	26	49	1,580	1,629	50	1990	2012	45

Table of Contents

			Initial Cost to Company			Gross Carrying Value						Life on Depre in L Inc State i Comp
scription	Location	Encumbrances	Land	Building and Improvements	Costs Capitalized Since Acquisition	Land	Building Improvements	Total	Accumulated Depreciation	Construction/ Renovation Date	Acquisition Date	
eensway alth dings C	Long Beach, CA		999	4,237	2,331	999	6,568	7,567	1,458	2008	2012	5
ng Beach alth sociates C	Long Beach, CA		1,285	2,343	1,665	1,285	4,008	5,293	452	2013	2012	4
gs Court alth dings C	Ft. Worth, TX		193	2,311	100	193	2,411	2,604	64	1965	2012	4
t Avenue alth dings C	Amarillo, TX		340	3,925	32	340	3,957	4,297	94	1970	2013	3
s Health dings C	San Macros, TX		371	2,951	52	371	3,003	3,374	56	1972	2013	4
adalupe alth dings C	Victoria, TX		80	2,391		80	2,391	2,471	40	2013	2013	4
eens City alth dings C	Victoria, TX		212	732	8	212	740	952	19	1960	2013	3
h Street alth dings C	Omaha, NE		129	2,418	3	129	2,421	2,550	54	1970	2013	3
lows alth dings C	Redmond, WA		1,388	2,982	205	1,388	3,187	4,575	72	1966	2013	3
alip Bay dings	Marysville, WA		1,722	2,642		1,722	2,642	4,364	45	1989	2013	3
		92,156	56,381	209,948	72,786	56,381	282,734	339,115	49,370			

lled rsing mpus perties:											
sign thland C	Norwalk, CA	5,429	966	5,082	2,135	966	7,217	8,183	3,077	2011	1999
dings LLC	Glendale, AZ	7,602	289	1,428	1,404	289	2,832	3,121	912	2004	2002
non er dings C	Riverside, CA		494	1,159	4,793	494	5,952	6,446	964	2012	2009
steria alth dings C	Abilene, TX		746	9,903	300	746	10,203	10,949	867	2008	2011
ssion RC LLC	Salt Lake City, UT		1,962	11,035	461	1,962	11,496	13,458	1,135	1994	2011
yne alth dings C	Wayne, NE		130	3,061	115	130	3,176	3,306	250	1978	2011
Street alth dings C	West Bend, IA		180	3,352		180	3,352	3,532	261	2006	2011
Sioux er alth dings C	Hawarden, IA		110	3,522	24	110	3,546	3,656	253	1974	2011
irie alth dings C	Randolph, NE		130	1,571	16	130	1,587	1,717	198	2011	2011
mon er alth dings C	Salmon, ID		168	2,496		168	2,496	2,664	88	2012	2012
		13,031	5,175	42,609	9,248	5,175	51,857	57,032	8,005		

F-36

Table of Contents

ption	Location	Encumbrances	Initial Cost to Company: Land	Initial Cost to Company: Building and Improvements	Costs Capitalized Since Acquisition	Gross Carrying Value: Land	Gross Carrying Value: Building Improvements	Gross Carrying Value: Total	Accumulated Depreciation	Construction/ Renovation Date	Acquisition Date	Life Dep in I St Co
ed g rties:												
e N ngs	Rosenburg, TX		124	2,301	319	124	2,620	2,744	717	2007	2006	
um ngs	Mesa, AZ	10,496	1,893	5,268	1,013	1,893	6,281	8,174	1,615	1986	2007	
ette ngs	Englewood, CO		420	1,160	117	420	1,277	1,697	147	2011	2009	
Park ngs	Aurora, CO		570	1,692	230	570	1,922	2,492	254	1986	2010	
ia ngs	Abilene, TX		244	3,241	81	244	3,322	3,566	222	2008	2011	
ades ngs	Ventura, CA		1,542	4,012	77	1,542	4,089	5,631	239	1990	2011	
ngo ngs	Las Vegas, NV		908	4,767	166	908	4,933	5,841	644	1986	2011	
lace ngs	Phoenix, AZ		1,011	2,053	186	1,011	2,239	3,250	167	1974	2011	
walk ngs	Reno, NV		367	1,633	42	367	1,675	2,042	106	1993	2012	
vs ngs	Redmond, WA		2,835	3,784	201	2,835	3,985	6,820	93	2013	2013	

wood ngs	Santa Maria, CA		1,792	2,253	116	1,792	2,369	4,161	68	1967	2013
ga ngs	Orem, UT		444	2,265	80	444	2,345	2,789	27	1995	2013
		10,496	12,150	34,429	2,628	12,150	37,057	49,207	4,299		
endent g rties:											
dahl ngs	Dallas, TX		315	1,769	84	315	1,853	2,168	238	1984	2009
on LLC	Salt Lake City, UT		411	2,312	51	411	2,363	2,774	188	1994	2011
ew ngs	Dallas, TX		680	4,872	204	680	5,076	5,756	473	1996	2011
			1,406	8,953	339	1,406	9,292	10,698	899		
		$ 115,683	$ 75,112	$ 295,939	$ 85,001	$ 75,112	$ 380,940	$ 456,052	$ 62,573		

F-37

Table of Contents

SCHEDULE III

REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION

(dollars in thousands)

	Year Ended December 31, 2013	Year Ended December 31, 2012
Carrying Cost:		
Balance at beginning of period	$ 410,009	$ 358,707
Acquisitions	35,656	30,549
Improvements	10,387	20,753
Balance at close of period	$ 456,052	$ 410,009
Accumulated Depreciation:		
Balance at beginning of period	$ (47,877)	$ (32,900)
Depreciation expense	(14,695)	(14,977)
Balance at close of period	$ (62,572)	$ (47,877)

F-38

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

The Ensign Group, Inc.

Mission Viejo, California

We have audited the accompanying balance sheets of CareTrust REIT, Inc. (the Company) as of December 31, 2013 and October 29, 2013. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such balance sheets present fairly, in all material respects, the financial position of CareTrust REIT, Inc. as of December 31, 2013 and October 29, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California

March 14, 2014

Table of Contents

CARETRUST REIT, INC.

BALANCE SHEETS

	December 31, 2013	October 29, 2013
Assets		
Cash	$ 10	$ 10
Total Assets	$ 10	$ 10
Commitments and contingencies		
Shareholder s Equity		
Common stock, par value $0.01 per share; 1,000 shares authorized, issued and outstanding at December 31, 2013 and October 29, 2013	$ 10	$ 10
Total Shareholder s Equity	$ 10	$ 10

CareTrust REIT, Inc.

NOTE TO BALANCE SHEETS

Background and Spin-Off. In connection with a plan to separate the healthcare business of The Ensign Group, Inc. (Ensign) and the real estate business of Ensign into two separate, publicly traded companies, CareTrust REIT, Inc. (CareTrust) was formed on October 29, 2013 as a wholly owned subsidiary of Ensign. CareTrust has issued 1,000 shares of its common stock, par value $0.01 per share.

Ensign will accomplish the separation by contributing to CareTrust the entities that own substantially all of Ensign s real property interests, the entities that operate three independent living facilities, and related assets and liabilities, and then distributing all of the outstanding shares of CareTrust to Ensign s stockholders (the (Spin-Off). Prior to the Spin-Off, CareTrust and Ensign will enter into Master Leases, under which Ensign will lease CareTrust s healthcare facilities on a triple-net basis. Ensign and CareTrust will also enter into a number of other agreements to govern the relationship between them following the Spin-Off. The Spin-Off is intended to be tax-free to Ensign stockholders for U.S. federal income tax purposes, except for cash paid in lieu of fractional shares. After the distribution, CareTrust will operate as a separate, publicly traded company.

There are no commitments or contingencies as of December 31, 2013.

Statements of operations, equity and cash flows have not been presented as there has been no activity since formation, other than the issuance of common stock for cash in connection with the formation of CareTrust.

Subsequent Events. Management has evaluated subsequent events through March 14, 2014, the date the balance sheets were available to be issued. There were no subsequent events that have occurred which would require disclosure in the financial statements.

Table of Contents

CARETRUST REIT, INC.

CONDENSED CONSOLIDATED AND COMBINED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	June 30, 2014	December 31, 2013
Assets:		
Real estate investments, net	$ 420,059	$ 425,003
Cash and cash equivalents	80,345	895
Accounts receivable	1,871	20
Prepaid expenses and other assets	77	888
Deferred tax assets		859
Deferred financing costs, net	11,000	2,801
Total assets	$ 513,352	$ 430,466
Liabilities and Stockholders Equity:		
Senior unsecured notes payable	$ 260,000	$
Mortgage notes payable	99,504	114,982
Senior secured revolving credit facility		78,701
Senior secured term loan		65,624
Interest rate swap		1,828
Accounts payable and accrued liabilities	6,190	5,783
Deferred tax liabilities		859
Total liabilities	365,694	267,777
Commitments and contingencies (Note 7)		
Stockholders Equity:		
Preferred stock, $0.01 par value; 100,000,000 shares authorized, no shares issued and outstanding as of June 30, 2014		
Common stock, $0.01 par value; 500,000,000 shares authorized, 22,245,868 shares issued and outstanding as of June 30, 2014	222	
Additional paid-in capital	146,980	
Retained earnings	456	
Invested equity		164,517
Accumulated other comprehensive loss		(1,828)
Total stockholders equity	147,658	162,689
Total liabilities and stockholders equity	$ 513,352	$ 430,466

See accompanying notes to condensed consolidated and combined financial statements.

Table of Contents

CARETRUST REIT, INC.

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Rental income (Note 5)	$ 12,205	$ 10,231	$ 23,228	$ 19,736
Tenant reimbursement	1,237	1,219	2,498	2,438
Other revenue	623	602	1,210	1,214
Total revenues	14,065	12,052	26,936	23,388
Expenses:				
Depreciation and amortization	6,070	5,802	12,269	11,392
Interest expense	6,452	3,073	9,779	6,183
Loss on extinguishment of debt	4,067		4,067	
Property taxes	1,237	1,219	2,498	2,438
Acquisition costs		211		211
Operating expenses	555	415	1,098	946
General and administrative	6,009	730	7,912	1,068
Total expenses	24,390	11,450	37,623	22,238
(Loss) income before provision for income taxes	(10,325)	602	(10,687)	1,150
Provision for income taxes	17	61	53	84
Net (loss) income	$ (10,342)	$ 541	$ (10,740)	$ 1,066
Earnings (loss) per common share:				
Basic	$ (0.47)	$ 0.02	$ (0.48)	$ 0.05
Diluted	$ (0.47)	$ 0.02	$ (0.48)	$ 0.05
Weighted-average number of common shares:				
Basic	22,231	22,228	22,230	22,228
Diluted	22,231	22,436	22,230	22,436

See accompanying notes to condensed consolidated and combined financial statements.

Table of Contents

CARETRUST REIT, INC.

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Net (loss) income	$ (10,342)	$ 541	$ (10,740)	$ 1,066
Other comprehensive income:				
Unrealized (loss) gain on interest rate swap	(30)	649	167	918
Reclassification adjustment on interest rate swap	1,661		1,661	
Comprehensive (loss) income	$ (8,711)	$ 1,190	$ (8,912)	$ 1,984

See accompanying notes to condensed consolidated and combined financial statements.

F-43

Table of Contents

CARETRUST REIT, INC.

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF EQUITY

(in thousands, except share amounts)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Invested Equity	Accumulated Other Comprehensive Loss	Total Equity
Balance, December 31, 2013	1,000	$	$	$	$ 164,517	$ (1,828)	$ 162,689
Capital contribution by Ensign					4,356		4,356
Unrealized gain on interest rate swap						167	167
Reclassification adjustment on interest rate swap						1,661	1,661
Net capital distribution to Ensign					(10,475)		(10,475)
Reclassification of invested equity to common stock and additional paid in capital in conjunction with the Spin-Off (Note 1)	22,244,868	222	146,980		(147,202)		
Net income (loss)				456	(11,196)		(10,740)
Balance, June 30, 2014	22,245,868	$ 222	$ 146,980	$ 456	$	$	$ 147,658

See accompanying notes to condensed consolidated and combined financial statements.

Table of Contents

CARETRUST REIT, INC.

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended June 30, 2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net (loss) income	$ (10,740)	$ 1,066
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	12,269	11,392
Amortization of deferred financing costs and debt discount	517	411
Loss on extinguishment of debt	1,998	
Loss on settlement of interest rate swap	1,661	
Loss on disposition of equipment, furniture and fixtures		5
Change in operating assets and liabilities:		
Accounts receivable	(1,851)	(5)
Prepaid expenses and other assets	677	281
Interest rate swap	(1,661)	
Accounts payable and accrued liabilities	4,683	(93)
Net cash provided by operating activities	7,553	13,057
Cash flows from investing activities:		
Acquisition of real estate		(31,292)
Purchases of equipment, furniture, and fixtures	(19,009)	(9,497)
Cash proceeds from the sale of equipment, furniture and fixtures		566
Net cash used in investing activities	(19,009)	(40,223)
Cash flows from financing activities:		
Proceeds from the issuance of senior unsecured notes payable	260,000	
Borrowings under senior secured revolving credit facility	10,000	10,000
Proceeds from the issuance of mortgage notes payable	50,676	
Repayments of borrowings under senior secured revolving credit facility	(88,701)	
Payments on the mortgage notes payable	(66,856)	(1,706)
Payments on the senior secured term loan	(65,624)	(1,875)
Payments of deferred financing costs	(12,945)	(730)
Net contribution from Ensign (Note 5)	4,356	21,521
Net cash provided by financing activities	90,906	27,210

Net increase in cash and cash equivalents	79,450	44
Cash and cash equivalents beginning of period	895	735
Cash and cash equivalents end of period	$ 80,345	$ 779
Supplemental disclosures of cash flow information:		
Interest paid	$ 6,414	$ 6,178
Income taxes paid	$ 104	$ 118
Supplemental schedule of noncash operating, investing and financing activities:		
Operating assets and liabilities that were not transferred to CareTrust	$ 1,042	$
Equipment, furniture and fixtures that were not transferred to CareTrust	$ (11,684)	$
Net capital distribution to Ensign	$ 10,475	$

See accompanying notes to condensed consolidated and combined financial statements.

F-45

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

1. ORGANIZATION

Separation from Ensign Prior to June 1, 2014, CareTrust REIT, Inc. (CareTrust or the Company) was a wholly owned subsidiary of The Ensign Group, Inc. (Ensign). On June 1, 2014, Ensign completed the separation of its healthcare business and its real estate business into two separate and independent publicly traded companies through the distribution of all of the outstanding shares of common stock of CareTrust to Ensign stockholders on a pro rata basis (the Spin-Off). Ensign stockholders received one share of CareTrust common stock for each share of Ensign common stock held at the close of business on May 22, 2014, the record date for the Spin-Off. The Spin-Off was effective from and after June 1, 2014, with shares of CareTrust common stock distributed by Ensign on June 2, 2014. The Company was formed on October 29, 2013 and had minimal activity prior to the Spin-Off.

Prior to the Spin-Off, the Company and Ensign entered into a Separation and Distribution Agreement, setting forth the mechanics of the Spin-Off, certain organizational matters and other ongoing obligations of the Company and Ensign. The Company and Ensign or their respective subsidiaries, as applicable, also entered into a number of other agreements to govern the relationship between Ensign and the Company after the Spin-Off.

The Company and Ensign also entered into an Opportunities Agreement, which grants the Company the right to match any offer from a third party to finance the acquisition or development of any healthcare or senior living facility by Ensign or any of its affiliates for a period of one year following the Spin-Off. In addition, this agreement grants Ensign, subject to certain exceptions, the right to either purchase and operate, or lease and operate, the facilities included in any portfolio of five or fewer healthcare or senior living facilities presented to the Company during the first year following the Spin-Off; provided that the portfolio is not subject to an existing lease with an operator or manager that has a remaining term of more than one year, and is not presented to the Company by or on behalf of another operator seeking lease or other financing. If Ensign elects to lease and operate such a property or portfolio, the lease would be on substantially the same terms as the Master Leases.

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 505-60, *Equity Spinoffs and Reverse Spinoffs*, the accounting for the separation of the Company follows its legal form, with Ensign as the legal and accounting spinnor and the Company as the legal and accounting spinnee, due to the relative significance of Ensign s healthcare business, the relative fair values of the respective companies, the retention of all senior management (except Mr. Gregory K. Stapley) by Ensign, and other relevant indicators. The assets and liabilities contributed to the Company from Ensign, or incurred in connection with the Spin-Off in the case of certain debt, were as follows:

Real estate investments, net	$ 421,846
Cash	78,731
Accounts receivable and prepaid assets and other current assets	1,900

Deferred financing costs, net	11,088
Debt	(359,512)
Other liabilities	(6,838)
Net contribution	$ 147,215

Description of Business The Company s primary business consists of acquiring, financing and owning real property to be leased to third-party tenants in the healthcare sector. As of June 30, 2014, the 94 skilled nursing, assisted and independent living facilities owned by the Company and leased to Ensign had a total of

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

10,121 operational beds located in Arizona, California, Colorado, Idaho, Iowa, Nebraska, Nevada, Texas, Utah and Washington. The three independent living facilities owned and operated by the Company had a total of 264 units located in Texas and Utah.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The accompanying condensed consolidated and combined financial statements of the Company reflect, for all periods presented, the historical financial position, results of operations and cash flows of (i) the skilled nursing, assisted living and independent living facilities that Ensign contributed to the Company immediately prior to the Spin-Off, and (ii) the operations of the three independent living facilities that the Company operated immediately following the Spin-Off. The Company s financial statements have been prepared on a carve-out basis from Ensign s consolidated financial statements using the historical results of operations, cash flows, assets and liabilities attributable to such skilled nursing, assisted living and independent living facilities.

The condensed consolidated and combined balance sheet of the Company at December 31, 2013 includes Ensign assets and liabilities that are specifically identifiable or otherwise attributable to the Company. The condensed consolidated and combined statements of operations reflect allocations of general corporate expenses from Ensign including, but not limited to, executive management, finance, legal, information technology, human resources, employee benefits administration, treasury, risk management, procurement, and other shared services. See further discussion in Note 5, *Related Party Transactions*.

Management believes that the assumptions and estimates used in preparation of the underlying condensed consolidated and combined financial statements are reasonable. However, the condensed consolidated and combined financial statements herein do not necessarily reflect what the Company s financial position, results of operations or cash flows would have been if the Company had been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of the Company s future results of operations, financial position or cash flows.

The accompanying condensed consolidated and combined financial statements of the Company were prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (the SEC) and reflect the financial position, results of operations and cash flows of the Company. Accordingly, the condensed consolidated and combined financial statements do not include all of the disclosures required by GAAP for a complete set of annual audited financial statements. The condensed consolidated and combined financial statements should be read in conjunction with the audited combined financial statements and combined notes thereto included in the Company s Information Statement filed as an exhibit to its Registration Statement on Form 10. In the opinion of management, all adjustments which are of a normal and recurring nature and considered necessary for a fair presentation of the results of the interim periods presented have been included. The results of operations for the interim periods are not necessarily indicative of results for the full year. All intercompany transactions and account balances within the Company have been eliminated.

Invested Capital Invested capital in the condensed consolidated and combined balance sheets represents Ensign s historical investment in the Company, the net effect of cost allocations from transactions with Ensign, net transfers of cash and assets to Ensign and the Company s accumulated earnings. See further discussion of transactions with Ensign in Note 5, *Related Party Transactions*.

Estimates and Assumptions The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Real Estate Depreciation and Amortization Real estate costs related to the acquisition and improvement of properties are capitalized and amortized over the expected useful life of the asset on a straight-line basis. Repair and maintenance costs are charged to expense as incurred and significant replacements and betterments are capitalized. Repair and maintenance costs include all costs that do not extend the useful life of the real estate asset. The Company considers the period of future benefit of an asset to determine its appropriate useful life. Expenditures for tenant improvements are capitalized and amortized over the shorter of the tenant s lease term or expected useful life. The Company anticipates the estimated useful lives of its assets by class to be generally as follows:

Buildings	25-40 years
Building improvements	10-25 years
Tenant improvements	Shorter of lease term or expected useful life
Integral equipment, furniture and fixtures	5 years

Real Estate Acquisition Valuation In accordance with ASC 805, *Business Combinations*, the Company records the acquisition of income-producing real estate as a business combination. If the acquisition does not meet the definition of a business, the Company records the acquisition as an asset acquisition. Under both methods, all assets acquired and liabilities are measured at their acquisition-date fair values. For transactions that are business combinations, acquisition costs are expensed as incurred and restructuring costs that do not meet the definition of a liability at the acquisition date are expensed in periods subsequent to the acquisition date. For transactions that are an asset acquisition, acquisition costs are capitalized as incurred.

The Company assesses the acquisition date fair values of all tangible assets, identifiable intangibles and assumed liabilities using methods similar to those used by independent appraisers, generally utilizing a discounted cash flow analysis that applies appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it were vacant.

Estimates of the fair values of the tangible assets, identifiable intangibles and assumed liabilities require the Company to make significant assumptions to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property will be held for investment. The use of inappropriate assumptions would result in an incorrect valuation of the Company s acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact the amount of the Company s net income.

Impairment of Long-Lived Assets Management periodically evaluates the Company s real estate investments for impairment indicators, including the evaluation of our assets useful lives. Management also assesses the carrying value of the Company s real estate investments whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The judgment regarding the existence of impairment indicators is based on factors such as, but not limited to, market conditions, operator performance and legal structure. If indicators of impairment are present, management evaluates the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying facilities. Provisions for impairment losses related to long-lived assets are recognized when expected future undiscounted cash flows are determined to be less than the carrying values of the assets. An adjustment is made

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

to the net carrying value of the real estate investments for the excess of carrying value over fair value. All impairments are taken as a period cost at that time, and depreciation is adjusted going forward to reflect the new value assigned to the asset.

If the Company decides to sell real estate properties, we evaluate the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell.

In the event of impairment, the fair value of the real estate investment is determined by market research, which includes valuing the property in its current use as well as other alternative uses, and involves significant judgment. The Company s estimates of cash flows and fair values of the properties are based on current market conditions and consider matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties, and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers. The Company s ability to accurately estimate future cash flows and estimate and allocate fair values impacts the timing and recognition of impairments. While the Company believes its assumptions are reasonable, changes in these assumptions may have a material impact on financial results.

Cash and Cash Equivalents Cash and cash equivalents consist of bank term deposits and money market funds with original maturities of three months or less at time of purchase and therefore approximate fair value. The fair value of these investments is determined based on Level 1 inputs, which consist of unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets. The Company places its cash and short-term investments with high credit quality financial institutions.

The Company s cash and cash equivalents balance exceeds federally insurable limits as of June 30, 2014. The Company monitors the cash balances in its operating accounts and adjusts the cash balances as appropriate; however, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, the Company has experienced no loss or lack of access to cash in its operating accounts.

Deferred Financing Costs External costs incurred from placement of our debt are capitalized and amortized on a straight-line basis over the terms of the related borrowings, which approximates the effective interest method. Amortization of financing costs is classified as interest amortization of deferred financing costs in our condensed consolidated and combined statements of operations. Accumulated amortization of deferred financing costs was $1,064 and $2,413 at June 30, 2014 and December 31, 2013, respectively.

When financings are terminated, unamortized deferred financing costs, as well as charges incurred for the termination, are expensed at the time the termination is made. Gains and losses from the extinguishment of debt are presented within income from continuing operations in our condensed consolidated and combined statements of operations.

Revenue Recognition The Company recognizes rental revenue, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, if any, from tenants under lease arrangements with minimum fixed and determinable increases on a straight-line basis over the non-cancellable term of the related leases when collectability is reasonably assured. Tenant recoveries related to the reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the expenses are incurred and presented gross if the Company is the primary obligor and, with respect to purchasing goods and services from third-party suppliers, has discretion in selecting

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

the supplier and bears the associated credit risk. For the three and six months ended June 30, 2014 and 2013, such tenant reimbursement revenues consist of real estate taxes. Contingent revenue, if any, is not recognized until all possible contingencies have been eliminated.

The Company evaluates the collectability of rents and other receivables on a regular basis based on factors including, among others, payment history, the operations, the asset type and current economic conditions. If our evaluation of these factors indicates we may not recover the full value of the receivable, we provide a reserve against the portion of the receivable that we estimate may not be recovered. This analysis requires us to determine whether there are factors indicating a receivable may not be fully collectible and to estimate the amount of the receivable that may not be collected. We did not reserve any receivables as of June 30, 2014 or December 31, 2013.

As of June 30, 2014, all but three of the Company s facilities were leased to subsidiaries of Ensign under the Master Leases. The obligations under the Master Leases are guaranteed by Ensign. A default by any subsidiary of Ensign with regard to any facility leased pursuant to a Master Lease will result in a default under all of the Master Leases. The annual revenues from the Master Leases will be $56.0 million during each of the first two years of the Master Leases. Commencing in the third year under the Master Leases, the annual revenues from the Master Leases will be escalated annually by an amount equal to the product of (1) the lesser of the percentage change in the Consumer Price Index (but not less than zero) or 2.5%, and (2) the prior year s rent. In addition to rent, the subsidiaries of Ensign that are tenants under the Master Leases are solely responsible for the costs related to the leased properties (including property taxes, insurance, and maintenance and repair costs).

As of June 30, 2014, the future minimum rental payments under the Master Leases was:

Year	Amount
Remaining 2014	$ 28,000
2015	56,000
2016	56,000
2017	56,000
2018	56,000
2019	56,000
Thereafter	578,529
	$ 886,529

For the three and six months ended June 30, 2014, the Company recognized $4,667 in rental income from Ensign related to the Master Leases.

Income Taxes The Company s operations have historically been included in Ensign s U.S. federal and state income tax returns and all income taxes have been paid by Ensign. Income tax expense and other income tax related information contained in these consolidated and combined financial statements are presented on a separate tax return basis as if the

Company filed its own tax returns. Management believes that the assumptions and estimates used to determine these tax amounts are reasonable. However, the consolidated and combined financial statements herein may not necessarily reflect the Company s income tax expense or tax payments in the future, or what its tax amounts would have been if the Company had been a stand-alone company during the periods presented.

The Company expects to elect to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code) and intends to operate as such beginning with its taxable year ending December 31, 2014. To

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the Company s annual REIT taxable income to its stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent it distributes qualifying dividends to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the Internal Revenue Service grants the Company relief under certain statutory provisions.

In order to comply with certain REIT qualification requirements, CareTrust will declare and distribute a special dividend to its stockholders equal to the amount of accumulated earnings and profits, or E&P, allocated to CareTrust in the Spin-Off. This special dividend is referred to as the Purging Distribution because it is intended to purge the company of E&P attributable to the period prior to CareTrust s first taxable year as a REIT. The amount of accumulated E&P allocated to CareTrust in the Spin-Off will be based on applicable tax principles and will not correspond to retained earnings in historical financial statements because of differences between tax and book income and expenses. Ensign will allocate its accumulated E&P for periods prior to the Spin-Off between Ensign and CareTrust in a manner that, in its best judgment, is in accordance with the provisions of the Code. The Company expects to make the Purging Distribution by December 31, 2014. The total amount of Ensign s E&P immediately prior to the Spin-Off is expected to be between $350.0 million and $385.0 million. The actual amount of Ensign s E&P allocated to CareTrust will depend on the final determination of Ensign s E&P and the relative trading value of CareTrust common stock and Ensign common stock following the Spin-Off. The Purging Distribution will be paid to CareTrust stockholders in a combination of cash and shares of CareTrust common stock with an aggregate value equal to Ensign s E&P allocated to CareTrust. The portion that will be paid in cash will be determined by CareTrust at the time the dividend is declared, but will be at least 20% and not more than 25% of the total amount paid to all stockholders.

Derivatives and Hedging Activities The Company evaluates variable and fixed interest rate risk exposure on a routine basis and to the extent the Company believes that it is appropriate, it will offset most of its variable risk exposure by entering into interest rate swap agreements. It is the Company s policy to only utilize derivative instruments for hedging purposes (i.e. not for speculation). The Company formally designates its interest rate swap agreements as hedges and documents all relationships between hedging instruments and hedged items. The Company formally assesses effectiveness of its hedging relationships, both at the hedge inception and on an ongoing basis, then measures and records ineffectiveness. The Company would discontinue hedge accounting prospectively (i) if it is determined that the derivative is no longer effective in offsetting change in the cash flows of a hedged item, (ii) when the derivative expires or is sold, terminated or exercised, (iii) if it is no longer probable that the forecasted transaction will occur, or (iv) if management determines that designation of the derivative as a hedge instrument is no longer appropriate.

Effective May 30, 2014, the Company de-designated its interest rate swap contract that historically qualified for cash flow hedge accounting. This was due to the termination of the interest rate swap agreement related to the early retirement of the Senior Credit Facility (as defined below). As a result, the loss previously recorded in accumulated other comprehensive loss related to the interest rate swap was recognized in interest expense in the Condensed Consolidated and Combined Statements of Operations. There was no outstanding interest rate swap contract as of June 30, 2014.

Stock-Based Compensation The Company accounts for share-based awards in accordance with ASC Topic 718, *Compensation Stock Compensation* (ASC 718). ASC 718 requires that the cost resulting from all

F-51

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

share-based payment transactions be recognized in the financial statements. ASC 718 requires all entities to apply a fair value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. Net income (loss) reflects stock-based compensation expense of $4 and $4 for the three months ended June 30, 2014 and 2013, respectively, and $8 and $11 for the six months ended June 30, 2014 and 2013, respectively.

Concentration of Credit Risk The Company is subject to concentrations of credit risk consisting primarily of operating leases on our owned properties. See Note 8, *Concentration of Risk* for a discussion of major operator concentration.

Segment Disclosures The FASB accounting guidance regarding disclosures about segments of an enterprise and related information establishes standards for the manner in which public business enterprises report information about operating segments. The Company has one reportable segment consisting of investments in healthcare-related real estate assets.

Earnings (Loss) Per Share The Company calculates earnings (loss) per share (EPS) in accordance with ASC 260, *Earnings Per Share* . Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially-dilutive securities. Basic and diluted EPS for the three and six months ended June 30, 2014 and 2013, were retroactively restated for the number of basic and diluted shares outstanding immediately following the Spin-Off.

The following table presents the calculation of basic and diluted EPS for the Company s common stock for the three and six months ended June 30, 2014 and 2013 and reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS for the three and six months ended June 30, 2014 and 2013.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net (loss) income	$ (10,342)	$ 541	$ (10,740)	$ 1,066
Earnings (loss) per common share:				
Basic	$ (0.47)	$ 0.02	$ (0.48)	$ 0.05
Diluted	$ (0.47)	$ 0.02	$ (0.48)	$ 0.05
Determination of shares:				
Weighted-average common shares outstanding, basic	22,231	22,228	22,230	22,228

Assumed conversion of restricted stock awards		208		208
Weighted-average common shares outstanding, diluted	22,231	22,436	22,230	22,436

Recently Issued Accounting Standards Update In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements* (Topic 205) and *Property, Plant, and Equipment* (Topic 360): *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU No. 2014-08). ASU No. 2014-08 limits discontinued operations reporting to disposals of components of an entity that represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results when any of the following occurs: a) the component of an entity or group of components of an entity meets the criteria to be classified as held for sale; b) the component of an entity or group of components of an entity is disposed of by

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

sale; and c) the component of an entity or group of components of an entity is disposed of other than by sale. ASU No. 2014-08 also requires additional disclosures about discontinued operations. ASU No. 2014-08 is effective for reporting periods beginning after December 15, 2014. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company early adopted ASU No. 2014-08 for the reporting period beginning January 1, 2014. As a result of the adoption of ASU No. 2014-08, results of operations for properties that are classified as held for sale in the ordinary course of business on or subsequent to January 1, 2014 would generally be included in continuing operations on the Company s consolidated statements of operations, to the extent such disposals did not meet the criteria for classification as a discontinued operation described above. Additionally, any gain or loss on sale of real estate that does not meet the criteria for classification as a discontinued operation would be presented, on the consolidated statements of operations, below income from continuing operations and income from discontinued operations.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU No. 2014-09). ASU No. 2014-09 requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU No. 2014-09 supersedes the revenue requirements in Revenue Recognition (Topic 605) and most industry-specific guidance throughout the Industry Topics of the Codification. ASU No. 2014-09 does not apply to lease contracts within the scope of Leases (Topic 840). ASU No. 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. The Company is currently assessing the impact of adopting the new guidance but does not believe it will have a material effect on income from operations or the Company s financial position.

3. REAL ESTATE INVESTMENTS, NET

The following tables summarize our investment in owned properties at June 30, 2014 and December 31, 2013, respectively:

	June 30, 2014	December 31, 2013
Land	$ 74,133	$ 75,112
Buildings and improvements	392,521	380,940
Integral equipment, furniture and fixtures	46,080	66,932
Real estate properties	512,734	522,984
Accumulated depreciation	(92,675)	(97,981)
Real estate properties, net	$ 420,059	$ 425,003

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE MEASUREMENTS

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

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

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

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

During the six months ended June 30, 2014, the Company measured the following assets and liabilities at fair value:

	June 30, 2014				December 31, 2013			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Recurring basis:								
Interest rate swap	$	$	$	$	$ 1,828	$	$ 1,828	$

Derivative instruments: The Company s derivative instruments are presented at fair value on the accompanying condensed consolidated and combined balance sheets. The valuation of these instruments is determined using a proprietary model that utilizes observable inputs. As such, the Company classifies these inputs as Level 2 inputs. The proprietary model uses the contractual terms of the derivatives, including the period to maturity, as well as observable market-based inputs, including interest rate curves and volatility. The fair values of interest rate swaps are estimated using the market standard methodology of netting the discounted fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of interest rates (forward curves) derived from observable market interest rate curves. In addition, credit valuation adjustments, which consider the impact of any credit risks to the contracts, are incorporated in the fair values to account for potential nonperformance risk.

In connection with the Senior Credit Facility with a six-bank lending consortium arranged by SunTrust and Wells Fargo (the Senior Credit Facility), in July 2011, Ensign entered into an interest rate swap agreement in accordance with its policy to reduce risk from volatility in the statement of operations due to changes in the LIBOR interest rate. The swap agreement, with a notional amount of $75,000, amortized concurrently with the related term loan portion of the Senior Credit Facility, was five years in length and set to mature on July 15, 2016. The interest rate swap was designated as a cash flow hedge and, as such, changes in fair value are reported in other comprehensive income in accordance with hedge accounting. Under the terms of this swap agreement, the net effect of the hedge was to record swap interest expense at a fixed rate of approximately 4.3%, exclusive of fees. Net interest paid under the swap was $168 and $423 for the three and six months ended June 30, 2014 and $262 and $514 for the three and six months ended June 30, 2013, respectively.

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

Effective May 30, 2014, the Company de-designated its interest rate swap agreement that historically qualified for cash flow hedge accounting. This was due to the termination of the interest rate swap agreement related to the early retirement of the Senior Credit Facility. As a result, the Company recognized a loss of $1,661 to interest expense from accumulated other comprehensive loss. See Note 6, *Debt* for additional information.

There was no outstanding interest rate swap agreement as of June 30, 2014. There were no gains or losses due to the discontinuance of cash flow hedge treatment during the three and six months ended June 30, 2013.

Considerable judgment is necessary to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. A summary of the face values, carrying amounts and fair values of the Company s financial instruments as of June 30, 2014 and December 31, 2013 using Level 3 inputs:

	June 30, 2014			December 31, 2013		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial liabilities:						
Senior unsecured notes payable	$ 260,000	$ 260,000	$ 260,000	$	$	$
Senior secured revolving credit facility	$	$	$	$ 78,701	$ 78,701	$ 78,701
Mortgage notes payable	$ 99,504	$ 99,504	$ 103,906	$ 115,682	$ 114,982	$ 114,982
Senior secured term loan	$	$	$	$ 65,624	$ 65,624	$ 65,624

Cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities: These balances approximate their fair values due to the short-term nature of these instruments.

Senior secured notes payable, senior secured revolving credit facility, mortgage notes payable, and senior secured term loan: The fair value of the Company s notes payable is estimated using a discounted cash flow analysis based on management s estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio, type of collateral and other credit enhancements. Additionally, when determining the fair value of liabilities in circumstances in which a quoted price in an active market for an identical liability is not available, the Company measures fair value using (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach. The Company classifies these inputs as Level 3 inputs.

5. RELATED PARTY TRANSACTIONS

Allocation of corporate expenses The condensed consolidated and combined balance sheets and statements of operations of the Company include Ensign assets and liabilities that are specifically identifiable or otherwise attributable to the Company. The specific identification methodology was utilized for all of the items on the condensed statements of operations excluding general corporate expenses. For each of the periods presented, Ensign Properties operations were fully integrated with Ensign, including executive management, finance, treasury, corporate income tax, human resources, legal services and other shared services. These costs are allocated to the Company on a systematic basis utilizing a direct usage basis when identifiable, with the remainder allocated on time study, or percentage of the total revenues. The primary allocation method was a time study based on time devoted to Ensign Properties activities.

Allocation of expenses for these general and administrative services of $6,009 and $730 for the three months ended June 30, 2014 and 2013, respectively, and $7,912 and $1,068 for the six months ended June 30,

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

2014 and 2013, respectively, are reflected in general and administrative, in addition to direct expenses which are included in total expenses. The Company s financial statements may not be indicative of the future performance and do not necessarily reflect what the results of operations, financial position and cash flows would have been had the Company operated as an independent, publicly-traded company during the periods presented.

Rental income from Ensign The Company has one tenant, Ensign, from which it derives rental income through operating lease agreements. Ensign is a holding company with no direct operating assets, employees, or revenue. All of Ensign s operations are conducted by separate independent subsidiaries, each of which has its own management, employees and assets. The rental income generated from the operating lease agreements is presented separately in the consolidated and combined statements of operations. See Note 8, *Concentration of Risk* for a discussion of major operator concentration.

Centralized cash management system Prior to the Spin-Off, the Company participated in Ensign s centralized cash management system. In conjunction therewith, the intercompany transactions between the Company and Ensign had been considered to be effectively settled in cash in these financial statements. The net effect of the settlement of these intercompany transactions, in addition to cash transfers to and from Ensign, are reflected in Net contribution from Ensign on the condensed consolidated and combined statements of cash flows and Invested capital on the condensed consolidated and combined balance sheets. The Net contribution from Ensign was $4,356 and $21,521 for the six months ended June 30, 2014 and 2013, respectively.

6. DEBT

The Company had debt outstanding of $359,504 as of June 30, 2014. Debt, net of discount, as of December 31, 2013 of $259,307, represents the balance from Ensign that is directly attributable to the Company. In addition to the attribution of debt, Ensign has also attributed the corresponding interest rate swap agreement on the Senior Credit Facility to the Company.

Senior Unsecured Notes Payable

On May 30, 2014, the Company s wholly owned subsidiary, CTR Partnership, L.P. (the Operating Partnership), and its wholly owned subsidiary, CareTrust Capital Corp. (Capital Corp. and, together with the Operating Partnership, the Issuers), completed a private offering of $260.0 million aggregate principal amount of 5.875% Senior Notes due 2021 (the Notes). The Notes were issued at par, resulting in gross proceeds of $260.0 million and net proceeds of approximately $253.0 million after deducting underwriting fees and other offering expenses. We transferred approximately $220.8 million of the net proceeds of the offering of the Notes to Ensign, and expect to use the remaining net proceeds of the offering to pay the cash portion of the Purging Distribution, and for working capital purposes, to fund acquisitions and for general corporate purposes. The Notes mature on June 1, 2021 and bear interest at a rate of 5.875% per year. Interest on the Notes is payable on June 1 and December 1 of each year, beginning on December 1, 2014.

The Issuers may redeem the Notes any time prior to June 1, 2017 at a redemption price of 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest on the Notes, if any, to, but not including, the redemption date, plus a make whole premium described in the indenture governing the Notes and, at any time on or after June 1, 2017, at the redemption prices set forth in the indenture. In addition, at any time on or prior to June 1, 2017, up to 35% of the aggregate principal amount of the Notes may be redeemed with the net proceeds of certain equity offerings if at least 65% of the originally issued aggregate principal amount of the Notes remains outstanding. If certain changes of control of the Company occur, holders of the Notes will have the right to require the Issuers to repurchase their Notes at 101% of the principal amount plus accrued and unpaid interest, if any, to, but not including, the repurchase date.

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

The obligations under the Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by the Company and certain of the Company s wholly owned existing and, subject to certain exceptions, future material subsidiaries (other than the Issuers); provided, however, that such guarantees are subject to automatic release under certain customary circumstances, including if the subsidiary guarantor is sold or sells all or substantially all of its assets, the subsidiary guarantor is designated unrestricted for covenant purposes under the indenture, the subsidiary guarantor s guarantee of other indebtedness which resulted in the creation of the guarantee of the Notes is terminated or released, or the requirements for legal defeasance or covenant defeasance or to discharge the indenture have been satisfied. See Note 9, *Summarized Condensed Consolidating and Combining Information*.

The indenture contains covenants limiting the ability of the Company and its restricted subsidiaries to: incur or guarantee additional indebtedness; incur or guarantee secured indebtedness; pay dividends or distributions on, or redeem or repurchase, capital stock; make certain investments or other restricted payments; sell assets; enter into transactions with affiliates; merge or consolidate or sell all or substantially all of their assets; and create restrictions on the ability of the Issuers and their restricted subsidiaries to pay dividends or other amounts to the Issuers. The indenture also requires the Company and its restricted subsidiaries to maintain a specified ratio of unencumbered assets to unsecured indebtedness. These covenants are subject to a number of important and significant limitations, qualifications and exceptions. The indenture also contains customary events of default.

As of June 30, 2014, the Company was in compliance with all applicable financial covenants under the indenture.

Senior Secured Revolving Credit Facility

On May 30, 2014, the Operating Partnership entered into a credit and guaranty agreement (the Credit Agreement) with the several banks and other financial institutions and lenders (the Lenders) and Suntrust Bank, in its capacity as administrative agent for the Lenders, as an issuing bank and swingline lender. The Credit Agreement provides for a borrowing capacity of $150.0 million and includes an accordion feature that allows the Operating Partnership to increase the borrowing availability by up to an additional $75.0 million, subject to terms and conditions. The Credit Agreement is secured by mortgages on certain of the real properties owned by the Company s subsidiaries and the amount available to be borrowed under the Credit Agreement is based on a borrowing base calculation relating to the mortgaged properties, determined according to, among other factors, the mortgageability cash flow as such term is defined in the Credit Agreement. The Credit Agreement is also secured by certain personal property of the Company s subsidiaries that have provided mortgages, the Company s interests in the Operating Partnership and the Company s and its subsidiaries equity interests in the Company s subsidiaries that have guaranteed the Operating Partnership s obligations under the Credit Agreement. The Credit Agreement has a maturity date of May 30, 2018, and includes a one year extension option. As of June 30, 2014, there were no amounts outstanding under the Credit Agreement.

Borrowings under the Credit Agreement bear interest on the outstanding principal amount at a rate equal to the applicable percentage plus, at the Operating Partnership s option, either (a) LIBOR or (b) a base rate determined as the greater of (i) the prime lending rate, (ii) the Federal Funds Rate plus 0.5%, and (iii) one-month LIBOR plus 1.0% (referred to as the Base Rate). The applicable percentage for borrowings will vary based on the Consolidated Leverage Ratio, as defined in the Credit Agreement, and will range from 2.0% to 2.5% per annum for LIBOR based borrowings and 1.0% to 1.5% per annum for borrowings at the Base Rate. In addition, the Operating Partnership is required to pay a commitment fee to the lenders equal to between 0.35% and 0.50% per annum based on the amount of unused borrowings under the Credit Agreement. During the three and six months ended June 30, 2014, the Company incurred $65 of commitment fees.

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

The obligations of the Operating Partnership under the Credit Agreement are guaranteed by the Company and certain subsidiaries of the Company.

The Credit Agreement contains customary covenants that include restrictions or limitations on the ability to make acquisitions and other investments, make distributions, incur additional indebtedness, engage in non-healthcare related business activities, enter into transactions with affiliates and sell or otherwise transfer certain assets as well as customary events of default. The Credit Agreement also requires the Company, through the Operating Partnership, to comply with specified financial covenants, which include a maximum debt to asset value ratio; a maximum secured debt to asset value ratio; a maximum secured recourse debt to asset value ratio, a minimum fixed charge coverage ratio and a minimum tangible net worth requirement. As of June 30, 2014, the Company was in compliance with all applicable financial covenants under the Credit Agreement.

GECC Loan

Ten of our properties are subject to secured mortgage indebtedness to General Electric Capital Corporation (the GECC Loan), which we assumed in connection with the Spin-Off. The outstanding amount of this mortgage indebtedness was approximately $99.0 million as of June 30, 2014, including an advance of approximately $50.7 million that was made on May 30, 2014. This advance bears interest at a floating rate equal to three-month LIBOR plus 3.35%, reset monthly and subject to a LIBOR floor of 0.50%, with monthly principal and interest payments based on a 25-year amortization. The remaining indebtedness under the GECC Loan bears interest at a blended rate of 7.25% per annum until, but not including, June 29, 2016, and then converts to the floating rate described above. The GECC Loan matures on May 30, 2017, subject to two 12-month extension options, the exercise of which is conditioned, in each case, on the absence of any then-existing default and the payment of an extension fee equal to 0.25% of the then-outstanding principal balance. Provided there is no then-existing default and upon 30 days written notice, the original portion of the GECC Loan, approximately $48.3 million as of June 30, 2014, is prepayable without penalty, in whole but not in part, after January 31, 2016. The new portion of the GECC Loan, approximately $50.7 million as of June 30, 2014, is prepayable without penalty, in whole but not in part, after January 31, 2016.

The GECC Loan is guaranteed by the Company, contains customary affirmative and negative covenants, as well as customary events of default, and requires us to comply with specified financial maintenance covenants. As of June 30, 2014, we were in compliance with all applicable covenants under the GECC Loan.

Promissory Notes with Johnson Land Enterprises, Inc.

On October 1, 2009, Ensign entered into four separate promissory notes with Johnson Land Enterprises, LLC, for an aggregate of $10,000. On May 30, 2014, in connection with the Spin-Off, three of the promissory notes were paid in full and the remaining promissory note was assumed by the Company. The remaining promissory note bears interest at 6.0%, principal and interest is payable monthly through September 30, 2019. The promissory note is collateralized by a deed of trust on real property, an assignment of rent and a security agreement. At June 30, 2014, the outstanding principal balance on the promissory note was $607 and is included in mortgage notes payable on the condensed consolidated and combined balance sheets.

Senior Credit Facility

On July 15, 2011, Ensign entered into the Senior Credit Facility in an aggregate principal amount of up to $150,000 comprised of a $75,000 revolving credit facility and a $75,000 term loan advanced in one drawing on July 15, 2011. Borrowings under the term loan portion of the Senior Credit Facility amortize in equal quarterly

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

installments commencing on September 30, 2011, in an aggregate annual amount equal to 5.0% per annum of the original principal amount. Amounts borrowed pursuant to the Senior Credit Facility were guaranteed by certain of Ensign s wholly-owned subsidiaries and secured by substantially all of their personal property. To reduce the risk related to interest rate fluctuations, Ensign, on behalf of the subsidiaries, entered into an interest rate swap agreement to effectively fix the interest rate on the term loan portion of the Senior Credit Facility. See further details of the interest rate swap at Note 4, *Fair Value Measurements*.

On May 30, 2014, the Senior Credit Facility was terminated and the outstanding obligations with respect to the Senior Credit Facility were paid in full in connection with the Spin-Off.

Promissory Note with RBS Asset Finance, Inc.

On February 17, 2012, two of Ensign s real estate holding subsidiaries executed a promissory note in favor of RBS Asset Finance, Inc. (RBS) for an aggregate of $21,525 (the 2012 RBS Loan). The 2012 RBS Loan was secured by Commercial Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filings on the properties owned by the borrowers and other related instruments and agreements, including without limitation a promissory note and an Ensign guaranty. The 2012 RBS Loan had a fixed interest rate of 4.75%.

On May 30, 2014, the 2012 RBS Loan was paid in full in connection with the Spin-Off.

Promissory Note with RBS Asset Finance, Inc.

On December 31, 2010, four of Ensign s real estate holding subsidiaries executed a promissory note with RBS for an aggregate of $35,000 (RBS Loan). The RBS Loan was secured by Commercial Deeds of Trust, Security Agreements, Assignment of Leases and Rents and Fixture Fillings on the four properties and other related instruments and agreements, including without limitation a promissory note and an Ensign guaranty. The RBS Loan had a fixed interest rate of 6.04%.

On May 30, 2014, the RBS Loan was paid in full in connection with the Spin-Off.

Mortgage Loan with Continental Wingate Associates, Inc.

Ensign entered into a mortgage loan on January 30, 2001 with Continental Wingate Associates, Inc. The mortgage loan is insured with the U.S. Department of Housing and Urban Development (HUD), which subjects the facility to HUD oversight and periodic inspections. The mortgage loan was secured by the real property comprising the Southland Care Center facility and the rents, issues and profits thereof, as well as all personal property used in the operation of the facility.

On May 30, 2014, the mortgage loan was paid in full in connection with the Spin-Off.

In connection with the debt retirements, the Company incurred losses of $5,728 consisting of $4,067 in repayment penalty and write-off of unamortized debt discount and deferred financing costs and $1,661 of recognized loss due to the discontinuance of cash flow hedge accounting for the related interest rate swap agreement. The charges and loss were recognized in the second quarter of 2014.

During the three and six months ended June 30, 2014, the Company incurred $6,452 and $9,779 of interest expense, respectively. Included in interest expense for the three and six months ended June 30, 2014 was $291

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

and $466 of amortization of deferred financing costs, $20 and $51 of amortization of debt discount, respectively, and $1,661 of loss on settlement of interest rate swap for both periods. During the three and six months ended June 30, 2013, the Company incurred $3,073 and $6,183 of interest expense, respectively. Included in interest expense for the three and six months ended June 30, 2013 was $175 and $350 of amortization of deferred financing costs and $30 and $61 of amortization of debt discount, respectively. As of June 30, 2014 and December 31, 2013, the Company s interest payable was $1,812 and $624, respectively.

7. COMMITMENTS AND CONTINGENCIES

U.S. Government Settlement In October 2013, Ensign completed and executed a settlement agreement (the Settlement Agreement) with the U.S. Department of Justice (DOJ). This settlement agreement fully and finally resolves a DOJ investigation of Ensign related primarily to claims submitted to the Medicare program for rehabilitation services provided at skilled nursing facilities in California and any ancillary claims which have been pending since 2006. Pursuant to the settlement agreement, Ensign made a single lump-sum remittance to the government in the amount of $48.0 million in October 2013. Ensign has denied engaging in any illegal conduct, and has agreed to the settlement amount without any admission of wrongdoing in order to resolve the allegations and to avoid the uncertainty and expense of protracted litigation.

In connection with the settlement and effective as of October 1, 2013, Ensign entered into a five-year corporate integrity agreement with the Office of Inspector General-HHS (the CIA). The CIA acknowledges the existence of Ensign s current compliance program, and requires that Ensign continue during the term of the CIA to maintain a compliance program designed to promote compliance with the statutes, regulations, and written directives of Medicare, Medicaid, and all other Federal health care programs. Ensign is also required to maintain several elements of its existing program during the term of the CIA, including maintaining a compliance officer, a compliance committee of the board of directors, and a code of conduct. The CIA requires that Ensign conduct certain additional compliance-related activities during the term of the CIA, including various training and monitoring procedures, and maintaining a disciplinary process for compliance obligations.

Participation in federal healthcare programs by Ensign is not affected by the Settlement Agreement or the CIA. In the event of an uncured material breach of the CIA, Ensign could be excluded from participation in federal healthcare programs and/or subject to prosecution. The Company is subject to certain continuing operational obligations as part of Ensign s compliance program pursuant to the CIA, but otherwise has no liability related to the DOJ investigation.

Legal Matters None of the Company or any of its subsidiaries is a party to, and none of their respective properties are the subject of, any material legal proceedings.

8. CONCENTRATION OF RISK

Major operator concentration The Company has one tenant, Ensign, from which the Company has derived substantially all of its overall revenue during the three and six months ended June 30, 2014 and 2013. As of June 30, 2014, our 94 skilled nursing and assisted living facilities had a total of 10,121 licensed beds and are located in Arizona, California, Colorado, Idaho, Iowa, Nebraska, Nevada, Texas, Utah and Washington, and our three independent living facilities have a total of 264 units and are located in Texas and Utah. The three states in which the Company had its highest concentration of properties were California, Texas, Utah and Arizona.

Ensign s financial statements can be found at Ensign s website http://www.ensigngroup.net.

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

9. SUMMARIZED CONDENSED CONSOLIDATING AND COMBINING INFORMATION

The 5.875% Senior Notes due 2021 issued by the Issuers on May 30, 2014 are jointly and severally, fully and unconditionally, guaranteed by CareTrust REIT, Inc., as the parent guarantor (the Parent Guarantor), and certain 100% owned subsidiaries of the Parent Guarantor other than the Issuers (collectively, the Subsidiary Guarantors and, together with the Parent Guarantor, the Guarantors), subject to automatic release under certain customary circumstances, including if the Subsidiary Guarantor is sold or sells all or substantially all of its assets, the Subsidiary Guarantor is designated unrestricted for covenant purposes under the indenture governing the Notes, the Subsidiary Guarantor s guarantee of other indebtedness which resulted in the creation of the guarantee of the Notes is terminated or released, or the requirements for legal defeasance or covenant defeasance or to discharge the Indenture have been satisfied.

The following provides information regarding the entity structure of the Parent Guarantor, the Issuers and the Subsidiary Guarantors:

<u>CareTrust REIT, Inc.</u> The Parent Guarantor was formed on October 29, 2013 in anticipation of the Spin-Off and the related transactions and was a wholly owned subsidiary of Ensign prior to the effective date of the Spin-Off on June 1, 2014. The Parent Guarantor did not conduct any operations or have any business prior to the date of issuance of the Notes and the consummation of the Spin-Off related transactions.

<u>CTR Partnership, L.P. and CareTrust Capital Corp.</u> The Issuers, each of which is a 100% owned subsidiary of the Parent Guarantor, were formed on May 8, 2014 and May 9, 2014, respectively, in anticipation of the Spin-Off and the related transactions. The Issuers did not conduct any operations or have any business prior to the date of issuance of the Notes and the consummation of the Spin-Off related transactions.

<u>Subsidiary Guarantors</u> Each of the Subsidiary Guarantors is a 100% owned subsidiary of the Parent Guarantor. Prior to the consummation of the Spin-Off, each of the Subsidiary Guarantors was a wholly owned subsidiary of Ensign. The Ensign Properties entities consist of the Subsidiary Guarantors (other than the general partner of the Operating Partnership which was formed on May 8, 2014 in anticipation of the Spin-Off and the related transactions) and the subsidiaries of the Parent Guarantor that are not Subsidiary Guarantors or Issuers (collectively, the Non-Guarantor Subsidiaries).

Pursuant to Rule 3-10 of Regulation S-X, the following summarized consolidating information is provided for the Parent Guarantor, the Issuers, the Subsidiary Guarantors and the Non-Guarantor Subsidiaries with respect to the Notes. This summarized financial information has been prepared from the financial statements of the Company and Ensign Properties and the books and records maintained by the Company and Ensign Properties. As described above, the Parent Guarantor and the Issuers were not in existence during the periods covered by such financial information.

The summarized financial information may not necessarily be indicative of the results of operations or financial position had the Parent Guarantor, the Issuers, the Subsidiary Guarantors or the Non-Guarantor Subsidiaries all been in existence or operated as independent entities during the relevant period or had the Ensign Properties entities been operated as subsidiaries of the Parent Guarantor during such period.

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED AND COMBINED BALANCE SHEETS

JUNE 30, 2014

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated
Assets:						
Real estate investments, net	$	$	$ 374,611	$ 45,448	$	$ 420,059
Cash and cash equivalents		80,345				80,345
Accounts receivable			1,764	107		1,871
Prepaid expenses and other assets		76	1			77
Deferred financing costs, net		10,268		732		11,000
Investment in subsidiaries	147,658	320,426			(468,084)	
Total assets	$ 147,658	$ 411,115	$ 376,376	$ 46,287	$ (468,084)	$ 513,352
Liabilities and Invested Equity:						
Senior unsecured notes payable	$	$ 260,000	$	$	$	$ 260,000
Mortgage notes payable			607	98,897		99,504
Accounts payable and accrued liabilities		3,457	2,029	704		6,190
Total liabilities		263,457	2,636	99,601		365,694
Stockholders Equity:						
Common stock, $0.01 par value; 500,000,000 shares authorized, 22,245,868 shares issued and outstanding as of June 30, 2014	222					222
Additional paid-in capital	146,980	147,658	373,740	(53,314)	(468,084)	146,980
Retained Earnings	456					456
Total stockholders equity	147,658	147,658	373,740	(53,314)	(468,084)	147,658
Total liabilities and stockholders equity	$ 147,658	$ 411,115	$ 376,376	$ 46,287	$ (468,084)	$ 513,352

F-62

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

CONDENSED COMBINED BALANCE SHEETS

DECEMBER 31, 2013

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Assets:			
Real estate investments, net	$ 379,754	$ 45,249	$ 425,003
Cash and cash equivalents	895		895
Accounts receivable	20		20
Prepaid expenses and other assets	367	521	888
Deferred tax assets	705	154	859
Deferred financing costs, net	2,511	290	2,801
Total assets	$ 384,252	$ 46,214	$ 430,466
Liabilities and Invested Equity:			
Mortgage notes payable	$ 66,117	$ 48,865	$ 114,982
Senior secured revolving credit facility	78,701		78,701
Senior secured term loan	65,624		65,624
Interest rate swap	1,828		1,828
Accounts payable and accrued liabilities	5,316	467	5,783
Deferred tax liabilities	705	154	859
Total liabilities	218,291	49,486	267,777
Invested Equity:			
Invested equity	167,789	(3,272)	164,517
Accumulated other comprehensive loss	(1,828)		(1,828)
Total invested equity	165,961	(3,272)	162,689
Total liabilities and invested equity	$ 384,252	$ 46,214	$ 430,466

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

THREE MONTHS ENDED JUNE 30, 2014

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated and Combined
Revenues:						
Rental income	$	$	$ 10,252	$ 1,953	$	$ 12,205
Tenant reimbursement			1,112	125		1,237
Other revenue			623			623
Total revenues			11,987	2,078		14,065
Expenses:						
Depreciation and amortization			5,145	925		6,070
Interest expense		1,491	3,868	1,093		6,452
Loss on extinguishment of debt			4,067			4,067
Property taxes			1,112	125		1,237
Operating expenses			555			555
General and administrative		6,009				6,009
Total expenses		7,500	14,747	2,143		24,390
(Loss) Income in Subsidiary	(10,342)	(2,842)			13,184	
(Loss) income before provision for income taxes	(10,342)	(10,342)	(2,760)	(65)	13,184	(10,325)
Provision for income taxes			22	(5)		17
Net (loss) income	(10,342)	(10,342)	(2,782)	(60)	13,184	(10,342)
Other comprehensive (loss) income:						
Unrealized loss on interest rate swap			(30)			(30)
Reclassification adjustment on interest rate swap			1,661			1,661
Comprehensive (loss) income	$ (10,342)	$ (10,342)	$ (1,151)	$ (60)	$ 13,184	$ (8,711)

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

CONDENSED COMBINED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME (LOSS)

THREE MONTHS ENDED JUNE 30, 2013

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Revenues:			
Rental income	$ 8,856	$ 1,375	$ 10,231
Tenant reimbursement	1,073	146	1,219
Other revenue	602		602
Total revenues	10,531	1,521	12,052
Expenses:			
Depreciation and amortization	4,955	847	5,802
Interest expense	2,122	951	3,073
Property taxes	1,073	146	1,219
Acquisition costs	211		211
Operating expenses	415		415
General and administrative	730		730
Total expenses	9,506	1,944	11,450
Income (loss) before provision for income taxes	1,025	(423)	602
Provision for income taxes	45	16	61
Net income (loss)	980	(439)	541
Other comprehensive income:			
Unrealized gain on interest rate swap	649		649
Comprehensive income (loss)	$ 1,629	$ (439)	$ 1,190

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

SIX MONTHS ENDED JUNE 30, 2014

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated and Combined
Revenues:						
Rental income	$	$	$ 19,787	$ 3,441	$	$ 23,228
Tenant reimbursement			2,245	253		2,498
Other revenue			1,210			1,210
Total revenues			23,242	3,694		26,936
Expenses:						
Depreciation and amortization			10,416	1,853		12,269
Interest expense		1,492	6,283	2,004		9,779
Loss on extinguishment of debt			4,067			4,067
Property taxes			2,245	253		2,498
Operating expenses			1,098			1,098
General and administrative		7,912				7,912
Total expenses		9,404	24,109	4,110		37,623
(Loss) Income in Subsidiary	(10,740)	(1,336)			12,076	
(Loss) income before provision for income taxes	(10,740)	(10,740)	(867)	(416)	12,076	(10,687)
Provision for income taxes			53			53
Net (loss) income	(10,740)	(10,740)	(920)	(416)	12,076	(10,740)
Other comprehensive income (loss):						
Unrealized gain on interest rate swap			167			167
Reclassification adjustment on interest rate swap			1,661			1,661

Comprehensive (loss) income	$ (10,740)	$ (10,740)	$ 908	$ (416)	$ 12,076	$ (8,912)

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

CONDENSED COMBINED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME (LOSS)

FOR THE SIX MONTHS ENDED JUNE 30, 2013

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Revenues:			
Rental income	$ 17,013	$ 2,723	$ 19,736
Tenant reimbursement	2,146	292	2,438
Other revenue	1,214		1,214
Total revenues	20,373	3,015	23,388
Expenses:			
Depreciation and amortization	9,712	1,680	11,392
Interest expense	4,312	1,871	6,183
Property taxes	2,146	292	2,438
Acquisition costs	211		211
Operating expenses	946		946
General and administrative	1,068		1,068
Total expenses	18,395	3,843	22,238
Income (loss) before provision for income taxes	1,978	(828)	1,150
Provision for income taxes	84		84
Net income (loss)	1,894	(828)	1,066
Other comprehensive income (loss):			
Unrealized gain on interest rate swap	918		918
Comprehensive income (loss)	$ 2,812	$ (828)	$ 1,984

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2014

	Parent Guarantor	Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Elimination	Consolidated and Combined
Cash flows from operating activities:						
Net cash (used in) provided by operating activities	$	$ (1,492)	$ 15,394	$ 1,563	$ (7,912)	$ 7,553
Cash flows from investing activities:						
Acquisition of real estate						
Purchases of equipment, furniture, and fixtures			(14,648)	(4,361)		(19,009)
Cash proceeds from the sale of equipment, furniture and fixtures						
Intercompany financing		(165,728)			165,728	
Net cash provided by (used in) investing activities		(165,728)	(14,648)	(4,361)	165,728	(19,009)
Cash flows from financing activities:						
Proceeds from the issuance of senior unsecured notes payable		260,000				260,000
Proceeds from the senior secured revolving credit facility			10,000			10,000
Proceeds from the issuance of mortgage notes payable				50,676		50,676
Payments on the senior secured revolving credit facility			(88,701)			(88,701)
Payments on the mortgage notes payable			(66,856)			(66,856)
Payments on the senior secured term loan			(65,624)			(65,624)
Payments of deferred financing costs		(12,435)		(510)		(12,945)
Net contribution from Ensign			52,385	(48,029)		4,356
Distributions to Issuers			(7,912)		7,912	
Intercompany financing			165,067	661	(165,728)	

Net cash (used) provided by financing activities		247,565	(1,641)	2,798	(157,816)	90,906
Net increase (decrease) in cash and cash equivalents		80,345	(895)			79,450
Cash and cash equivalents beginning of period			895			895
Cash and cash equivalents end of period of period	$	$ 80,345	$	$	$	$ 80,345

F-68

Table of Contents

CARETRUST REIT, INC.

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Continued)

CONDENSED COMBINED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2013

	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Combined
Cash flows from operating activities:			
Net cash provided by operating activities	$ 12,122	$ 935	$ 13,057
Cash flows from operating activities:			
Acquisition of real estate	(31,292)		(31,292)
Purchases of equipment, furniture, and fixtures	(7,505)	(1,992)	(9,497)
Cash proceeds from the sale of equipment, furniture and fixtures	566		566
Net cash used in investing activities	(38,231)	(1,992)	(40,223)
Cash flows from financing activities:			
Proceeds from the senior secured revolving credit facility	10,000		10,000
Payments on the mortgage notes payable	(1,108)	(598)	(1,706)
Payments on the senior secured term loan	(1,875)		(1,875)
Payments of deferred financing costs	(730)		(730)
Net contribution from Ensign	19,866	1,655	21,521
Net cash provided by financing activities	26,153	1,057	27,210
Net increase in cash and cash equivalents	44		44
Cash and cash equivalents, beginning of period	735		735
Cash and cash equivalents, end of period	$ 779	$	$ 779

10. SUBSEQUENT EVENTS

The Company evaluates subsequent events in accordance with ASC 855, *Subsequent Events*. The Company evaluates subsequent events up until the condensed consolidated and combined financial statements are issued.

F-69

Table of Contents

CTR Partnership, L.P.

CareTrust Capital Corp.

Offer to Exchange

$260,000,000 aggregate principal amount of 5.875% Senior Notes due 2021

(CUSIPs 126458 AA6, U1268F AA6 and 126458 AC2)

for

$260,000,000 aggregate principal amount of 5.875% Senior Notes due 2021

(CUSIP 126458 AB4)

which have been registered under the Securities Act of 1933, as amended

PROSPECTUS

September 11, 2014