

AVIV REIT, INC.  
Form S-4/A  
May 10, 2012  
Table of Contents

As filed with the Securities and Exchange Commission on May 10, 2012

Registration No. 333-180754

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**  
**AMENDMENT NO. 1**  
**TO**  
**FORM S-4**  
**REGISTRATION STATEMENT UNDER THE**  
**SECURITIES ACT OF 1933**

**Aviv Healthcare Properties Limited Partnership**  
**Aviv Healthcare Capital Corporation**

(Exact name of registrant as specified in its charter)

Delaware

6798

35-2249166

Edgar Filing: AVIV REIT, INC. - Form S-4/A

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**6798**  
(Primary Standard Industrial  
Classification Code Number)

**27-4536064**  
(IRS Employer  
Identification Number)

**For co-registrants, please see Table of Co-Registrants beginning on the following page.**

**303 West Madison Street, Suite 2400, Chicago, Illinois 60606, (312) 855-0930**

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

**Craig M. Bernfield**

**Chief Executive Officer**

**Aviv REIT, Inc.**

**303 West Madison Street, Suite 2400**

**Chicago, Illinois 60606**

**(312) 855-0930**

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

**with copies to:**

**Steven Sutherland**

**Robert L. Verigan**

**Sidley Austin LLP**

**One South Dearborn Street**

**Chicago, Illinois 60603**

**(312) 853-7000**

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

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

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

Edgar Filing: AVIV REIT, INC. - Form S-4/A

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated Filer .. Accelerated filer .. Non-accelerated filer  Smaller reporting company ..  
(Do not check if a smaller reporting company)

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

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) ..  
Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) ..

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

**Table of Contents****TABLE OF CO-REGISTRANTS**

<b>Exact name of registrant as specified in its charter</b>	<b>State or other jurisdiction of incorporation or organization</b>	<b>Primary Standard Industrial Classification Code Number</b>	<b>IRS Employer Identification Number</b>
Alamogordo Aviv, L.L.C.	New Mexico	6798	27-0123540
Arkansas Aviv, L.L.C.	Delaware	6798	30-0509615
Arma Yates, L.L.C.	Delaware	6798	27-3971035
Aviv Asset Management, L.L.C.	Delaware	6798	30-0305067
Aviv Financing I, L.L.C.	Delaware	6798	11-3747125
Aviv Financing II, L.L.C.	Delaware	6798	36-4597042
Aviv Financing III, L.L.C.	Delaware	6798	36-4641210
Aviv Financing IV, L.L.C.	Delaware	6798	27-0836481
Aviv Financing V, L.L.C.	Delaware	6798	27-0836548
Aviv Foothills, L.L.C.	Delaware	6798	36-4572035
Aviv Healthcare Properties Operating Partnership I, L.P.	Delaware	6798	11-3747120
Aviv Liberty, L.L.C.	Delaware	6798	36-4572034
Aviv OP Limited Partner, L.L.C.	Delaware	6798	27-3474432
Aviv REIT, Inc.	Maryland	6798	27-3200673
Avon Ohio, L.L.C.	Delaware	6798	36-4601433
Belleville Illinois, L.L.C.	Delaware	6798	32-0188341
Bellingham II Associates, L.L.C.	Delaware	6798	11-3747130
Benton Harbor, L.L.C.	Illinois	6798	36-4204807
BHG Aviv, L.L.C.	Delaware	6798	36-4601432
Biglerville Road, L.L.C.	Delaware	6798	35-2410897
Bonham Texas, L.L.C.	Delaware	6798	30-0358809
Bradenton ALF Property, L.L.C.	Delaware	6798	45-4444919
Burton NH Property, L.L.C.	Delaware	6798	11-3714506
California Aviv, L.L.C.	Delaware	6798	38-3786697
California Aviv Two, L.L.C.	Delaware	6798	26-4117080
Camas Associates, L.L.C.	Delaware	6798	36-4340182
Casa/Sierra California Associates, L.L.C.	Delaware	6798	36-4572017
Chatham Aviv, L.L.C.	Delaware	6798	27-0354315
Chenal Arkansas, L.L.C.	Delaware	6798	04-3835270
Chippewa Valley, L.L.C.	Illinois	6798	36-4065826
Clarkston Care, L.L.C.	Delaware	6798	76-0802028
Clayton Associates, L.L.C.	New Mexico	6798	36-4572014
Colonial Madison Associates, L.L.C.	Delaware	6798	38-3741678
Columbia View Associates, L.L.C.	Delaware	6798	36-4204809
Columbus Texas Aviv, L.L.C.	Delaware	6798	38-3735473
Columbus Western Avenue, L.L.C.	Delaware	6798	71-0960205
Commerce Nursing Homes, L.L.C.	Illinois	6798	36-4122632
Commerce Sterling Hart Drive, L.L.C.	Delaware	6798	27-5458991
Conroe Rigby Owen Road, L.L.C.	Delaware	6798	27-5458820
CR Aviv, L.L.C.	Delaware	6798	20-5354773
Crooked River Road, L.L.C.	Delaware	6798	27-5081057
Cuyahoga Falls Property, L.L.C.	Delaware	6798	35-2419468
Darien ALF Property, L.L.C.	Delaware	6798	30-0694838
Denison Texas, L.L.C.	Delaware	6798	32-0173170
East Rollins Street, L.L.C.	Delaware	6798	38-3838004
Effingham Associates, L.L.C.	Illinois	6798	36-4150491
Elite Mattoon, L.L.C.	Delaware	6798	36-4454111
Elite Yorkville, L.L.C.	Delaware	6798	36-4454114
Falfurrias Texas, L.L.C.	Delaware	6798	61-1501714

**Table of Contents**

<b>Exact name of registrant as specified in its charter</b>	<b>State or other jurisdiction of incorporation or organization</b>	<b>Primary Standard Industrial Classification Code Number</b>	<b>IRS Employer Identification Number</b>
Florence Heights Associates, L.L.C.	Delaware	6798	11-3747131
Fountain Associates, L.L.C.	Delaware	6798	36-4572016
Four Fountains Aviv, L.L.C.	Delaware	6798	36-4601434
Fredericksburg South Adams Street, L.L.C.	Delaware	6798	27-5459311
Freewater Oregon, L.L.C.	Delaware	6798	36-2280966
Fullerton California, L.L.C.	Delaware	6798	36-4480527
Gardnerville Property, L.L.C.	Delaware	6798	37-1657201
Germantown Property, L.L.C.	Delaware	6798	45-4444655
Giltex Care, L.L.C.	Delaware	6798	36-4572036
Great Bend Property, L.L.C.	Delaware	6798	27-3971138
Heritage Monterey Associates, L.L.C.	Illinois	6798	36-4056688
HHM Aviv, L.L.C.	Delaware	6798	32-0205746
Hidden Acres Property, L.L.C.	Delaware	6798	27-2457250
Highland Leasehold, L.L.C.	Delaware	6798	20-2873499
Hobbs Associates, L.L.C.	Illinois	6798	36-4177337
Hot Springs Aviv, L.L.C.	Delaware	6798	30-0470700
Houston Texas Aviv, L.L.C.	Delaware	6798	36-4587739
Hutchinson Kansas, L.L.C.	Delaware	6798	51-0559326
Idaho Associates, L.L.C.	Illinois	6798	36-4114446
Iowa Lincoln County Property, L.L.C.	Delaware	6798	45-4445450
Jasper Springhill Street, L.L.C.	Delaware	6798	27-5458704
Kansas Five Property, L.L.C.	Delaware	6798	36-1647542
Karan Associates, L.L.C.	Delaware	6798	11-3747208
Karan Associates Two, L.L.C.	Delaware	6798	61-1514965
KB Northwest Associates, L.L.C.	Delaware	6798	36-4572025
Kingsville Texas, L.L.C.	Delaware	6798	37-1522939
Manor Associates, L.L.C.	Delaware	6798	36-4572020
Mansfield Aviv, L.L.C.	Delaware	6798	32-0183852
Massachusetts Nursing Homes, L.L.C.	Delaware	6798	20-2873416
McCarthy Street Property, L.L.C.	Delaware	6798	38-3855495
Minnesota Associates, L.L.C.	Delaware	6798	36-4469552
Missouri Associates, L.L.C.	Delaware	6798	36-4572033
Missouri Regency Associates, L.L.C.	Delaware	6798	36-4572031
Montana Associates, L.L.C.	Illinois	6798	36-4149849
Monterey Park Leasehold Mortgage, L.L.C.	Delaware	6798	32-0267202
Mt. Vernon Texas, L.L.C.	Delaware	6798	35-2270167
Murray County, L.L.C.	Delaware	6798	36-4708756
Newtown ALF Property, L.L.C.	Delaware	6798	27-4083571
N.M. Bloomfield Three Plus One Limited Company	New Mexico	6798	74-2748292
N.M. Espanola Three Plus One Limited Company	New Mexico	6798	74-2748289
N.M. Lordsburg Three Plus One Limited Company	New Mexico	6798	74-2748286
N.M. Silver City Three Plus One Limited Company	New Mexico	6798	74-2748283
Northridge Arkansas, L.L.C.	Delaware	6798	04-3835262
Norwalk ALF Property, L.L.C.	Delaware	6798	27-4083805
Oakland Nursing Homes, L.L.C.	Delaware	6798	36-4572018
October Associates, L.L.C.	Delaware	6798	36-4572030
Ogden Associates, L.L.C.	Delaware	6798	36-4412291
Ohio Aviv, L.L.C.	Delaware	6798	36-4597043
Ohio Aviv Two, L.L.C.	Delaware	6798	27-5081906
Ohio Aviv Three, L.L.C.	Delaware	6798	27-5082021
Ohio Pennsylvania Property, L.L.C.	Delaware	6798	32-0350654

**Table of Contents**

<b>Exact name of registrant as specified in its charter</b>	<b>State or other jurisdiction of incorporation or organization</b>	<b>Primary Standard Industrial Classification Code Number</b>	<b>IRS Employer Identification Number</b>
Omaha Associates, L.L.C.	Delaware	6798	36-4572019
Orange ALF Property, L.L.C.	Delaware	6798	27-4083471
Orange, L.L.C.	Illinois	6798	36-4095365
Oregon Associates, L.L.C.	Delaware	6798	36-4572024
Peabody Associates, L.L.C.	Delaware	6798	36-4572029
Peabody Associates Two, L.L.C.	Delaware	6798	27-5346222
Pomona Vista L.L.C.	Illinois	6798	36-4111095
Prescott Arkansas, L.L.C.	Delaware	6798	04-3835264
Raton Property Limited Company	New Mexico	6798	36-4111094
Red Rocks, L.L.C.	Illinois	6798	36-4192351
Richland Washington, L.L.C.	Delaware	6798	26-0081509
Riverside Nursing Home Associates, L.L.C.	Delaware	6798	36-4340184
Rose Baldwin Park Property L.L.C.	Illinois	6798	36-4111092
Salem Associates, L.L.C.	Delaware	6798	36-4572028
San Juan NH Property, L.L.C.	Delaware	6798	11-3714511
Sandalwood Arkansas Property, L.L.C.	Delaware	6798	61-1665105
Santa Ana-Bartlett, L.L.C.	Illinois	6798	36-4212739
Santa Fe Missouri Associates, L.L.C.	Illinois	6798	36-4165126
Savoy/Bonham Venture, L.L.C.	Delaware	6798	36-4572026
Searcy Aviv, L.L.C.	Delaware	6798	38-3779442
Sedgwick Properties, L.L.C.	Delaware	6798	36-4694767
Skagit Aviv, L.L.C.	Delaware	6798	36-4641209
Skyview Associates, L.L.C.	Delaware	6798	36-4572023
Southeast Missouri Property, L.L.C.	Delaware	6798	27-3502072
Southern California Nevada, L.L.C.	Delaware	6798	30-0705746
Star City Arkansas, L.L.C.	Delaware	6798	43-2089308
Sun-Mesa Properties, L.L.C.	Illinois	6798	36-4047650
Texas Fifteen Property, L.L.C.	Delaware	6798	35-2437626
Tujunga, L.L.C.	Delaware	6798	36-4389732
VRB Aviv, L.L.C.	Delaware	6798	76-0802032
Washington-Oregon Associates, L.L.C.	Illinois	6798	36-4192347
Watauga Associates, L.L.C.	Illinois	6798	36-4163268
Wellington Leasehold, L.L.C.	Delaware	6798	27-3971187
West Pearl Street, L.L.C.	Delaware	6798	81-0637081
Wheeler Healthcare Associates, L.L.C.	Texas	6798	74-2752353
Willis Texas Aviv, L.L.C.	Delaware	6798	37-1522942
Woodland Arkansas, L.L.C.	Delaware	6798	04-3835266
Xion, L.L.C.	Illinois	6798	36-4062845
Yuba Aviv, L.L.C.	Delaware	6798	11-3750228

**Table of Contents**

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

**Subject to Completion, Dated May 10, 2012**

**PROSPECTUS**

**\$100,000,000**

**Aviv Healthcare Properties Limited Partnership**

**Aviv Healthcare Capital Corporation**

**Exchange Offer for**

**7<sup>3</sup>/<sub>4</sub>% Senior Notes due 2019**

On March 28, 2012, Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation (the Issuers) issued \$100.0 million in aggregate principal amount of unregistered 7<sup>3</sup>/<sub>4</sub>% Senior Notes due 2019 (which we refer to as the Old Notes). We are conducting the exchange offer in order to provide you with an opportunity to exchange your Old Notes for freely tradable 7<sup>3</sup>/<sub>4</sub>% Senior Notes due 2019 that have been registered under the Securities Act of 1933, as amended (the Securities Act) (which we refer to as the Exchange Notes). Other than the issuance date and the aggregate principal amount, the terms of the Exchange Notes are substantially identical to \$300.0 million in aggregate principal amount of unregistered 7<sup>3</sup>/<sub>4</sub>% Senior Notes due 2019 that were issued on February 4 and April 5, 2011 and which were subsequently exchanged on August 22, 2011 for notes registered under the Securities Act (which we refer to as the Existing Notes) and, together with the Old Notes and the Exchange Notes, the Notes).

**Terms of the Exchange Offer:**

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

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

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

We will not receive any proceeds from the exchange offer.

## Edgar Filing: AVIV REIT, INC. - Form S-4/A

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

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

### **Terms of the Exchange Notes:**

The Exchange Notes will mature on February 15, 2019. The Exchange Notes will pay interest semi-annually in cash in arrears on February 15 and August 15 of each year, beginning on August 15, 2012.

The Exchange Notes will be fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by Aviv REIT, Inc. ( Aviv REIT ) and, with certain exceptions, all of its existing and future restricted subsidiaries, other than the Issuers.

The Exchange Notes and the senior guarantees will be our general unsecured senior obligations and will be subordinated to all of our and the guarantors existing and future secured indebtedness to the extent of the assets securing such secured indebtedness, *pari passu* with all existing and future senior unsecured indebtedness and senior to all existing and future senior subordinated indebtedness. The subordinated guarantees provided by the borrowers under our existing term loan and acquisition credit line will be general unsecured senior obligations and will be subordinated to all of the obligations of those borrowers under our existing term loan and acquisition credit line or any permitted refinancing of those facilities, *pari passu* with all existing and future senior unsecured indebtedness and senior to all existing and future senior subordinated indebtedness.

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

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

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

**For a discussion of the specific risks that you should consider before tendering your outstanding Old Notes in the exchange offer, see the Risk Factors section beginning on page 13 of this prospectus.**

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

**Neither the Securities and Exchange Commission nor any state or other domestic or foreign securities commission or regulatory authority has approved or disapproved of the Notes or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is , 2012.



**Table of Contents**

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

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

**TABLE OF CONTENTS**

<u>Summary</u>	1
<u>Risk Factors</u>	13
<u>The Exchange Offer</u>	30
<u>Use of Proceeds</u>	39
<u>Capitalization</u>	40
<u>Selected Financial Data</u>	41
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
<u>Business</u>	63
<u>Management</u>	73
<u>Compensation Discussion and Analysis</u>	76
<u>Certain Relationships and Related Transactions</u>	83
<u>Policies with Respect to Certain Activities</u>	85
<u>Security Ownership of Certain Beneficial Owners and Management</u>	88
<u>Description of Other Indebtedness</u>	91
<u>Description of Exchange Notes</u>	94
<u>Material U.S. Federal Income Tax Considerations</u>	146
<u>Plan of Distribution</u>	151
<u>Legal Matters</u>	152
<u>Experts</u>	152
<u>Where You Can Find More Information</u>	152
<u>Index to Financial Statements</u>	F-1

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements. Forward-looking statements provide our current expectations or forecasts of future events. Forward-looking statements include statements about our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, performance and underlying assumptions and other statements that are not historical facts. Examples of forward-looking statements include all statements



---

## **Table of Contents**

regarding our expected future financial position, results of operations, cash flows, liquidity, financing plans, business strategy, projected growth opportunities and potential acquisitions, plans and objectives of management for future operations, and compliance with and changes in governmental regulations. You can identify forward-looking statements by their use of forward-looking words, such as may, will, anticipates, expect, believe, estimate, intend, plan, should, seek or comparable terms, or the negative use of those words, but the absence of these words does not necessarily mean that a statement is not forward-looking.

These forward-looking statements are made based on our current expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include those disclosed under Risk Factors and elsewhere in this prospectus and in filings made by us with the Securities and Exchange Commission. There may be additional risks of which we are presently unaware or that we currently deem immaterial. Forward-looking statements are not guarantees of future performance. We do not undertake any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of this prospectus or to update you on the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this prospectus.

### **PRESENTATION OF NON-GAAP FINANCIAL INFORMATION AND PORTFOLIO STATISTICS**

In this prospectus, we use financial measures that are derived on the basis of methodologies other than in accordance with generally accepted accounting principles ( GAAP ). The non-GAAP financial measures used in this prospectus include FFO, Adjusted FFO, EBITDA and Adjusted EBITDA. We derive these measures as follows:

The National Association of Real Estate Investment Trusts, or NAREIT, defines FFO as net income (computed in accordance with GAAP), excluding gains and losses from sales of property (net) and impairments of depreciated real estate, plus real estate depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. Applying the NAREIT definition to our financial statements results in FFO representing net income before depreciation, impairments, and gain on sale of assets (net).

Adjusted FFO represents FFO before deferred rental income, stock-based compensation, amortization of intangible income, amortization of deferred financing costs, offering costs, indemnity expense, loss on extinguishment of debt and change in fair value of derivatives.

EBITDA represents net income before interest expense (net), taxes, depreciation and amortization of deferred financing costs.

Adjusted EBITDA represents EBITDA before stock-based compensation, amortization of intangible income, offering costs, indemnity expense, acquisition transaction costs, loss on impairment of assets, loss on extinguishment of debt, deferred rent write-offs, change in fair value of derivatives and gain on sale of assets (net).

The indenture governing the Notes uses the terms Adjusted FFO and Adjusted EBITDA. For further discussion of the terms used in the indenture governing the Notes, see Description of Exchange Notes Certain Definitions. For a further description of how FFO, Adjusted FFO, EBITDA and Adjusted EBITDA are calculated from, and a reconciliation of those measures to, our net income, see Summary Summary Financial Data.

Our management uses FFO, Adjusted FFO, EBITDA and Adjusted EBITDA as important supplemental measures of our operating performance and liquidity. FFO is intended to exclude GAAP historical cost

## Table of Contents

depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. The term FFO was designed by the real estate industry to address this issue and as an indicator of our ability to incur and service debt. Because FFO and Adjusted FFO exclude depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items and because EBITDA and Adjusted EBITDA exclude certain non-cash charges and adjustments and amounts spent on interest and taxes, they provide our management with performance measures that, when compared year over year or with other real estate investment trusts, or REITs, reflect the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and, with respect to FFO and Adjusted FFO, interest costs, in each case providing perspective not immediately apparent from net income. In addition, we believe that FFO, Adjusted FFO, EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of REITs.

We offer these measures to assist the users of our financial statements in assessing our financial performance and liquidity under GAAP, but these measures are non-GAAP measures and should not be considered measures of liquidity, alternatives to net income or indicators of any other performance measure determined in accordance with GAAP, nor are they indicative of funds available to fund our cash needs, including our ability to make payments on our indebtedness. In addition, our calculations of these measures are not necessarily comparable to similar measures as calculated by other companies that do not use the same definition or implementation guidelines or interpret the standards differently from us. Investors should not rely on these measures as a substitute for any GAAP measure, including net income or revenues.

In addition to these non-GAAP financial measures, we present certain statistics in this prospectus regarding our portfolio of properties. These statistics include EBITDAR coverage, EBITDARM coverage, Portfolio Occupancy and Quality Mix, which are derived as follows:

EBITDAR coverage represents EBITDAR, which we define as earnings before interest, taxes, depreciation, amortization and rent expense, of our operators for the applicable period, divided by the rent paid to us by our operators during such period.

EBITDARM coverage represents EBITDARM, which we define as earnings before interest, taxes, depreciation, amortization, rent expense and management fees charged by the operator, of our operators for the applicable period, divided by the rent paid to us by our operators during such period.

Portfolio Occupancy represents the average daily number of beds at our properties that are occupied during the applicable period divided by the total number of beds at our properties that are available for use during the applicable period.

Quality Mix represents total revenues from all payor sources, excluding Medicaid revenues, at our properties divided by the total revenue at our properties for the applicable period.

We calculate annualized rent for properties during the year ended December 31, 2011 by utilizing the amount of rent under contract as of December 31, 2011 and assume that amount of rent was received in respect of such property throughout the year.

We derive these statistics from reports that we receive from our operators pursuant to our triple-net leases. As a result, our portfolio statistics typically lag our own financial statements by approximately one quarter. In order to determine EBITDAR and EBITDARM coverage for the period presented, EBITDAR and EBITDARM coverage is stated only with respect to properties owned by us and operated by the same operator for the entire period. Accordingly, EBITDAR and EBITDARM coverage for the twelve months ended September 30, 2011 included 157 of the 225 properties in our portfolio as of December 31, 2011.

**Table of Contents**

**INDUSTRY AND MARKET DATA**

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

**TRADEMARKS**

As used in this prospectus, Aviv REIT, Aviv Healthcare and Aviv Financing are trademarks of our company. This prospectus also refers to brand names, trademarks or service marks of other companies. All brand names and other trademarks or service marks cited in this prospectus are the property of their respective holders.

---

**Table of Contents**

**SUMMARY**

*This summary highlights selected information appearing in this prospectus and may not contain all of the information that is important to you. This prospectus includes information about the Exchange Notes and the exchange offer as well as information regarding our business and detailed financial data. You should read this prospectus in its entirety, including Risk Factors and the financial statements and related notes appearing elsewhere in this prospectus, before deciding to participate in the exchange offer.*

*Unless the context requires otherwise or except as otherwise noted, as used in this prospectus the words Aviv REIT, we, company, us and our refer to Aviv REIT, Inc. and its subsidiaries, including the Issuers. Throughout this prospectus, we refer to operators and tenants by their commonly-known trade names; however, each operator or tenant may operate through a variety of legal entities, some or all of which may not be under common ownership. In addition, we use the words operator and tenant interchangeably when referring to these unaffiliated third parties.*

**Our Company**

We operate as a self-administered, self-managed real estate investment trust, or REIT, that focuses on the ownership of healthcare properties, principally skilled nursing facilities ( SNFs ). We generate our revenues through long-term triple-net leases with a diversified group of high quality operators throughout the United States. Through our predecessor entities, we have been in the business of financing SNF operators through triple-net leases for over 30 years. We believe that we have one of the largest SNF portfolios in the United States which consisted of 225 properties, of which 200 were SNFs, with 20,875 licensed beds in 26 states leased to 35 operators, as of December 31, 2011. For the year ended December 31, 2011, our revenues and Adjusted EBITDA were \$104.7 million and \$91.6 million, respectively. See Presentation of Non-GAAP Financial Information and Portfolio Statistics and Summary Financial Data.

We believe we are well positioned to benefit from our diversified portfolio of properties and extensive network of operator relationships. We focus on cultivating close relationships with our operators by working closely with them to help them achieve their business objectives. As a result of these efforts, we are in a position to effectively manage our portfolio, make additional investments and continue to expand our business. From April 2005 through December 2011, we completed \$663.5 million of acquisitions. In 2011, we completed \$217.9 million of acquisitions and investments. We target EBITDAR and EBITDARM coverages that we believe allow us to balance our rental income with appropriate operating and financial performance for our operators. Our EBITDAR and EBITDARM coverages for the twelve months ended September 30, 2011 were 1.5x and 2.0x, respectively.

The structure of our triple-net leases has significantly contributed to our consistent and stable performance and positions us to benefit from a long-term stream of rental income. Our leases typically have initial terms of ten years or more, annual rent escalation provisions of 2% to 3% and typically do not have operator purchase options. We also seek additional support for the rental income generated by the leases through guarantees, master leases, cross-default provisions and security deposits. As of December 31, 2011, the leases for 223 of our 225 properties were supported by personal and/or corporate guarantees.

**Corporate Information**

Aviv REIT was incorporated as a Maryland corporation on July 30, 2010 and operates in a manner intended to allow it to qualify as a REIT for federal income tax purposes. Aviv REIT is the sole general partner of Aviv Healthcare Properties Limited Partnership. The Partnership was formed as a Delaware partnership on March 4, 2005.

**Table of Contents**

Our headquarters are located at 303 West Madison Street, Suite 2400, Chicago, Illinois 60606. Our telephone number is (312) 855-0930. Our internet website is <http://www.avivreit.com>. The information contained on, or accessible through, our website is not incorporated by reference into this prospectus and should not be considered a part of this prospectus.

**The Exchange Offer**

On March 28, 2012, the Issuers sold, through a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act), \$100,000,000 in aggregate principal amount of 7% Senior Notes due 2019 (the Old Notes), all of which are eligible to be exchanged for notes which have been registered under the Securities Act (the Exchange Notes). Other than the issuance date and the aggregate principal amount, the terms of the Exchange Notes are substantially identical to \$300.0 million in aggregate principal amount of unregistered 7 3/4% Senior Notes due 2019 that were issued on February 4 and April 5, 2011 and which were subsequently exchanged on August 22, 2011 for notes registered under the Securities Act (which we refer to as the Existing Notes) and, together with the Old Notes and the Exchange Notes, the Notes).

Simultaneously with the private placement, we entered into a registration rights agreement with the initial purchasers of the Old Notes (the registration rights agreement). Under the registration rights agreement, we are required to cause a registration statement for substantially identical notes, which will be issued in exchange for the Old Notes, to be filed with the Securities and Exchange Commission (the SEC) and to use our reasonable best efforts to complete the exchange offer by August 10, 2012. You may exchange your Old Notes for Exchange Notes in the exchange offer. You should read the discussion under the headings The Exchange Offer and Description of Exchange Notes for further information regarding the Exchange Notes.

Securities to be Exchanged	Up to \$100,000,000 principal amount of 7 3/4% Senior Notes due 2019.
The Exchange Offer; Securities Act Registration	<p>We are offering to exchange the Old Notes for an equal principal amount of the Exchange Notes. Old Notes may be exchanged only in denominations of \$2,000 of principal amount and any integral multiple of \$1,000 in excess thereof.</p> <p>The exchange offer is being made pursuant to the registration rights agreement, which grants the initial purchasers and any subsequent holders of the Old Notes certain exchange and registration rights. The exchange offer is intended to satisfy those exchange and registration rights with respect to the Old Notes. After the exchange offer is complete and except for our obligations to file a shelf registration statement under the circumstances described below, you will no longer be entitled to any exchange or registration rights with respect to Old Notes.</p> <p>You may tender your outstanding Old Notes for Exchange Notes by following the procedures described under the heading The Exchange Offer.</p>
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on _____, 2012, or a later date and time to which the Issuers may extend it.

---

**Table of Contents**

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



**Table of Contents**

Resale of the Exchange Notes

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

are not an affiliate of ours within the meaning of Rule 405 of the Securities Act;

are acquiring the Exchange Notes in the ordinary course of business; and

have no arrangement or understanding with any person to participate in a distribution of the Exchange Notes.

In addition, each participating broker-dealer that receives Exchange Notes for its own account pursuant to the exchange offer in exchange for Old Notes that were acquired as a result of market-making or other trading activity must also acknowledge that it will deliver a prospectus in connection with any resale of the Exchange Notes. For more information, see Plan of Distribution.

Any holder of Old Notes, including any broker-dealer, who:

is our affiliate,

does not acquire the Exchange Notes in the ordinary course of its business, or

tenders in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of Exchange Notes,

cannot rely on the position of the staff of the SEC expressed in *Exxon Capital Holdings Corporation, Morgan Stanley & Co., Incorporated* or similar no-action letters and, in the absence of an applicable exemption, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with the resale of the Exchange Notes or it may incur liability under the Securities Act. We will not be responsible for, or indemnify against, any such liability.

Minimum Condition

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

Appraisal or Dissenters Rights

Holders of the Old Notes do not have any appraisal or dissenters rights in connection with the exchange offer.

## Edgar Filing: AVIV REIT, INC. - Form S-4/A

Material United States Federal Income Tax Considerations

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

**Table of Contents**

Use of Proceeds	We will not receive any proceeds from the issuance of Exchange Notes pursuant to the exchange offer.
Exchange Agent	The Bank of New York Mellon Trust Company, N.A. is serving as the exchange agent in connection with the exchange offer. The address and telephone number of the exchange agent are set forth under the heading "The Exchange Offer" Exchange Agent.
Shelf Registration Statement	<p>The registration rights agreement requires that we file a shelf registration statement, in addition to or in lieu of conducting the exchange offer, in the event that:</p> <ol style="list-style-type: none"><li>(1) we are not required to file the exchange offer registration statement or to consummate the exchange offer because the exchange offer is not permitted by law or SEC policy; or</li><li>(2) for any reason, we do not consummate the exchange offer by August 10, 2012; or</li><li>(3) any holder notifies us that:  it is not permitted under law or SEC policy to participate in the exchange offer;  it cannot publicly resell new notes that it acquires in the exchange offer without delivering a prospectus, and the prospectus contained in the exchange offer registration statement is not appropriate or available for resales by that holder;  it is a broker-dealer and holds Old Notes that it has not exchanged and that it acquired directly from us or one of our affiliates; or  an initial purchaser so requests (with respect to Old Notes that have not been resold and that it acquired directly from us or one of our affiliates).</li></ol>

**You should refer to the section titled "Risk Factors" beginning on page 13 of this prospectus for a description of some of the risks you should consider before participating in the exchange offer.**

**Table of Contents**

**The Exchange Notes**

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

Issuers	Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation.
Securities Offered	\$100,000,000 principal amount of 7 <sup>3</sup> / <sub>4</sub> % Senior Notes due 2019.
Maturity	February 15, 2019.
Interest Rate	Interest will accrue from February 15, 2012 at a rate of 7.750% per annum or from the date of the last payment of interest on the Old Notes, whichever is later. Interest will be computed on the basis of a 360-day year comprised of twelve 30 day months. We will not pay interest on Old Notes tendered and accepted for exchange.
Interest Payment Dates	Each February 15 and August 15, beginning on August 15, 2012.
Ranking	<p>The Exchange Notes and the senior guarantees thereof will be the Issuers' and such guarantors' senior unsecured obligations and will rank:</p> <p style="padding-left: 40px;">senior to all existing and future indebtedness that by its terms is expressly subordinated to the Exchange Notes, including the subordinated guarantees provided by the Issuers and such guarantors of the obligations under our Acquisition Credit Line and Term Loan;</p> <p style="padding-left: 40px;"><i>pari passu</i> with all existing and future senior unsecured indebtedness, including a limited unsecured guarantee of the obligations under our Acquisition Credit Line and Term Loan provided by Aviv Healthcare Properties Limited Partnership;</p> <p style="padding-left: 40px;">effectively junior to all secured indebtedness to the extent of the value of the collateral securing such debt, including the 2014 Revolver and the 2016 Revolver; and</p> <p style="padding-left: 40px;">structurally subordinate to all of the existing and future liabilities of our subsidiaries that do not guarantee the Exchange Notes.</p>

Edgar Filing: AVIV REIT, INC. - Form S-4/A

The subordinated guarantees of the Exchange Notes will be such guarantors' subordinated unsecured obligations and will rank:

senior to all existing and future indebtedness of such guarantors that by its terms is expressly subordinated to subordinated guarantees of such guarantors;

**Table of Contents**

*pari passu* with all existing and future senior unsecured indebtedness of such guarantors; and

contractually junior to such guarantors' obligations under our Acquisition Credit Line and Term Loan.

**Guarantees**

The Exchange Notes will be guaranteed by Aviv REIT and the existing subsidiaries and (subject to certain exceptions) future subsidiaries of the Issuers (other than the subsidiaries that hold properties subject to mortgages whose terms prohibit such subsidiaries from entering into guarantees of other indebtedness). In each instance, the Exchange Notes will be fully and unconditionally guaranteed, jointly and severally, on an unsecured basis by the applicable guarantors. If we do not make payments required by the Exchange Notes, the guarantors must make them. The subsidiary guarantees may be released under certain circumstances.

**Optional Redemption**

We may redeem some or all of the Exchange Notes at any time on or after February 15, 2015, at the redemption prices specified under the section "Description of Exchange Notes - Optional Redemption" plus accrued and unpaid interest, if any, to the redemption date. We may also redeem some or all of the Exchange Notes before February 15, 2015 at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date, plus a "make-whole" premium.

**Optional Redemption after Equity Offering**

At any time prior to February 15, 2014, we may also redeem up to 35% of the original aggregate principal amount of the Notes (including the Exchange Notes) with the proceeds from specific kinds of equity offerings at a redemption price equal to 107.750% of the aggregate principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date. See "Description of Exchange Notes - Optional Redemption."

**Change of Control Offer**

If a change in control of our company occurs, we must give holders the opportunity to sell their Exchange Notes to us at 101% of their principal amount plus accrued and unpaid interest, if any. We, however, may not be able to pay the required price for the Exchange Notes presented to us at the time of a change of control event because we may have insufficient funds.

**Restrictive Covenants**

The indenture governing the Notes (including the Exchange Notes) contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

incur or guarantee additional indebtedness;

incur or guarantee secured indebtedness;

pay dividends or distributions on, or redeem or repurchase, our capital stock;



**Table of Contents**

make certain investments or other restricted payments;

sell assets;

enter into transactions with affiliates;

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

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

In addition, we are required to maintain Total Unencumbered Assets (as defined in Description of Exchange Notes ) of at least 150% of our unsecured indebtedness. These covenants are subject to a number of important limitations and exceptions. See Description of Exchange Notes Covenants.

Absence of a Public Market for the Exchange Notes The Exchange Notes are a new issue of securities with no established public market. We do not intend to apply for listing of the Exchange Notes on any securities exchange.

**You should refer to the section titled Risk Factors beginning on page 13 of this prospectus for a description of some of the risks you should consider before investing in the Exchange Notes.**



**Table of Contents****Summary Financial Data**

You should read the following summary historical consolidated financial and other data in connection with Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and related notes thereto appearing elsewhere in this prospectus.

The summary historical consolidated financial data as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 have been derived from the audited historical consolidated financial statements of Aviv REIT, Inc. and Aviv Healthcare Properties Limited Partnership and other unaudited information appearing elsewhere in this prospectus. The summary historical balance sheet data as of December 31, 2009 have been derived from the audited historical consolidated financial statements of Aviv REIT, Inc. and Aviv Healthcare Properties Limited Partnership, which are not included in this prospectus.

	Year Ended December 31, (in thousands)		
	2009	2010	2011
<b>Operating Information</b>			
Revenues			
Rental income	\$82,775	\$85,240	\$92,326
Tenant recoveries	6,056	6,442	7,175
Interest on loans to lessees	3,493	5,226	5,246
<b>Total revenues</b>	<b>92,324</b>	<b>96,908</b>	<b>104,747</b>
Expenses			
Rent and other operating expenses	612	575	891
General and administrative	7,741	11,475	17,589
Offering costs	6,864		
Real estate taxes	6,232	6,475	7,282
Depreciation	17,528	17,854	20,847
Loss on impairment		96	6,091
<b>Total expenses</b>	<b>38,977</b>	<b>36,475</b>	<b>52,700</b>
Operating income	53,347	60,433	52,047
Other income and expenses			
Interest and other income	466	133	843
Interest expense	(26,570)	(22,723)	(36,010)
Change in fair value of derivatives	6,988	2,931	
Amortization of deferred financing costs	(550)	(1,008)	(2,664)
Earn out accretion			(267)
Gain on sale of assets, net		512	1,171
Loss on extinguishment of debt		(2,295)	(3,807)
<b>Total other income and expenses</b>	<b>(19,666)</b>	<b>(22,450)</b>	<b>(40,734)</b>
Net income	\$33,681	\$37,983	\$11,313

**Table of Contents**

<b>Balance Sheet Information</b>	<b>As of December 31,</b> <b>(in thousands)</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Cash and cash equivalents (1)	\$15,543	\$13,029	\$40,862
Loan receivables	28,970	36,611	33,031
Rental properties, net of accumulated depreciation	577,736	627,101	822,588
Total assets (1)	665,130	731,400	951,421
Mortgage and other notes payable	480,105	440,576	600,474
Total liabilities (2)	527,598	486,244	704,162
Total equity (3)	74,562	245,156	247,259

<b>Other Information</b>	<b>As of December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Number of properties	172	185	225
Number of licensed beds	16,884	17,997	20,875

<b>Other Information</b>	<b>Year Ended December 31,</b> <b>(in thousands)</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Cash flows provided by operating activities (2)	\$40,042	\$54,680	\$52,088
Cash flows used in investing activities	(38,493)	(75,117)	(207,056)
Cash flows provided in financing activities (3)	4,632	17,923	182,800
Purchase of rental properties	(16,376)	(54,884)	(181,214)
Capital improvements and other	(13,508)	(7,883)	(30,770)
Funds from operations (FFO) (4)	51,209	55,421	37,080
Adjusted FFO (4)	43,554	51,691	47,032
EBITDA (5)	77,863	79,435	69,992
Adjusted EBITDA (5)	76,135	81,322	91,649

<b>Other Information</b>	<b>As of December 31,</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Ratio of earnings to fixed charges (6)	1.66x	1.63x	2.23x	2.60x	1.29x

- (1) Cash and cash equivalents and total assets as of December 31, 2011 and 2010, respectively, include \$1.7 million and \$1,000, respectively, of cash held at Aviv REIT, Inc.
- (2) Total liabilities as of December 31, 2011 and cash flow provided by operating activities for the year ended December 31, 2011 includes \$1.7 million related to accrued distributions on time-based stock options granted by Aviv REIT, Inc. that have not yet vested.
- (3) Total equity as of December 31, 2011 and 2010, respectively, and cash flows provided by financing activities for the year ended December 31, 2010, includes \$1,000 of equity in Aviv REIT, Inc.
- (4) FFO represents net income before depreciation and gain/loss on sale of assets and impairments of depreciated real estate. Adjusted FFO represents FFO before deferred rental income, stock-based compensation, amortization of intangible income, amortization of deferred financing costs, offering costs, indemnity expense, loss on extinguishment of debt and change in fair value of derivatives. For a discussion

Edgar Filing: AVIV REIT, INC. - Form S-4/A

of FFO and Adjusted FFO, including their limits as financial measures, see Presentation of Non-GAAP Financial Information and Portfolio Statistics.

**Table of Contents**

The following table is a reconciliation of FFO and Adjusted FFO to net income, the most directly comparable measure calculated in accordance with GAAP:

Funds from Operations	Year Ended December 31, (in thousands)		
	2009	2010	2011
Net income	\$ 33,681	\$ 37,983	\$ 11,313
Depreciation	17,528	17,854	20,847
Loss on impairment of assets		96	6,091
Gain on sale of assets, net		(512)	(1,171)
<b>FFO</b>	<b>51,209</b>	<b>55,421</b>	<b>37,080</b>
Deferred rental (income) loss	(6,389)	(3,056)	467
Stock-based compensation	406	1,632	1,972
Amortization of intangible income	(2,098)	(3,681)	(1,366)
Amortization of deferred financing costs	550	1,008	2,665
Offering costs (a)	6,864		
Indemnity expense (b)		1,003	2,407
Change in fair value of derivatives	(6,988)	(2,931)	
Non-cash loss on extinguishment of debt		2,295	3,807
<b>Adjusted FFO</b>	<b>\$ 43,554</b>	<b>\$ 51,691</b>	<b>\$ 47,032</b>

(a) Represents costs associated with a planned initial public offering of our company in 2009 that was abandoned.

(b) Represents expenses related to two of our operators to indemnify the operators for certain government obligations owed by the prior operators from whom we are seeking reimbursement. We do not expect to recover all of the amount for which we are seeking reimbursement.

(5) EBITDA represents net income before interest expense (net), taxes, depreciation and amortization of deferred financing costs. Adjusted EBITDA represents EBITDA before stock-based compensation, amortization of intangible income, offering costs, indemnity expense, acquisition transaction costs, loss on impairment of assets, loss on extinguishment of debt, deferred rent write-offs, change in fair value of derivatives and gain on sale of assets (net). For a discussion of EBITDA and Adjusted EBITDA, including their limits as financial measures, see Presentation of Non-GAAP Financial Information and Portfolio Statistics.

**Table of Contents**

The following table is a reconciliation of EBITDA and Adjusted EBITDA to net income, the most directly comparable measure calculated in accordance with GAAP:

EBITDA	Year Ended December 31, (in thousands)		
	2009	2010	2011
Net Income	\$ 33,681	\$ 37,983	\$ 11,313
Interest expense	26,104	22,590	35,167
Depreciation	17,528	17,854	20,847
Amortization of deferred financing costs	550	1,008	2,665
<b>EBITDA</b>	<b>77,863</b>	<b>79,435</b>	<b>69,992</b>
Stock-based compensation	406	1,632	1,972
Amortization of intangible income	(2,098)	(3,681)	(1,366)
Offering costs (a)	6,864		
Indemnity expense (b)		1,003	2,407
Acquisition transaction costs (c)	88	618	2,824
Loss on impairment of assets (d)		96	6,091
Loss on extinguishment of debt (e)		2,295	3,807
Change in fair value of derivatives	(6,988)	(2,931)	
Deferred rent write-offs (f)		3,367	7,093
Gain on sale of assets, net		(512)	(1,171)
<b>Adjusted EBITDA</b>	<b>\$ 76,135</b>	<b>\$ 81,322</b>	<b>\$ 91,649</b>

- (a) Represents costs associated with a planned initial public offering of our company in 2009 that was abandoned.
- (b) Represents expenses related to two of our operators to indemnify the operators for certain government obligations owed by the prior operators from whom we are seeking reimbursement. We do not expect to recover all of the amount for which we are seeking reimbursement.
- (c) Represents fees and expenses associated with 46 properties acquired in 2011.
- (d) Represents a write-down in book value in 2011 of two properties held for future sale.
- (e) Represents a non-cash loss in debt extinguishment relating to a write-off of deferred financing fees associated with the repayment of debt in connection with the offering of our Existing Notes.
- (f) Represents deferred rent write-offs for 15 of our properties, which primarily relate to the transition of certain properties to Saber and the shortening of leases for certain properties operated by Eagle.

- (6) For purposes of the ratio of earnings to fixed charges, earnings consists of net income before fixed charges. Fixed charges consist of interest expensed and capitalized and amortized premiums, preferred dividends, discounts and capitalized expenses related to indebtedness.



---

**Table of Contents**

**RISK FACTORS**

*An investment in the Exchange Notes involves significant risks. You should consider the following risks in addition to information included elsewhere in this prospectus before deciding to participate in the exchange offer. If any of the matters highlighted by the risks discussed in this prospectus occur, our business, prospects, financial condition, results of operations and our ability to service our debt could be materially and adversely affected, and you could lose all or a part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.*

**Risks Relating to Our Business and Operations**

*Our business is dependent upon our tenants successfully operating their businesses and their failure to do so could have a material adverse effect on our ability to successfully and profitably operate our business.*

We depend on our tenants to operate the properties we own in a manner which generates revenues sufficient to allow them to meet their obligations to us, including their obligations to pay rent, maintain certain insurance coverage, pay real estate taxes and maintain the properties in a manner so as not to jeopardize their operating licenses or regulatory status. The ability of our tenants to fulfill their obligations under our leases may depend, in part, upon the overall profitability of their operations, including any other SNFs or other properties or businesses they may acquire or operate. Cash flow generated by certain individual properties have not in the past been, and currently are not, sufficient for a tenant to meet its obligations to us. Our financial position could be weakened and our ability to fulfill our obligations under our indebtedness could be limited if any of our major tenants were unable to meet their obligations to us or failed to renew or extend their relationship with us as their lease terms expire, or if we were unable to lease or re-lease our properties on economically favorable terms. While we have generally been successful in the past in transitioning properties from one tenant to another where properties are underperforming, there can be no assurance that we will be able to continue to identify and successfully transition underperforming properties going forward. In addition, from time to time we may recognize deferred rent write-offs in connection with transitioning properties. These adverse developments could arise due to a number of factors, including those described in the risk factors below, including those under the heading Risks Relating to Our Tenants and the Skilled Nursing Facility Industry.

*We are subject to risks associated with debt financing, which could negatively impact our business and our ability to repay maturing debt.*

Financing for future investments and our maturing commitments may be provided by borrowings under our credit facilities, private or public offerings of debt, the assumption of secured indebtedness, mortgage financing on a portion of our owned portfolio or through joint ventures. We are subject to risks normally associated with debt financing, including the risks that our cash flow will be insufficient to make timely payments of interest, that we will be unable to refinance existing indebtedness or support collateral obligations and that the terms of refinancing will not be as favorable as the terms of existing indebtedness. If we are unable to refinance or extend principal payments due at maturity or pay them with proceeds from other capital transactions, our cash flow may not be sufficient in all years to repay all maturing debt and to pay distributions to our stockholders. Furthermore, if prevailing interest rates, changes in our debt ratings or other factors at the time of refinancing result in higher interest rates upon refinancing, the interest expense relating to that refinanced indebtedness would increase, which could reduce our profitability. Moreover, additional debt financing increases the amount of our leverage, which could negatively affect our ability to obtain additional financing in the future or make us more vulnerable to a downturn in our results of operations or the economy generally. See Risks Relating to the Notes and Our Other Indebtedness.

*Certain tenants account for a significant percentage of our rental income, and the failure of any of these tenants to meet their obligations to us could materially reduce our rental income and net income.*

For the year ended December 31, 2011, approximately 15.8% of our annualized rent under existing leases was from Saber, which operated 25 of our properties in Florida, Massachusetts, Ohio and Pennsylvania,

## Table of Contents

approximately 10.9% of our annualized total rent under existing leases was from Evergreen, which operated 17 of our properties in California, Montana, Nevada, Oregon and Washington, and approximately 10.0% of our annualized total rent under existing leases was from Daybreak, which operated 32 of our properties in Texas.

No other tenant generated more than 8.2% of our annualized total rent under existing leases for the year ended December 31, 2011.

The failure or inability of any of these tenants, or of other tenants that account for a significant percentage of our rental income, to meet their obligations to us could materially reduce our rental income and net income, which could in turn materially adversely affect our results of operations and our ability to make payments on our indebtedness, including the Notes.

*The geographic concentration of our properties could leave us vulnerable to an economic downturn, regulatory or reimbursement changes or acts of nature in those areas, resulting in a decrease in our revenues or otherwise negatively impacting our results of operations.*

For the year ended December 31, 2011, the three states from which we derived the largest amount of annualized rent under existing leases were California (16.9%), Texas (13.4%) and Ohio (8.7%). As a result of these concentrations, the conditions of local economies and real estate markets, changes in governmental rules and regulations, particularly with respect to Medicaid, acts of nature and other factors that may result in a decrease in demand for long-term care services in these states could have an adverse impact on our tenants' revenues, costs and results of operations, which may affect their ability to meet their obligations to us.

*Our portfolio currently consists predominantly of SNFs; any significant cost increases, reductions in reimbursement rates or other regulatory changes could negatively affect our tenants' businesses and their ability to meet their obligations to us.*

Our portfolio is predominately comprised of SNFs. As a result of our focus on SNFs, any changes in governmental rules and regulations, particularly with respect to Medicare and Medicaid reimbursement, or any other changes negatively affecting SNFs, could have an adverse impact on our tenants' revenues, costs and results of operations, which may affect their ability to meet their obligations to us. In particular, CMS final rule regarding 2012 Medicare payment rates for SNF became effective on October 1, 2011 and is expected to reduce reimbursement rates on SNFs by approximately 11.1% on a system-wide basis for the U.S. federal government's fiscal year 2012. Although we are unable to predict the extent of the final rule's impact on our SNF tenants, we expect that the final rule will have an adverse impact on the business and financial results of our SNF tenants, which may adversely affect our business, financial position or results of operations if our SNF tenants are not able to timely make their rental payments.

*We may not be successful in identifying and consummating suitable acquisitions or investment opportunities, which may impede our growth and negatively affect our results of operations and may result in the use of a significant amount of management resources.*

Our ability to expand through acquisitions is integral to our business strategy and requires us to identify suitable acquisition or investment opportunities that meet our criteria and are compatible with our growth strategy. Accordingly, we may often be engaged in evaluating potential transactions and other strategic alternatives. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transaction, we may devote a significant amount of our management resources to such a transaction, which could negatively impact our operations. In addition, we may incur significant costs in connection with seeking acquisitions or other strategic opportunities, regardless of whether the contemplated transactions are completed, and in combining our operations in the event that any such transactions are completed.



## Table of Contents

Our ability to acquire properties successfully may be constrained by the following significant risks:

competition from other real estate investors with significant capital, including publicly-traded REITs and institutional investment funds;

competition from other potential acquirers may significantly increase the purchase price for a property we acquire, which could reduce our growth prospects;

unsatisfactory results of our due diligence investigations or failure to meet other customary closing conditions; and

failure to finance an acquisition on favorable terms or at all.

If any of these risks are realized, our business, financial condition and results of operations and our ability to make payments on our indebtedness, including the Notes, may be materially and adversely affected.

The fact that we must distribute 90% of our REIT taxable income annually in order to maintain our qualification as a REIT may limit our ability to rely upon rental payments from our leased properties or subsequently acquired properties in order to finance acquisitions. As a result, if debt or equity financing is not available on acceptable terms, further acquisitions might be limited or curtailed.

*If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and our ability to make payments on our indebtedness.*

Beginning with the fiscal year ending December 31, 2012, we will be required to perform system and process evaluation and testing of our internal control over financial reporting to allow management to begin reporting on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. We cannot be certain that we will be able to successfully complete the procedures, certification and attestation requirements of Section 404 or that we will not identify material weaknesses in our internal control over financial reporting. If we fail to comply with the requirements of Section 404 or if we identify and report a material weakness, it may affect the reliability of our internal control over financial reporting, which could adversely affect the trading price of the Notes, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

*Because real estate investments are relatively illiquid, our ability to promptly sell properties in our portfolio is limited.*

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. In addition, our properties are special purpose properties that could not be readily converted to general residential, retail or office use. Transfers of operations of SNFs and other healthcare properties are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. To the extent we are unable to sell any properties for our book value, we may be required to take a non-cash impairment charge or loss on the sale, either of which would reduce our net income.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We may not have funds available to correct those defects or to make those improvements. We may agree to transfer restrictions that materially restrict us from selling that property for a period of time or impose other

## **Table of Contents**

restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions would impede our ability to sell a property even if we deem it necessary or appropriate. These facts and any others that would impede our ability to respond to adverse changes in the performance of our properties may have a material adverse effect on our business, financial condition and results of operations.

*Uninsured losses or losses in excess of our tenants' insurance coverage could adversely affect our financial position and our cash flow.*

Under the terms of our leases, our tenants are required to maintain comprehensive general liability, fire, flood, earthquake, boiler and machinery, nursing home or long-term care professional liability and extended coverage insurance with respect to our properties with policy specifications, limits and deductibles set forth in the leases or other written agreements between us and the tenant. However, our properties may be adversely affected by casualty losses which exceed insurance coverages and reserves. Should an uninsured loss occur, we could lose both our investment in, and anticipated profits and cash flows from, the property. Even if it were practicable to restore the property to its condition prior to the damage caused by a major casualty, the operations of the affected property would likely be suspended for a considerable period of time. In the event of any substantial loss affecting a property, disputes over insurance claims could arise.

*As an owner of real property, we may be exposed to environmental liabilities.*

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real property, such as us, may be liable in certain circumstances for the costs of investigation, removal, remediation or release of hazardous or toxic substances (including materials containing asbestos) at, under or disposed of in connection with such property, as well as certain other potential costs relating to hazardous or toxic substances, including government fines and damages for injuries to persons or adjacent property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances, and liability may be imposed on the owner in connection with the activities of a tenant at the property. The cost of any required investigation, remediation, removal, fines or personal or property damages and the owner's liability therefore could exceed the value of the property and/or the assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect our tenants' ability to attract additional residents, our ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenues.

Although our leases require the tenant to indemnify us for certain environmental liabilities, the scope of such obligations may be limited. For instance, some of our leases do not require the tenant to indemnify us for environmental liabilities arising before the tenant took possession of the premises. Further, we cannot assure you that any such tenant would be able to fulfill its indemnification obligations. If we were to be liable for any such environmental liabilities and were unable to seek recovery against our tenants, our business, financial condition and results of operations could be materially and adversely affected.

*We depend upon our key employees and our failure to retain or attract sufficient numbers of qualified personnel could have a material adverse effect on our business.*

Our future performance depends to a significant degree upon the continued contributions of our management team and other employees. As of December 31, 2011, we had 24 full-time employees and six part-time employees and, as a result, the loss of even a small number of our employees may have an adverse effect on our business. Accordingly, our future success depends on our ability to retain, attract, hire and train skilled management and other qualified personnel. Competition for qualified employees is intense, and we compete for qualified employees with companies that may have greater financial resources than we have. Consequently, we may not be successful in retaining, attracting, hiring and training the people we need, which would seriously impede our ability to implement our business strategy.

---

## **Table of Contents**

*Craig M. Bernfield has significant influence over our board of directors.*

Pursuant to a Stockholders Agreement entered into by Aviv REIT, Inc., an affiliate of Lindsay Goldberg, LLC, a representative of certain limited partners related to the family of Zev Karkomi and an entity formed by Craig M. Bernfield, our Chairman, President and Chief Executive Officer, a total of eleven votes are to be cast at all meetings of Aviv REIT's board of directors. Subject to certain exceptions, Class B directors, who are designated by Mr. Bernfield, are entitled to cast a total of six such votes. As a result, subject to certain exceptions, Mr. Bernfield has the ability to effectively control many of our decisions and substantially influence our business, policies, affairs and matters requiring the approval of our board of directors, including the determination of the outcome of many significant corporate transactions.

### **Risks Relating to Our Tenants and the Skilled Nursing Facility Industry**

*Our tenants' failure to comply with the requirements of governmental reimbursement programs such as Medicare or Medicaid, licensing and certification requirements, fraud and abuse regulations or new legislative developments may affect their ability to meet their obligations to us.*

Our tenants are subject to numerous federal, state and local laws and regulations that are subject to frequent and substantial changes (sometimes applied retroactively) resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing laws. The ultimate timing or effect of any changes in these laws and regulations cannot be predicted. We have no direct control over our tenants' ability to meet the numerous federal, state and local regulatory requirements. The failure of any of our tenants to comply with these laws, requirements and regulations may affect their ability to meet their obligations to us. In particular:

*Licensing and Certification.* Our tenants and facilities are subject to regulatory and licensing requirements of federal, state and local authorities and are periodically surveyed by them to confirm compliance. Failure to obtain licensure or loss or suspension of licensure or certification may prevent a facility from operating or result in a suspension of reimbursement payments until all licensure or certification issues have been resolved and the necessary licenses or certification are obtained or reinstated. In addition, some states require that SNFs obtain governmental approval, in the form of a Certificate of Need, or CON, or similar certification, that generally varies by state and is subject to change, prior to the addition or construction of new beds, the addition of services or certain capital expenditures. The CON laws and regulations may restrict our ability to add new facilities or expand an existing facility's size or services. In addition, CON laws may constrain our ability to lease a particular property to a new tenant.

*Medicare and Medicaid Certification.* A significant portion of the revenues of our tenants that operate SNFs is derived from participation in government-funded reimbursement programs, primarily Medicare and Medicaid, and failure to maintain certification to participate in these programs could result in a loss of funding from such programs. Loss of certification could cause the revenues of our tenants to decline, potentially jeopardizing their ability to meet their obligations to us.

*Fraud and Abuse Laws and Regulations.* There are various highly complex federal and state laws governing a wide array of referrals, financial relationships and arrangements and prohibiting fraud by healthcare providers, including criminal provisions that prohibit financial inducements for referrals, filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or failing to refund overpayments or improper payments. Violations of these laws subject persons and entities to termination from participation in Medicare, Medicaid and other federally funded healthcare programs or result in the imposition of treble damages and fines or other penalties, which may affect that tenant's ability to meet its obligations to us or to continue operating the facility.

---

**Table of Contents**

*Other Laws.* Other laws that impact how our tenants conduct their operations include: federal and state laws designed to protect the confidentiality and security of patient health information; state and local licensure laws; laws protecting consumers against deceptive practices; laws generally affecting our tenants' management of property and equipment and how our tenants generally conduct their operations, such as fire, health and safety, and environmental laws; federal and state laws affecting assisted living facilities mandating quality of services and care, and quality of food service; resident rights (including abuse and neglect laws); and health standards set by the federal Occupational Safety and Health Administration. We cannot predict the effect additional costs to comply with these laws may have on the expenses of our tenants and their ability to meet their obligations to us.

*Legislative and Regulatory Developments.* Because all of our properties are used as healthcare properties, we will be impacted by the risks associated with the healthcare industry, including healthcare reform. While the expansion of healthcare coverage may result in some additional demand for services provided by tenants, reimbursement levels may be lower than the costs required to provide such services, which could materially adversely affect the ability of tenants to generate profits and pay rent under their lease agreements with us and thereby could materially adversely affect our business, financial position or results of operations. Regulatory proposals and rules are released on an ongoing basis that may have an impact on the healthcare system in general and the skilled nursing and long-term care industries in particular. We cannot predict whether any legislative or regulatory proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our tenants and their ability to meet their obligations to us.

*Our tenants depend on reimbursement from government and other third-party payors; reimbursement rates from such payors may be reduced, which could cause our tenants' revenues to decline and affect their ability to meet their obligations to us.*

The ability of our tenants to generate revenue and profit influences the underlying value of our properties. Revenues of our tenants are generally derived from payments for patient care. Sources of such payments for SNFs include Medicare, state Medicaid programs, private insurance carriers, healthcare service plans, health maintenance organizations, preferred provider arrangements, self-insured employers and the patients themselves. Medicare and Medicaid programs, as well as numerous private insurance and managed care plans, generally require participating providers to accept government-determined reimbursement levels as payment in full for services rendered, without regard to a facility's charges. Changes in the reimbursement rate or methods of payment from third-party payors, including Medicare and Medicaid, or the implementation of other measures to reduce reimbursements for services provided by our tenants, have in the past and could in the future result in a substantial reduction in our tenants' revenues. Additionally, revenue realizable under third-party payor agreements can change after examination and retroactive adjustment by payors during the claims settlement processes or as a result of post-payment audits. Payors may disallow requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable or because additional documentation is necessary or because certain services were not covered or were not medically necessary. There also continue to be new legislative and regulatory proposals that could impose further limitations on government and private payments to healthcare providers. In some cases, states have enacted or are considering enacting measures designed to reduce their Medicaid expenditures and to make changes to private healthcare insurance. Moreover, healthcare facilities continue to experience pressures from private payors attempting to control healthcare costs, and reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors. We cannot assure you that adequate reimbursement levels will continue to be available for the services provided by our tenants. Further limits on the scope of services reimbursed and on reimbursement rates could have a material adverse effect on our tenants' liquidity, financial condition and results of operations, which could cause the revenues of our tenants to decline and which may affect their ability to meet their obligations to us.

## **Table of Contents**

*Government budget deficits could lead to a reduction in Medicaid and Medicare reimbursement.*

A number of states are currently managing budget deficits, which may put pressure on states to decrease reimbursement rates for our tenants with the goal of decreasing state expenditures under their state Medicaid programs. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. These potential reductions could be compounded by the potential for federal cost-cutting efforts that could lead to reductions in reimbursement to our tenants under both the Medicaid and Medicare programs. Potential reductions in Medicaid and Medicare reimbursement to our tenants could reduce the cash flow of our tenants and their ability to meet their obligations to us.

*Our tenants may be subject to significant legal actions that could subject them to increased operating costs and substantial uninsured liabilities, which may affect their ability to meet their obligations to us.*

Our tenants may be subject to claims that their services have resulted in resident injury or other adverse effects. The insurance coverage maintained by our tenants, whether through commercial insurance or self-insurance, may not cover all claims made against them or continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation may not, in certain cases, be available to our tenants due to state law prohibitions or limitations of availability. As a result, our tenants operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits. From time to time, there may also be increases in government investigations of long-term care providers, particularly in the area of Medicare/Medicaid false claims, as well as increases in enforcement actions resulting from these investigations. Insurance is not available to cover such losses. Any adverse determination in a legal proceeding or government investigation, whether currently asserted or arising in the future, could lead to potential termination from government programs, large penalties and fines and otherwise have a material adverse effect on a tenant's financial condition. If a tenant is unable to obtain or maintain insurance coverage, if judgments are obtained in excess of the insurance coverage, if a tenant is required to pay uninsured punitive damages, or if a tenant is subject to an uninsurable government enforcement action, the tenant could be exposed to substantial additional liabilities, which could result in its bankruptcy or insolvency or have a material adverse effect on the tenant's business and its ability to meet its obligations to us.

Moreover, advocacy groups that monitor the quality of care at healthcare facilities have sued healthcare facility operators and called upon state and federal legislators to enhance their oversight of trends in healthcare facility ownership and quality of care. Patients have also sued healthcare facility operators and have, in certain cases, succeeded in winning very large damage awards for alleged abuses. This litigation and potential litigation in the future has materially increased the costs incurred by our tenants for monitoring and reporting quality of care compliance. In addition, the cost of medical malpractice and liability insurance has increased and may continue to increase so long as the present litigation environment affecting the operations of healthcare facilities continues. Increased costs could limit our tenants' ability to meet their obligations to us, potentially decreasing our revenue and increasing our collection and litigation costs. To the extent we are required to remove or replace a tenant, our revenue from the affected property could be reduced or eliminated for an extended period of time.

*The bankruptcy, insolvency or financial deterioration of our tenants could delay or prevent our ability to collect unpaid rents or require us to find new tenants.*

We receive substantially all of our income as rent payments under leases of our properties. We have very limited control over the success or failure of our tenants' businesses and, at any time, any of our tenants may experience a downturn in its business that may weaken its financial condition. As a result, our tenants may fail to make rent payments when due or declare bankruptcy. Any tenant failures to make rent payments when due or tenant bankruptcies could result in the termination of the tenant's lease and could have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and our ability to make payments on our indebtedness, including the Notes.

---

**Table of Contents**

If tenants are unable to comply with the terms of the leases, we may be forced to modify the leases in ways that are unfavorable to us. Alternatively, the failure of a tenant to perform under a lease could require us to declare a default, repossess the property, find a suitable replacement tenant, operate the property or sell the property. There is no assurance that we would be able to lease a property on substantially equivalent or better terms than the prior lease, or at all, find another tenant, successfully reposition the property for other uses or sell the property on terms that are favorable to us.

If any lease expires or is terminated, we could be responsible for all of the operating expenses for that property until it is re-leased or sold. If we experience a significant number of un-leased properties, our operating expenses could increase significantly. Any significant increase in our operating costs may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and our ability to make payments on our indebtedness, including the Notes.

Any bankruptcy filing by or relating to one of our tenants could bar all efforts by us to collect pre-bankruptcy debts from that tenant or seize its property. A tenant bankruptcy could also delay our efforts to collect past due balances under the leases and could ultimately preclude collection of all or a portion of these sums. It is possible that we may recover substantially less than the full value of any unsecured claims we hold, if any, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and our ability to make payments on our indebtedness, including the Notes. Furthermore, dealing with a tenant's bankruptcy or other default may divert management's attention and cause us to incur substantial legal and other costs.

If one or more of our tenants files for bankruptcy relief, the U.S. federal Bankruptcy Code provides that a debtor has the option to assume or reject the unexpired lease within a certain period of time. However, our leases with tenants that lease more than one of our properties are generally made pursuant to a single master lease covering all of that tenant's properties leased from us, or are cross-defaulted with other leases, and consequently there is uncertainty about how such arrangements may be treated in a bankruptcy. It is possible that in bankruptcy the debtor-tenant may be required to assume or reject the master lease or cross-defaulted leases as a whole, rather than making the decision on a property-by-property basis, thereby preventing the debtor-tenant from assuming the better performing properties and terminating the master lease or cross-defaulted leases with respect to the poorer performing properties. The U.S. federal Bankruptcy Code generally requires that a debtor must assume or reject a contract in its entirety. Thus, under this scenario, a debtor could not choose to keep the beneficial provisions of a contract while rejecting the burdensome ones; the contract must be assumed or rejected as a whole. However, where under applicable state law a contract (even though it is contained in a single document) is determined to be divisible or severable into different agreements, or similarly, where a collection of documents is determined to constitute separate agreements instead of a single, integrated contract, then in those circumstances a debtor/trustee may be allowed to assume some of the divisible or separate agreements while rejecting the others.

**Risks Relating to the Notes and Our Other Indebtedness**

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

We have substantial indebtedness and we may increase our indebtedness in the future. As of December 31, 2011, we had total indebtedness of \$600.5 million outstanding. After giving pro forma effect to the sale of the Old Notes and the application of the net proceeds therefrom to repay certain outstanding indebtedness, we anticipate that we would have had total indebtedness of approximately \$619.6 million as of December 31, 2011, including \$400.0 million of indebtedness with respect to the Notes (excluding \$4.4 million of net debt premium balance). Our level of indebtedness could have important consequences to investors. For example, it could:

limit our ability to satisfy our obligations with respect to the Notes and our other debt;

increase our vulnerability to general adverse economic and industry conditions;

**Table of Contents**

limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements, or to carry out other aspects of our business;

increase our cost of borrowing;

require us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures and other general corporate requirements, or to carry out other aspects of our business;

require us to pledge as collateral substantially all of our assets;

require us to maintain certain debt coverage and financial ratios at specified levels, thereby reducing our financial flexibility;

limit our ability to make material acquisitions or take advantage of business opportunities that may arise;

limit our ability to make distributions to our stockholders, which may cause us to become subject to federal corporate income tax on any income that we do not distribute;

expose us to fluctuations in interest rates, to the extent our borrowings bear variable rates of interests;

limit our flexibility in planning for, or reacting to, changes in our business and industry; and

place us at a potential competitive disadvantage compared to our competitors that have less debt.

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

*We may be unable to service our indebtedness, including the Notes.*

Our ability to make scheduled payments on and to refinance our indebtedness, including the Notes, depends on and is subject to our future financial and operating performance, which in turn is affected by general and regional economic, financial, competitive, business and other factors beyond our control, including the availability of financing in the banking and capital markets. Our business may fail to generate sufficient cash flow from operations or future borrowings may be unavailable to us under our Acquisition Credit Line, our 2014 Revolver, our 2016 Revolver or from other sources in an amount sufficient to enable us to make payments on our debt, including the Notes, to refinance our debt or to fund our other liquidity needs, including making distributions and dividends to maintain our REIT status. If we are unable to meet our debt obligations or to fund our other liquidity needs, we will need to restructure or refinance all or a portion of our debt, including the Notes. We may be unable to refinance any of our debt, including our Term Loan, our 2016 Revolver, our Acquisition Credit Line, our 2014 Revolver and the Existing Notes, on commercially reasonable terms or at all. In particular, our 2016 Revolver, our Acquisition Credit Line and our 2014 Revolver will mature prior to the maturity of the Notes. If we were unable to make payments or refinance our debt or obtain new financing under these circumstances, we would have to consider other options, such as asset sales, equity issuances and/or negotiations with our lenders to restructure the applicable debt. Our Term Loan, our 2016 Revolver, our Acquisition Credit Line, our 2014 Revolver and the indenture governing the Notes restrict, and market or business conditions may limit, our ability to take some or all of these actions. Any restructuring or refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants that could further restrict our business operations. In addition, although the indenture governing the Notes limits our ability to incur





---

**Table of Contents**

additional indebtedness, this limitation is subject to a number of significant exceptions and the amount of additional indebtedness incurred could nevertheless be substantial. Furthermore, the indenture governing the Notes does not impose any limitation on our ability to incur liabilities that are not considered indebtedness thereunder.

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

The Notes and the guarantees are the Issuers' and the guarantors' unsecured obligations. The indenture governing the Notes generally permits us to incur secured indebtedness so long as we maintain a specified ratio of unencumbered assets to unsecured debt. The Notes and the guarantees are effectively subordinated to all of our existing and future secured debt and that of the guarantors to the extent of the value of the assets securing such obligations, including our Term Loan, our 2016 Revolver, our Acquisition Credit Line and our 2014 Revolver. Our obligations under our Term Loan, our 2016 Revolver, our Acquisition Credit Line and our 2014 Revolver are secured by first lien mortgages on certain of our properties, a pledge of the capital stock of subsidiaries owning such properties and other customary collateral, including an assignment of leases and rents with respect to such mortgaged properties. After giving pro forma effect to the sale of the Old Notes and the application of the net proceeds therefrom to repay certain outstanding indebtedness, we anticipate that, as of December 31, 2011, we would have had an aggregate of approximately \$196.9 million of secured mortgage indebtedness, \$15.0 million of secured indebtedness under our 2014 Revolver and \$7.7 million of other secured indebtedness. In addition, we will have \$100.0 million available for borrowing under our Acquisition Credit Line, \$10.0 million available for borrowing under our 2014 Revolver and up to \$187.5 million available for borrowing under our 2016 Revolver (of which approximately \$40.5 million was available based on the borrowing base formula as of March 2, 2012). Because the Notes are unsecured obligations, your right of repayment may be compromised in the following situations:

We enter into bankruptcy, liquidation, reorganization or other winding-up;

There is a default in payment under any of our secured debt; or

There is an acceleration of any of our secured debt.

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

*Certain guarantees of the Notes are subordinated to the borrowings of the applicable Note guarantors under our credit facilities.*

The guarantees of the subordinated guarantee subsidiaries rank behind all of the subordinated guarantee subsidiaries' indebtedness under our Acquisition Credit Line or any permitted refinancing thereof. After giving pro forma effect to the sale of the Old Notes and the application of the net proceeds therefrom, our revenues attributable to the properties held by the subordinated guarantee subsidiaries would have been \$52.2 million for the year ended December 31, 2011, and, as of December 31, 2011, these properties would have accounted for 40.9% of our total real estate investments, net of accumulated depreciation. After giving pro forma effect to the sale of the Old Notes and the application of the net proceeds therefrom, as of December 31, 2011, the subordinated guarantee subsidiaries would have had aggregate secured indebtedness to third parties of approximately \$196.9 million.

As a result of this subordination, upon any distribution to the creditors of the subordinated guarantee subsidiaries in a bankruptcy, liquidation or reorganization or similar proceeding relating to the subordinated

---

**Table of Contents**

guarantee subsidiaries or their property, the holders of the indebtedness under our Term Loan and our Acquisition Credit Line of the subordinated guarantee subsidiaries will be entitled to be paid in full before any payment may be made with respect to the guarantees of the Notes of such subordinated guarantee subsidiaries. In addition, all payments on the guarantees of the Notes by the subordinated guarantee subsidiaries will be blocked until payment in full of the Acquisition Credit Line (or any permitted refinancing thereof).

Because amounts otherwise payable to the holders of the Notes by the subordinated guarantee subsidiaries in a bankruptcy or similar proceeding are required to be paid to the lenders under our Term Loan and our Acquisition Credit Line instead, the holders of the Notes may receive less, ratably, than the holders of trade payables or other unsecured, unsubordinated creditors in any such proceeding. Holders of the Notes may not be fully repaid if we or the subordinated guarantee subsidiaries become insolvent or otherwise fail to make payment on the Notes. See Description of Exchange Notes Subordination of Guaranties of Subordinated Guaranty Subsidiaries for a full description of the subordination provisions.

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

The Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries that are not guaranteeing the Notes or in the future do not guarantee the Notes. These non-guarantor subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Notes, or to make any funds available therefor, whether by dividends, loans, distributions or other payments. Any right that we or the subsidiary guarantors have to receive any assets of any of the non-guarantor subsidiaries upon the bankruptcy, liquidation or reorganization of those subsidiaries, and the consequent rights of holders of Notes to realize proceeds from the sale of any of those subsidiaries' assets, will be effectively subordinated to the claims of those subsidiaries' creditors, including creditors (including mortgage holders) and holders of preferred equity interests of those subsidiaries. Accordingly, in the event of a bankruptcy, liquidation or reorganization of any of our non-guarantor subsidiaries, these non-guarantor subsidiaries will pay the holders of their debts, holders of preferred equity interests and their trade creditors before distributing any of their assets to us. Our revenues attributable to the properties held by the non-guarantor subsidiaries was \$1.6 million for the year ended December 31, 2011, and, as of December 31, 2011, these properties accounted for 2.8% of Aviv REIT's total real estate investments, net of accumulated depreciation.

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

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

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

Our debt agreements, including the indenture governing the Notes, our Term Loan, our 2016 Revolver, our Acquisition Credit Line and our 2014 Revolver, contain various covenants that limit our ability and the ability of our restricted subsidiaries to engage in various transactions including:

Incurring additional secured and unsecured debt;

Paying dividends or making other distributions on, redeeming or repurchasing the capital stock of Aviv REIT;

---

**Table of Contents**

Making investments or other restricted payments;

Entering into transactions with affiliates;

Issuing stock of or interests in restricted subsidiaries;

Engaging in non-healthcare related business activities;

Creating restrictions on the ability of our restricted subsidiaries to pay dividends or other amounts to us;

Selling assets; or

Effecting a consolidation or merger or selling all or substantially all of our assets.

These covenants limit our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively. In addition, our Term Loan, our 2016 Revolver, our Acquisition Credit Line and our 2014 Revolver require us to maintain specified financial covenants, which include a maximum leverage ratio and a minimum fixed charge coverage ratio, as well as satisfy other financial condition tests. The indenture governing the Notes requires us to maintain Total Unencumbered Assets (as defined in

Description of Exchange Notes ) of at least 150% of our unsecured indebtedness. Our ability to meet these requirements may be affected by events beyond our control, and we may not meet these requirements.

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

*A rise in interest rates may impact our future debt costs.*

After giving effect to the sale of the Old Notes, as of December 31, 2011, we anticipate we would have had \$110.0 million of borrowings available under our Acquisition Credit Line and 2014 Revolver. In addition, in January 2012, we closed on our 2016 Revolver which, as of March 2, 2012, had borrowing availability of approximately \$40.5 million. Any amounts borrowed under the facilities would accrue interest at variable rates. Because we may incur a significant amount of indebtedness that bears interest at a variable rate, we may be exposed to market risks relating to changes in interest rates. A significant increase in interest rates could impact the ability of our subsidiaries to make distributions to us, which would reduce or available cash and impact our ability to finance future investments and meet maturing commitments. Rising interest rates could limit our ability to refinance existing debt when it matures or cause us to pay higher interest rates upon refinancing.

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

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee of the Notes could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that subsidiary guarantor if, among other things, the subsidiary guarantor, at the time it incurred the debt evidenced by its guarantee, received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee and (i) was insolvent or rendered insolvent by reason of such incurrence, (ii) was engaged in a business or transaction for which the subsidiary guarantor's remaining assets constituted unreasonably small capital, or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.



---

**Table of Contents**

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

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

The sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

The present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

It could not pay its debts as they become due.

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

*There may be no way to distinguish between the Existing Notes and the Exchange Notes if the obligations under the Existing Notes or the related guarantees were voided, subordinated or reduced.*

The Exchange Notes, together with the Existing Notes and the Old Notes, are part of a single class under the indenture governing the Notes. If any of the Existing Notes are tainted by a court finding of a fraudulent conveyance, the Exchange Notes may be tainted as well, particularly if it is not possible to distinguish the Exchange Notes from the Existing Notes. In this case, the Exchange Notes may become indistinguishable from the Existing Notes or additional notes issued in the future to the extent they bear the same CUSIP number as the Existing Notes. The Existing Notes or additional notes may have been or may be issued under circumstances in which there is an increased risk that a court would determine the issuance of such notes or any guarantee thereof constitutes a fraudulent conveyance or in which the court would apply the savings clause to eliminate or reduce the guarantee of the notes. In such a scenario, because such class of notes shares the same CUSIP number as the Exchange Notes, there will be no way to distinguish between the other notes and the Exchange Notes if the obligations under such other notes or the related guarantees were voided, subordinated or reduced, and therefore the Exchange Notes and guarantees thereof may be similarly voided, subordinated or reduced.

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

Upon the occurrence of specific kinds of change of control events, the indenture governing the Notes requires us to make an offer to repurchase all outstanding Notes at 101% of the principal amount thereof, plus accrued and unpaid interest (and additional interest, if any) to the date of repurchase. However, it is possible that

---

**Table of Contents**

we will not have sufficient funds, or the ability to raise sufficient funds, at the time of the change of control to make the required repurchase of the Notes. In addition, restrictions under our Term Loan, our 2016 Revolver, our Acquisition Credit Line, our 2014 Revolver or other future debt, may not allow us to repurchase the Notes upon a change of control. If we could not refinance such senior debt or otherwise obtain a waiver from the holders of such debt, we would be prohibited from repurchasing the Notes, which would constitute an event of default under the indenture governing the Notes, which in turn would constitute a default under our Term Loan, our 2016 Revolver, our Acquisition Credit Line and our 2014 Revolver. In addition, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a Change of Control under the indenture governing the Notes although these types of transactions could affect our capital structure or credit ratings and the holders of the Notes. See Description of Exchange Notes Repurchase of Notes upon a Change of Control.

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

*An active trading market may not develop for the Notes, which may hinder your ability to liquidate your investment.*

We do not intend to list the Old Notes or any Exchange Notes that may be issued under the exchange offer on any national securities exchange or seek the admission of the Old Notes or any Exchange Notes for quotation through any automated inter-dealer quotation system. As a result, an active trading market for the Notes may not develop or be sustained. If an active trading market for the Notes fails to develop or be sustained, the trading price of the Notes could be adversely affected.

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

Prevailing interest rates;

Demand for high yield debt securities generally;

General economic conditions;

Our financial condition, performance and future prospects;

Our credit rating; and

Prospects for companies in our industry generally.

Historically, the market of non-investment grade debt like the Notes has been subject to disruptions that have caused substantial market price fluctuations in the price of securities that are similar to the Notes. Therefore, even if a trading market for the Notes develops, it may be subject to disruptions and price volatility.

---

## **Table of Contents**

*A downgrade, suspension or withdrawal of the rating assigned by a rating agency to the Notes, if any, could cause the liquidity or market value of the Notes to decline.*

The Notes have been rated by rating agencies. A rating is not a recommendation to purchase, sell or hold the Notes. We cannot assure you that any rating assigned will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances relating to the basis of the rating, such as adverse changes in our business, so warrant. Any lowering or withdrawal of a rating by a rating agency could reduce the liquidity or market value of the Notes.

### **Risks Relating to Our Tax Status and Other Tax Related Matters**

*Our failure to remain qualified as a REIT would have significant adverse consequences to us and our ability to make payments on our indebtedness, including the Notes.*

Aviv REIT intends to operate in a manner that will allow it to be taxed as a REIT for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). Aviv REIT made the election to be taxed as a REIT effective as of its taxable year ending December 31, 2010. We have not requested and do not plan to request a ruling from the Internal Revenue Service (the "IRS") that we qualify as a REIT, and the statements in this prospectus are not binding on the IRS or any court. If we fail to qualify or lose our qualification as a REIT, we will face serious tax consequences that would substantially reduce the funds available for satisfying our obligations for each of the years involved because:

we would not be allowed a deduction for distributions to stockholders in computing our taxable income and we would be subject to U.S. federal income tax at regular corporate rates;

we also could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes; and

unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following a year during which we were disqualified.

Qualification as a REIT involves the application of highly technical and complex Code provisions and regulations promulgated thereunder for which there are only limited judicial and administrative interpretations. Even a technical or inadvertent violation could jeopardize our ability to remain qualified as a REIT. The complexity of these provisions and of the applicable U.S. Treasury Department regulations that have been promulgated under the Code is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to remain qualified as a REIT. In order to remain qualified as a REIT, we must satisfy a number of requirements on a continuing basis, including requirements regarding the composition of our assets, sources of our gross income and stockholder ownership. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains.

As a result of these factors, our failure to qualify as a REIT also could impair our ability to expand our business, raise capital and make payments on our indebtedness, including the Notes.

*Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.*

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Any of these taxes would decrease cash available for the payment of our debt obligations. In addition, we may use taxable REIT subsidiaries ("TRSs") to undertake indirectly activities that the REIT rules might otherwise preclude us from doing directly or through pass-through subsidiaries. Such TRSs will be subject to corporate level income tax at regular rates.

---

**Table of Contents**

*To maintain our REIT qualification, we may be forced to borrow funds during unfavorable market conditions.*

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding net capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to qualify as a REIT and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis, or possibly on a long-term basis, to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from, among other things, a difference in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes, the effect of non-deductible capital expenditures, the creation of reserves or required debt amortization payments. The terms of the indenture governing the Notes, our Term Loan, our Acquisition Credit Line, our 2014 Revolver and our 2016 Revolver restrict our ability to incur additional indebtedness.

*Complying with REIT requirements may limit our ability to hedge effectively.*

The REIT provisions of the Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets generally does not constitute gross income for purposes of the 75% gross income test or the 95% gross income test, if certain requirements are met. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a taxable REIT subsidiary, or TRS. This could increase the cost of our hedging activities because a domestic TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

*New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT.*

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in our common stock and impair our ability to raise capital through the sale of equity. The U.S. federal income tax rules that affect REITs constantly are under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in U.S. federal tax laws and interpretations thereof could cause us to change our investments and commitments, which could also affect the tax considerations of an investment in our common stock and impair our ability to raise capital through the sale of equity.

*We have limited experience operating as a REIT and therefore may have difficulty in successfully and profitably operating our business in compliance with the regulatory requirements applicable to REITs.*

Aviv REIT was formed on July 30, 2010, and we have limited experience operating as a REIT and complying with the numerous technical restrictions and limitations set forth in the Code, as applicable to REITs. As a result, we cannot assure you that we will be able to successfully operate as a REIT or comply with regulatory requirements applicable to REITs, and you should be especially cautious in drawing conclusions about the ability of our management team to operate our business.



## **Table of Contents**

### **Risks Relating to the Exchange Offer**

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

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

registered under the Securities Act;

offered or sold pursuant to an exemption from the Securities Act and applicable state securities laws; or

offered or sold in a transaction not subject to the Securities Act and applicable state securities laws.

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

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

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

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

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

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

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

---

**Table of Contents**

**THE EXCHANGE OFFER**

**Purpose of the Exchange Offer**

In connection with the sale of the Old Notes, we entered into a registration rights agreement pursuant to which we agreed, for the benefit of the holders of the Old Notes, at our cost, to use our reasonable best efforts:

- (1) to file with the SEC an exchange offer registration statement pursuant to which we and the guarantors will offer, in exchange for the Old Notes, new notes identical in all material respects to, and evidencing the same indebtedness as, the Old Notes (but will not contain terms with respect to transfer restrictions or provide for the additional interest described below);
- (2) to cause the exchange offer registration statement to be declared effective under the Securities Act prior to July 11, 2012; and
- (3) to cause the exchange offer to be consummated by August 10, 2012 (the *Consummation Deadline* ).

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

- (1) such holder is not an *affiliate* of ours within the meaning of Rule 405 of the Securities Act;
- (2) such Exchange Notes are acquired in the ordinary course of the holder's business; and
- (3) such holder has no arrangement or understanding with any person to participate in a distribution (within the meaning of the Securities Act) of the Exchange Notes.

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

- (1) cannot rely on the position of the staff of the SEC set forth in *Exxon Capital Holdings Corporation, Morgan Stanley & Co., Incorporated* or similar no-action letters; and
- (2) in the absence of an applicable exemption, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a resale of the Exchange Notes or it may incur liability under the Securities Act. We will not be responsible for, or indemnify against, any such liability.

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

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

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



---

## **Table of Contents**

participate in the exchange offer. Each broker-dealer that receives Exchange Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the Exchange Notes. Please read the section entitled "Plan of Distribution" for more details regarding these procedures for the transfer of Exchange Notes. We have agreed, for a period of 180 days after the exchange offer is consummated, to make this prospectus available to any broker-dealer for use in connection with any resale of the Exchange Notes.

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

### **Shelf Registration Statement**

In the event that:

- (1) we are not required to file the exchange offer registration statement or to consummate the exchange offer because the exchange offer is not permitted by law or SEC policy; or
- (2) for any reason, we do not consummate the exchange offer by August 10, 2012; or
- (3) any holder notifies us that:

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

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

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

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

then in addition to or in lieu of conducting the exchange offer, we will be required to file a shelf registration statement with the SEC to cover resales of the Old Notes or the Exchange Notes, as the case may be. In that case, we will use our reasonable best efforts to (a) cause the registration statement to become effective (i) in the case of clause (1) above, by the 90<sup>th</sup> day after we determine we are not permitted to file the exchange offer registration statement or to consummate the exchange offer due to a change in law or policy but in any event not earlier than July 11, 2012, (ii) in the case of clause (2) above, by the 90<sup>th</sup> day after the Consummation Deadline, and (iii) in the case of clause (3) above, by the 90<sup>th</sup> day after receipt of such notice but in any event not later than July 11, 2012, and (b) maintain the effectiveness of the registration statement for two years or such lesser period after which all the notes registered therein have been sold under the Securities Act.

### **Additional Interest**

If (1) we have not filed the exchange offer registration statement or the shelf registration statement by the dates described above as required by the registration rights agreement, (2) the exchange offer registration statement or the shelf registration statement is not declared effective by the dates described above as required by the registration rights agreement, (3) we do not consummate the exchange offer described in this prospectus by the Consummation Deadline, or (4) the shelf registration statement is declared effective, but thereafter, subject to certain exceptions, ceases to be effective or usable in connection with resales of any Notes registered under the



---

## **Table of Contents**

shelf registration statement during the periods specified in the registration rights agreement, then we will be in default under the registration rights agreement. If one or more of the registration defaults occurs, the annual interest rate on the Old Notes will increase by 0.25% per annum during the 90-day period immediately following such default. The amount of additional interest will increase by an additional 0.25% per annum at the end of each subsequent 90-day period until all registration defaults are cured, up to a maximum additional interest rate of 1.00% per annum. When we have cured all of the registration defaults, the interest rate on the Old Notes will revert immediately to the original level.

The exchange offer is intended to satisfy our exchange offer obligations under the registration rights agreement. The Notes will not have rights to additional interest as set forth above upon the consummation of the exchange offer.

### **Terms of the Exchange Offer**

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

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

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

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

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

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

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

---

**Table of Contents**

**Expiration Date; Extensions; Amendments**

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

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

We reserve the right, in our sole discretion:

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

Any delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by written notice to the registered holders by a press release or other public announcement. If we amend the exchange offer in a manner that we determine to constitute a material change in the exchange offer, or if we waive a condition to the exchange offer, we will promptly disclose such amendment or waiver in a manner reasonably calculated to inform the holders of Old Notes of such amendment or waiver, and we will extend the exchange offer period, if necessary, so that at least five business days remain in the exchange offer following notice of the material change. If we terminate the exchange offer as provided in this prospectus before accepting any Old Notes for exchange or if we amend the terms of the exchange offer in a manner that constitutes a fundamental change in the information set forth in the registration statement of which this prospectus forms a part, we will promptly file a post-effective amendment to the registration statement of which this prospectus forms a part. In addition, we will in all events comply with our obligation to promptly after expiration or termination of the exchange offer, as applicable, exchange all Old Notes properly tendered and accepted for exchange in the exchange offer and return all Old Notes not accepted for exchange.

**Procedures for Tendering Old Notes Through Brokers and Banks**

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

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

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

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

---

## Table of Contents

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

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

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

Each Agent's Message must include the following information:

- (1) Name of the beneficial owner tendering such Old Notes;
- (2) Account number of the beneficial owner tendering such Old Notes;
- (3) Principal amount of Old Notes tendered by such beneficial owner; and
- (4) A confirmation that the beneficial holder of the Old Notes tendered has made the representations for our benefit set forth under Representations below.

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

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

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

We will decide all questions about the validity, form, eligibility, time of receipt, acceptance and withdrawal of tendered Old Notes, and our reasonable determination will be final and binding on you. We reserve the absolute right to: (1) reject any and all tenders of any particular Old Note not properly tendered; (2) refuse to accept any Old Note if, in our reasonable judgment or the judgment of our counsel, the acceptance would be unlawful; and (3) waive any defects or irregularities or conditions of the exchange offer as to any particular Old Notes before the expiration of the offer. Our interpretation of the terms and conditions of the exchange offer will be final and binding on all parties. You must cure any defects or irregularities in connection with tenders of Old Notes as we will reasonably determine. Neither us, the exchange agent nor any other person



## **Table of Contents**

will incur any liability for failure to notify you of any defect or irregularity with respect to your tender of Old Notes. If we waive any terms or conditions pursuant to (3) above with respect to a noteholder, we will extend the same waiver to all noteholders with respect to that term or condition being waived.

### **Representations**

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

- (1) it has full corporate (or similar) power and authority to tender, exchange, assign and transfer the Old Notes and to acquire the Exchange Notes;
- (2) when the Old Notes are accepted for exchange, the Issuers will acquire good and unencumbered title to the tendered Old Notes, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim; and
- (3) if such holder is a broker dealer that will receive Exchange Notes for its own account in exchange for Old Notes that were acquired as a result of market-making or other trading activities, then such holder will comply with the applicable provisions of the Securities Act with respect to any resale of the Exchange Notes. See Plan of Distribution.

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

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

- (1) neither the holder nor any beneficial owner of the Old Notes is an affiliate (as defined in Rule 405 under the Securities Act) of the Issuers;
- (2) neither the holder nor any beneficial owner of the Old Notes is engaged in or intends to engage in, and has no arrangement or understanding with any person to participate in, a distribution (within the meaning of the Securities Act) of the Exchange Notes;
- (3) any Exchange Notes to be acquired by the holder and any beneficial owner of the Old Notes pursuant to the exchange offer will be acquired in the ordinary course of business of the person receiving such Exchange Notes; and
- (4) the holder is not acting on behalf of any person who could not truthfully make the foregoing representations.

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

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

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

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

## **Table of Contents**

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

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

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

### **No Guaranteed Delivery**

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

### **Withdrawal Rights**

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

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

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

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

### **Conditions to the Exchange Offer**

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

The foregoing conditions are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to any such condition or may be waived by us in whole or in part at any time before the expiration of the exchange offer in our sole discretion. Our failure to exercise any of the foregoing rights at any

## **Table of Contents**

time will not be deemed a waiver of any such right and each such right will be deemed an ongoing right which may be asserted at any time before the expiration of the exchange offer. If we waive any conditions of the exchange offer, we will promptly disclose such waiver in a manner reasonably calculated to inform the holders of the Old Notes of such waiver.

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

## **Exchange Agent**

We have appointed The Bank of New York Mellon Trust Company, N.A. as the exchange agent for the exchange offer. You should direct questions, requests for assistance, and requests for additional copies of this prospectus and the letter of transmittal to the exchange agent addressed as follows:

### **THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., EXCHANGE AGENT**

*By registered or certified mail, overnight delivery:*

c/o The Bank of New York Mellon Corporation

Corporate Trust Operations Reorganization Unit

101 Barclay Street, Floor 7 East

New York, NY 10286

Attn: Mr. David Mauer

*For information call:*

(212) 815-3687

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

## **Fees and Expenses**

The principal solicitation is being made through DTC by The Bank of New York Mellon Trust Company, N.A., 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 registration and filing fees and expenses, fees and expenses of compliance with federal securities and state securities or blue sky securities laws, printing expenses, messenger and delivery services and telephone, fees and disbursements to our counsel, application and filing fees and any fees and disbursements to our independent certified public accountants. We will not make any payment to brokers, dealers, or others soliciting acceptances of the exchange offer except for reimbursement of mailing expenses.

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

## **Accounting Treatment**

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



## **Table of Contents**

### **Transfer Taxes**

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

### **Consequences of Failure to Exchange**

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

### **Other**

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

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

**Table of Contents**

**USE OF PROCEEDS**

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

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and the capitalization of Aviv Healthcare Properties Limited Partnership as of December 31, 2011:

on an actual basis; and

on an as adjusted basis to give effect to the sale of the Old Notes and the application of the net proceeds therefrom to repay certain outstanding indebtedness.

You should read this table in connection with Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and the more detailed information contained in our historical consolidated financial statements and related notes included elsewhere in this prospectus.

	As of December 31, 2011	
	Actual	As Adjusted
	(in millions)	
Cash and cash equivalents	\$ 39.2	\$ 39.2
Debt:		
Revolving credit facilities (1)	\$ 15.0	\$ 15.0
Acquisition credit line (2)	72.2	0.0
Mortgage term loan (2)	196.9	196.9
Other secured debt (3)	13.8	7.7
7 <sup>3</sup> / <sub>4</sub> % Senior Notes due 2019 (4)	300.0	400.0
Total debt	597.9	619.6
Total equity	247.3	247.3
Total capitalization	\$ 845.2	\$ 866.9

(1) In February 2011, we entered into a \$25.0 million revolving credit facility with Bank of America (our 2014 Revolver). In January 2012, we repaid all amounts outstanding under the 2014 Revolver, the properties securing the credit facility were released and the borrowing availability under the credit facility was reduced to \$0. On January 31, 2012, we entered into a \$187.5 million secured revolving credit facility with General Electric Capital Corporation (our 2016 Revolver). As of March 2, 2012, we had an outstanding principal balance of \$17.6 million under the 2016 Revolver. The net proceeds from the sale of the Old Notes were used to repay \$4.8 million of the additional indebtedness incurred under the 2016 Revolver after December 31, 2011.

(2) In September 2010, we refinanced all of our existing mortgage indebtedness by entering into a secured credit facility consisting of a \$405.0 million mortgage term loan (our Term Loan) and a \$100.0 million acquisition credit line (our Acquisition Credit Line). The net proceeds from the sale of the Old Notes issued in March 2012 were used to repay the \$72.2 million of indebtedness outstanding under the Acquisition Credit Line as of December 31, 2011, as well as additional indebtedness incurred after December 31, 2011 of \$15.4 million.



## Edgar Filing: AVIV REIT, INC. - Form S-4/A

- (3) In November 2010, we entered into a construction and term loan agreement providing a loan of up to \$6.4 million to finance the renovation of a SNF located in Arkansas, \$6.1 million of which was outstanding as of December 31, 2011 (the construction and term loan). Also in November 2010, we entered into loan agreements in the aggregate principal amount of \$7.8 million relating to the acquisition of a SNF located in California. The net proceeds from the sale of the Old Notes were used to repay the \$6.1 million of indebtedness outstanding under the construction and term loan.
- (4) Reflects \$300.0 million of Notes issued in February 2011 and April 2011 (excluding \$2.6 million net balance related to such Notes) and \$100.0 million of Notes issued in March 2012 (excluding \$1.8 million net premium balance related to such Notes).

**Table of Contents****SELECTED FINANCIAL DATA**

You should read the following selected historical consolidated data in connection with Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and related notes thereto appearing elsewhere in this prospectus.

The selected historical consolidated financial data as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 have been derived from the audited historical consolidated financial statements of Aviv REIT, Inc. and Aviv Healthcare Properties Limited Partnership appearing elsewhere in this prospectus. The selected historical financial data as of December 31, 2009, 2008 and 2007 and for the years ended December 31, 2008 and 2007 have been derived from the audited historical consolidated financial statements of Aviv REIT, Inc. and Aviv Healthcare Properties Limited Partnership, which are not included in this prospectus. The historical results are not necessarily indicative of the results to be expected in the future.

Operating Information	Year Ended December 31,				
	2007	2008	2009	2010	2011
<b>Revenues</b>					
Rental income	\$ 67,755	\$ 72,143	\$ 82,775	\$ 85,240	\$ 92,326
Tenant recoveries	4,274	4,831	6,056	6,442	7,175
Interest on loans to lessees	370	1,859	3,493	5,226	5,246
<b>Total revenues</b>	<b>72,399</b>	<b>78,833</b>	<b>92,324</b>	<b>96,908</b>	<b>104,747</b>
<b>Expenses</b>					
Rent and other operating expenses	658	1,088	612	575	891
General and administrative	4,929	6,809	7,741	11,475	17,589
Offering costs			6,864		
Real estate taxes	4,306	5,116	6,232	6,475	7,282
Depreciation	12,938	14,616	17,528	17,854	20,847
Loss on impairment	2,987	932		96	6,091
<b>Total expenses</b>	<b>25,818</b>	<b>28,561</b>	<b>38,977</b>	<b>36,475</b>	<b>52,700</b>
<b>Operating income</b>	<b>46,581</b>	<b>50,272</b>	<b>53,347</b>	<b>60,433</b>	<b>52,047</b>
<b>Other income and expenses</b>					
Interest and other income	1,413	2,012	466	133	843
Interest expense	(24,254)	(26,272)	(26,570)	(22,723)	(36,010)
Change in fair value of derivatives	(6,946)	(8,674)	6,988	2,931	
Amortization of deferred financing costs	(439)	(537)	(550)	(1,008)	(2,664)
Earn out accretion					(267)
Gain on sale of assets, net				512	1,171
Loss on extinguishment of debt				(2,295)	(3,807)
<b>Total other income and expenses</b>	<b>(30,226)</b>	<b>(33,471)</b>	<b>(19,666)</b>	<b>(22,450)</b>	<b>(40,734)</b>
<b>Income from continuing operations</b>	<b>16,355</b>	<b>16,801</b>	<b>33,681</b>	<b>37,983</b>	<b>11,313</b>
<b>Discontinued operations</b>	<b>43</b>	<b>73</b>			
<b>Net income</b>	<b>\$ 16,398</b>	<b>\$ 16,874</b>	<b>\$ 33,681</b>	<b>\$ 37,983</b>	<b>\$ 11,313</b>

Balance Sheet Information	As of December 31,				
	2007	2008	2009	2010	2011
Cash and cash equivalents	\$ 16,377	\$ 9,361	\$ 15,543	\$ 13,028	\$ 40,862
Loan receivables	34,920	20,361	28,970	36,611	33,031

Edgar Filing: AVIV REIT, INC. - Form S-4/A

Rental properties, net of accumulated depreciation	475,695	564,600	577,736	627,101	822,588
Total assets	560,230	634,368	665,130	731,400	951,421
Mortgage and other notes payable	386,356	463,546	480,105	440,576	600,474
Total liabilities	434,536	519,096	527,598	486,244	704,162
Total equity	94,258	77,871	74,562	245,156	247,259

---

**Table of Contents**

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

The following discussion should be read in conjunction with Special Note Regarding Forward-Looking Statements, Risk Factors, and the consolidated financial statements and notes thereto appearing elsewhere in this prospectus.

**Overview**

We operate a self-administered real estate investment trust, or REIT, that focuses on the ownership of healthcare properties, principally skilled nursing facilities ( SNFs ). We generate our revenues through long-term triple-net leases with a diversified group of high quality operators throughout the United States. Through our predecessor entities, we have been in the business of financing operators of SNFs for over 30 years. We believe that we have one of the largest SNF portfolios in the United States which as of December 31, 2011 consisted of 225 properties, of which 200 were SNFs, with 20,875 licensed beds in 26 states leased to 35 operators.

We believe we are well positioned to benefit from our diversified portfolio of properties and extensive network of operator relationships. We focus on cultivating close relationships with our tenants by working closely with them to help them achieve their business objectives. As a result of these efforts, we are in a position to effectively manage our portfolio, make additional investments and continue to expand our business.

We lease our properties to a diversified group of 35 operators with no single operator representing more than 15.8% of our revenues for the year ended December 31, 2011. We have a geographically diversified portfolio of properties located in 26 states, with no state representing more than 16.9% of our annualized total rent under existing leases for the year ended December 31, 2011. Our properties are leased to third party tenants under long-term triple-net leases. The operators are responsible for all operating costs and expenses related to the property, including facility maintenance and insurance required in connection with the properties and the business conducted on the properties, taxes levied on or with respect to the properties (other than taxes on our income) and all utilities and other services necessary or appropriate for the properties and the business conducted on the properties. Our leases are typically master leases with initial terms of 10 years or more, annual rent escalation provisions of 2% to 3%, guarantees, cross-default provisions and security deposits and typically do not have operator purchase options. As of December 31, 2011, the leases for 223 of our 225 properties were supported by personal and/or corporate guarantees. As of December 31, 2011, our leases had an average remaining term of 8.4 years.

We finance investments through borrowings under our credit facilities, unsecured senior notes, private placements of equity securities, project specific first mortgages or a combination of these methods. We compete with other public and private companies who provide lease and/or mortgage financing to operators of a variety of different types of healthcare properties. While the overall landscape for healthcare finance is competitive, we are disciplined and selective about the investments we make and have a strong track record of identifying qualified operators and attractive markets in which to invest. As a key part of our growth strategy, we evaluate acquisition opportunities on an ongoing basis and are in various stages of due diligence, preliminary discussions or competitive bidding with respect to a number of potential transactions, some of which would be significant. None of these potential significant transactions is so far advanced as to make the transaction reasonably certain.

**Factors Affecting Our Business and the Business of Our Tenants**

The continued success of our business is dependent on a number of macroeconomic and industry trends. Many of these trends will influence our ongoing ability to find suitable investment properties while other factors will impact our tenants' ability to conduct their operations profitably and meet their obligations to us.

*Industry Trends*

One of the primary trends affecting our business is the long-term increase in the average age of the U.S. population. This increase in life expectancy is expected to be a primary driver for growth in the healthcare and

## **Table of Contents**

SNF industry. We believe this demographic trend is resulting in an increased demand for services provided to the elderly. We believe that the low cost healthcare setting of a SNF will benefit our tenants and facilities in relation to higher-cost healthcare providers. We believe that these trends will support a growing demand for the services provided by SNF operators, which in turn will support a growing demand for our properties.

The growth in demand for services provided to the elderly has resulted in an increase in healthcare spending. The Centers for Medicare and Medicaid Services, or CMS, and the Office of the Actuary forecast that U.S. healthcare expenditures will increase from approximately \$2.3 trillion in 2008 to approximately \$4.5 trillion in 2019. Furthermore, according to CMS, national expenditures for SNFs are expected to grow from approximately \$144 billion in 2009 to approximately \$246 billion in 2019, representing a compound annual growth rate, or CAGR, of 5.5%.

### *Liquidity and Access to Capital*

Our single largest cost is the interest expense we incur on our debt obligations. In order to continue to expand and optimize our capital to expand our portfolio, we rely on access to the capital markets on an ongoing basis. We seek to balance this reliance by maintaining ready access to funds to make investments as these opportunities arise. We have extensive experience in and a successful track record of raising debt and equity capital over the past 30 years.

Our indebtedness outstanding is comprised principally of term loans secured by first mortgages, unsecured obligations under the Senior Notes and borrowings under our Term Loan, Acquisition Credit Line and 2014 Revolver.

Substantially all of such indebtedness is scheduled to mature in late 2015 or thereafter.

### *Factors Affecting Our Tenants' Profitability*

Our revenues are derived from rents we receive from triple-net leases with our tenants. Certain economic factors present both opportunities and risks to our tenants and, therefore, influence their ability to meet their obligations to us. These factors directly affect our tenants' operations and, given our reliance on their performance under our leases, present risks to us that may affect our results of operations or ability to meet our financial obligations. The recent U.S. economic slowdown and other factors have resulted in cost-cutting at both the federal and state levels, which, in certain situations, resulted in a reduction of reimbursement rates and levels to our tenants under both the Medicare and Medicaid programs.

Our tenants' revenues are largely derived from third-party sources. Therefore, we indirectly rely on these same third-party sources to obtain our rents. The majority of these third-party payments come from the federal Medicare program and state Medicaid programs. Our tenants also receive payments from other third-party sources, such as private insurance companies or private-pay residents, but these payments typically represent a small portion of our tenants' revenues. The sources and amounts of our tenants' revenues are determined by a number of factors, including licensed bed capacity, occupancy rates, the acuity profile of residents and the rate of reimbursement. Changes in the acuity profile of the residents as well as the mix among payor types, including private pay, Medicare and Medicaid, may significantly affect our tenants' profitability and, in turn, their ability to meet their obligations to us. Managing, billing and successfully collecting third-party payments is a relatively complex activity that requires significant experience and is critical to the successful operation of a SNF.

Labor and related expenses typically represent our tenants' largest cost component. Therefore, the labor markets in which our tenants operate affect their ability to operate cost effectively and profitably. In order for our tenants to be successful, they must possess the management capability to attract and maintain skilled and motivated workforces. Much of the required labor needed to operate a SNF requires specific technical experience and education. As a result, our tenants may be required to increase their payroll costs to attract labor and adequately staff their operations. Increases in labor costs due to higher wages and greater employee benefits required to attract and retain qualified personnel could affect our tenants' ability to meet their obligations to us.

## **Table of Contents**

While our revenues are generated from the rents our tenants pay to us, we seek to establish our rent at an appropriate level so that our tenants are able to succeed. This requires discipline to ensure that we do not overpay for the properties we acquire. While we operate in a competitive environment, we carefully assess the long-term risks facing our tenants as we consider an investment. Because our leases are long-term arrangements, we are required to assess both the short and long-term capital needs of the properties we acquire. SNFs are generally highly specialized real estate assets. We believe we have developed broad expertise in assessing the short and long-term needs of this asset class.

On July 29, 2011, CMS released its final rule regarding 2012 Medicare payment rates for SNFs, which became effective October 1, 2011. The rule recalibrates the method of calculating Medicare reimbursement rates, and is likely to cause the reimbursement rates for SNFs to be reduced by approximately 11.1% on a system-wide basis for fiscal year 2012.

### **Components of Our Revenues, Expenses and Cash Flow**

#### *Revenues*

Our revenues consist primarily of the rents and associated charges we collect from our tenants as stipulated in our long-term triple-net leases. In addition to rent under existing leases, a part of our revenues is made up of other cash payments owed to us by our tenants. Additionally, we recognize certain non-cash revenues. These other cash and non-cash revenues are highlighted below. While not a significant part of our revenues, we also earn interest from a variety of loans outstanding.

#### *Rental Income*

Rental income represents rent under existing leases that is paid by our tenants. In addition, this includes deferred rental income relating to straight-lining of rents as well as rental income from intangible amortization. Both deferred rental income and rental income from intangible amortization are explained in further detail below under **Components of Cash Flow Cash Provided by Operations**.

#### *Tenant Recoveries*

All of our leases have real estate escrow clauses that require our tenants to make estimated payments to us to cover their current real estate tax obligations. We collect money for these taxes and are reimbursed by our tenants. We account for the receipt of these amounts as revenue and the payment of the actual taxes as an expense (real estate taxes). Because the escrow charges to our tenants are made on an estimated basis, the amounts recognized as revenue and corresponding expense will differ slightly in any given fiscal period.

#### *Interest on Loans to Lessees*

We earn interest on certain capital advances and loans we make to our tenants for a variety of purposes, including for capital expenditures at our properties for which we receive additional rent. While we amend our leases to reflect the additional rent owed as a result of these income producing capital expenditures, we recognize the investment as a loan for accounting purposes when the lease term exceeds the useful life of the capital expenditure. In addition, we recognize rent associated with direct financing leases, in part, as interest income.

#### *Expenses*

We recognize a variety of cash and non-cash charges in our financial statements. Our cash expenses consist primarily of the interest expense on the borrowings we incur in order to make our investments and the general and administrative costs associated with operating our business. These interest charges are associated with our Term Loan, Acquisition Credit Line and 2014 Revolver as well as certain asset specific loans.

## **Table of Contents**

### *Rent and Other Operating Expenses*

When we lease a property, we recognize related rent expense.

### *General and Administrative*

Our general and administrative costs consist primarily of payroll and payroll related expense, including non-cash stock based compensation. In addition to payroll, we incur accounting, legal and other professional fees as well as certain other administrative costs of running our business, along with certain expenses related to bank charges, franchise taxes, corporate filing fees, and transaction related costs.

### *Real Estate Taxes*

All of our leases have real estate escrow clauses that require our tenants to make estimated payments to us to cover their current real estate tax obligations. We collect money for these taxes and are reimbursed by our tenants. We account for the receipt of these amounts as revenue (tenant recoveries) and the payment of the actual taxes as an expense. Because the escrow charges to our tenants are made on an estimated basis, the amounts recognized as revenue and corresponding expense will differ slightly in any given fiscal period.

### *Depreciation*

We incur depreciation expense on all of our long-lived assets. This non-cash expense is designed under generally accepted accounting principles, or GAAP, to reflect the economic useful lives of our assets.

### *Loss on Impairment of Assets*

We have implemented a policy that requires management to make quarterly assessments of the market value of our properties relative to the amounts at which we carry them on our balance sheet. This assessment requires a combination of factors. Certain subjective factors such as market condition and property condition are considered as well as lease structure. We consider these results in our assessment of whether potential impairment indicators are present. We utilize subjective financial modeling that compares the sum of the undiscounted cash flows from future contractual rents plus the terminal value against the depreciated book value of an asset. When undiscounted cash flows are less than the depreciated book value of an asset, we record a charge to reflect the asset at its estimated fair value.

### *Other Income and Expenses*

### *Interest and Other Income*

We sweep our excess cash balances into overnight interest-bearing accounts.

### *Interest Expense*

We recognize the interest we incur on our existing borrowings as an interest expense.

### *Change in Fair Value of Derivatives*

We have implemented Accounting Standards Codification (ASC) 815, *Derivatives and Hedging* (ASC 815), which establishes accounting and reporting standards requiring that all derivatives, including certain derivative instruments embedded in other contracts, be recorded as either an asset or liability measured at their fair value unless they qualify for a normal purchase or normal sales exception. When specific hedge accounting criteria are not met, ASC 815 requires that changes in a derivative's fair value be recognized currently in earnings. All of the changes in the fair market values of our derivative instruments are recorded in the consolidated statements of operations for our interest rate swaps that

## Edgar Filing: AVIV REIT, INC. - Form S-4/A

were terminated in September 2010. In November 2010, we entered into two interest rate swaps and account for changes in fair value of such hedges through changes in other comprehensive income as a component of equity in our financial statements via hedge accounting.



## **Table of Contents**

### *Amortization of Deferred Financing Costs*

We incur non-cash charges that reflect costs incurred with arranging certain debt instruments. We generally recognize these costs over the term of the respective debt instrument for which the costs were incurred.

### *Gain on sale of assets, net*

We record any gain resulting from the sale of assets at the time of sale. We record any losses resulting from the sale of assets at the time we enter into a definitive agreement for the sale of the asset.

### *Loss on Extinguishment of Debt*

We recognize costs relating to extinguishing debt prior to initial termination dates when we incur them, including the non-cash write-off of deferred financing cost.

### *Components of Cash Flow*

*Cash Provided by Operations.* Cash provided by operations is derived largely from net income by adjusting our revenues for those amounts not collected in cash during the period in which the revenue is recognized and for cash collected that was billed in prior periods or will be billed in future periods. Net income is further adjusted by adding back expenses charged in the period that is not paid for in cash during the same period. We make our distributions based largely on cash provided by operations. Key non-cash add-backs, in addition to depreciation and the amortization of deferred financing charges, in deriving cash provided by operations are:

*Deferred Rental Income (loss).* We recognize deferred rental income (loss) as a result of the accounting treatment of many of our long-term leases that include fixed rent escalation clauses. Because most of our leases contain fixed rent escalations, we straight-line our lease revenue recognition. Straight-lining involves spreading the rents we expect to earn during the term of a lease under its escalation clause over the lease term. As a result, during the first half of a lease term with a fixed escalation clause, we accrue a receivable for rents owed but not paid until future periods. During the second half of the lease term, our cash receipts exceed our recognized revenues and we amortize the receivable.

*Rental Income from Intangible Amortization.* We incur non-cash rental income adjustments from the amortization of certain intangibles resulting from the required application of purchase accounting in the initial recording of our real estate acquisitions. At the date of acquisition, all assets acquired and liabilities assumed are recorded at their respective fair value, including any value attributable to in-place lease agreements. Any identified above or below market lease intangible asset or liability is amortized over the remaining lease term as a non-cash adjustment to rental income.

*Non Cash Stock Based Compensation.* We incur non-cash expense associated with the share-based payments to certain employees. The share-based payments are in the form of stock options. Expense is recognized ratably with the vesting schedule based on the grant date fair value of the options.

**Table of Contents**

The following table represents the time based option awards activity for the years ended December 31, 2011 and 2010, respectively.

	2011	2010
Outstanding at January 1	21,866	
Granted	1,610	21,866
Exercised		
Cancelled/Forfeited		
<b>Outstanding at December 31</b>	<b>23,476</b>	<b>21,866</b>
Options exercisable at end of period		
Weighted average fair value of options granted to date	\$ 112.62	\$ 108.55
Weighted average remaining contractual life (years)	8.71	9.72

The following table represents the time based option awards outstanding for the years ended December 31, 2011 and 2010, respectively, as well as other Plan data:

	2011	2010
Range of exercise prices	\$1,000 - \$1,139	\$1,000 - \$1,084
Outstanding	23,476	21,866
Remaining contractual life (years)	8.71	9.72
Weighted average exercise price	\$1,011	\$1,002

We use the Black-Scholes option pricing model to estimate the grant date fair value of the options. The following table includes the assumptions that were made in estimating the grant date fair value for options awarded in 2011 and 2010.

	2011	2010
Weighted average dividend yield	8.13%	10.28%
Weighted average risk-free interest rate	2.02%	2.10%
Weighted average expected life	7.0 years	7.0 years
Weighted average estimated volatility	38.10%	38.00%
Weighted average exercise price	\$1,134.76	\$1,001.83
Weighted average fair value of options granted (per option)	\$168.01	\$108.55

Aviv REIT recorded non-cash compensation expenses of \$1,122,000 and \$338,000 for the years ended December 31, 2011 and 2010, respectively, related to the time based stock options accounted for as equity awards, as a component of general and administrative expenses in the consolidated statements of operations.

At December 31, 2011, the total compensation cost related to outstanding, non-vested time based equity option awards that are expected to be recognized as compensation cost in the future aggregates to approximately \$1,180,000.

For the year ended December 31,	Options
2012	\$ 672,000
2013	353,000
2014	144,000
2015	11,000

Total

\$ 1,180,000

## **Table of Contents**

*Non Cash Loss on Extinguishment of Debt.* We incurred certain expense associated with the partial pre-payment of our secured mortgage term loan. Costs associated with the origination of this loan were capitalized and are being ratably expensed over the life of the loan. When we pre-paid this loan in part, we recognized a prorated non-cash expense write-off for the unamortized capitalized debt costs.

*Reserve for Uncollected Rental Income and Uncollectable Loan Receivable.* We incur an expense estimate for a reserve based upon our historical collection record of billed rental income and collections of loan receivables.

### *Investing Activities*

Cash used in investing activities consists of cash that is used during a period for making new investments, capital expenditures and tenant loans offset by cash provided by investing activities from net loan receivables and sales of rental properties.

### *Financing Activities*

Cash provided by financing activities consists of cash we received from issuances of debt and equity capital. This cash provides the primary basis for the investments in new properties, capital expenditures and tenant loans. While we may invest a portion of our cash from operations into new investments, as a result of our distribution requirements to maintain our REIT status, it is likely that additional debt or equity issuances will finance the majority of our investment activity. Cash used in financing activities consists of repayment of debt and distributions/dividends paid to partners/stockholders.

## **Results of Operations**

The following is a discussion of the consolidated results of operations, financial position and liquidity and capital resources of the Partnership.

### *Year Ended December 31, 2011 Compared to Year Ended December 31, 2010*

#### *Revenues*

Revenues increased \$7.8 million, or 8.1%, from \$96.9 million for the year ended December 31, 2010 to \$104.7 million for the same period in 2011. The increase in revenue generally resulted from additional rent associated with the acquisitions and investments made during 2011 and 2010 acquisitions and investments not owned for the entire period, offset by the write-off of deferred rental income as a result of owned assets being transitioned to new operators resulting in new lease agreements.

Detailed changes in revenues for the year ended December 31, 2011 compared to the same period in 2010 were as follows:

Rental income increased \$7.1 million, or 8.3%, from \$85.2 million for the year ended December 31, 2010 to \$92.3 million for the same period in 2011. The increase is primarily due to additional cash rent of approximately \$6.5 million associated with the current year acquisitions and rent from 2010 acquisitions and investments not owned for the entire period offset by the write-off of deferred rental income of approximately \$7.1 million as a result of owned assets being transitioned to new operators resulting in new lease agreements for the year ended December 31, 2011 as compared to approximately \$3.4 million for the same period in 2010.

Tenant recoveries increased \$0.7 million, or 11.4%, from \$6.4 million for the year ended December 31, 2010 to \$7.2 million for the same period in 2011. The increase was a result of the

---

**Table of Contents**

additional tenant recoveries associated with real estate taxes for newly acquired facilities. The increase was also due to an increase in tenant recoveries related to increases in real estate taxes from investments held more than one year.

Interest on loans to tenants remained consistent over the fiscal periods.

*Expenses*

Expenses increased \$16.2 million, or 44.5%, from \$36.5 million for the year ended December 31, 2010 to \$52.7 million for the same period in 2011. These increases were primarily due to an increase in general and administrative expenses of \$6.1 million which was mainly attributable to \$2.4 million in indemnity expense compared to \$1.0 million for the same period in 2010, \$2.8 million in closing costs expensed in conjunction with the 2011 acquisitions compared to \$0.6 million for the same period in 2010 and \$1.4 million in bad debt expense compared to \$0.8 million in the same period for 2010. The increase was also attributed to a \$6.1 million loss on impairment for two of our facilities during 2011 compared to \$96,000 loss taken in the same period for 2010 and an increase of \$3.0 million in depreciation due to the increased acquisition and investment activity in 2011 as well as investment activity from 2010 which was not owned for the entire period.

Detailed changes in expenses for the year ended December 31, 2011 compared to the same period in 2010 were as follows:

Rent and other operating expenses increased \$0.3 million, or 55.0%, from \$0.6 million for the year ended December 31, 2010 to \$0.9 million for the same period in 2011. This increase is primarily due to changes in insurance premiums offset by a decrease in rent for the corporate space for the year ended December 31, 2011.

General and administrative expense increased \$6.1 million, or 53.3%, from \$11.5 million for the year ended December 31, 2010 to \$17.6 million for the same period in 2011. These increases were primarily due to \$2.4 million in indemnity expense compared to \$1.0 million for the same period in 2010, \$2.8 million in closing costs expensed in conjunction with the 2011 acquisitions compared to \$0.6 million for the same period in 2010 and \$1.4 million in bad debt expense compared to \$0.8 million in the same period for 2010. The increase was also due to a \$0.7 million increase in office salaries and share based compensation.

Real estate tax expense increased by \$0.8 million, or 12.5%, from \$6.5 million for the year ended December 31, 2010 compared to \$7.3 million for the same period in 2011. The increase is associated with additional taxes for newly acquired facilities described above.

Depreciation expense increased \$3.0 million, or 16.8%, from \$17.9 million for the year ended December 31, 2010 to \$20.8 million for the same period in 2011. The increase was a result of an increase in depreciation expense associated with newly acquired facilities described above in 2011 and a full year of depreciation for 2010 acquisitions that were not owned for the full period.

Loss on impairment expense increased \$6.0 million from \$96,000 for the year ended December 31, 2010 to \$6.1 million for the same period in 2011. The increase was a result of the anticipated loss on sale for two properties that are anticipated to be sold subsequent to December 31, 2011.

*Other Income and Expenses*

Interest and other income increased \$0.7 million from \$0.1 million for the year ended December 31, 2010 to \$0.8 million for the same period in 2011. The increase was primarily due to \$810,000 of sales proceeds from the sale of bed licenses at two of our facilities.



---

**Table of Contents**

Interest expense increased \$13.3 million, or 58.5%, from \$22.7 million for the year ended December 31, 2010 to \$36.0 million for the same period in 2011. The majority of the increase was due to an increase in the interest rate on our debt associated with our credit facilities and senior notes. The increase was also due to an increase in debt due to acquisitions acquired in 2011 and acquisitions acquired in 2010 that were not owned for the full year period.

Income relating to the change in fair value of derivatives decreased \$2.9 million from a gain of \$2.9 million in the year ended December 31, 2010 to \$0 in the same period in 2011. We settled our existing swaps in September 2010 as part of our debt refinancing. We entered into new swap arrangements in November 2010 that have been deemed to be eligible for hedge accounting, and such changes are reported in accumulated other comprehensive income within the consolidated statement of changes in equity, exclusive of ineffectiveness amounts, which are recognized as adjustments to net income.

Amortization of deferred financing fees increased \$1.7 million from \$1.0 million for the year ended December 31, 2010 to \$2.7 million for the same period in 2011. The increase was due to additional fees incurred in conjunction with our new \$405 million mortgage term loan entered into in September 2010 and our \$300 million issuance of Senior Notes in 2011 and subsequent amortization.

Earnout accretion increased \$0.3 million from \$0 for the year ended December 31, 2010 to \$0.3 million for the same period in 2011. The increase is due to the amortization of an earnout provision liability related to an acquisition that closed in May 2011.

Gain on sale of assets increased \$0.7 million, or 128.7%, from \$0.5 million for year ended December 31, 2010 to \$1.2 million for the same period in 2011. This increase was due to the sale of assets that were held for strategic repositioning.

Loss on extinguishment of debt increased \$1.5 million, or 65.9%, from \$2.3 million for the year ended December 31, 2010 to \$3.8 for the same period in 2011. This cost was a result of prepaying certain corporate indebtedness prior to maturity and the non-cash write-off of deferred financing costs.

*Year Ended December 31, 2010 Compared to Year Ended December 31, 2009*

*Revenues*

Revenues increased \$4.6 million, or 4.7%, from \$92.3 million for the year ended December 31, 2009 to \$96.9 million for the same period in 2010. The \$4.6 million increase was a result of the additional rent and tenant recoveries associated with \$79.2 million of acquisitions and investments, consisting principally of newly acquired facilities and capital expenditures for which we receive additional rent, made in the year ended December 31, 2010.

Detailed changes in revenues for the year ended December 31, 2010 compared to the same period in 2009 were as follows:

Rental income increased \$2.5 million, or 3.0%, from \$82.8 million for the year ended December 31, 2009 to \$85.2 million for the same period in 2010. The \$2.5 million increase was a result of the additional rent associated with \$79.2 million of acquisitions and investments, consisting principally of newly acquired facilities for which we receive additional rent, made in the year ended December 31, 2010, as well as the rent from those investments made in the year ended December 31, 2009 that were not owned for the entire 2009 period.

---

**Table of Contents**

Tenant recoveries increased \$386,000, or 6.4%, from \$6.1 million for the year ended December 31, 2009 to \$6.4 million for the same period in 2010. The increase was a result of the additional tenant recoveries associated with real estate taxes for newly acquired facilities included in the \$79.2 million of acquisitions and investments made in the year ended December 31, 2010 as well as the tenant recoveries from those investments made in the year ended December 31, 2009 that were not owned for the entire 2009 period. The increase was also due to an increase in tenant recoveries related to increases in real estate taxes from investments held more than one year, offset by a real estate tax refund to tenants as a result of lower actual real estate taxes in the 2009 period.

Interest on loans to tenants increased \$1.7 million, or 49.6%, from \$3.5 million for the year ended December 31, 2009 to \$5.2 million for the same period in 2010. Most of this increase in the 2010 period was a result of capital expenditures that we made in our properties for which we receive additional rent.

*Expenses*

Expenses decreased \$2.5 million, or 6.4%, from \$39.0 million for the year ended December 31, 2009 to \$36.5 million for the same period in 2010. The decrease was primarily due to a decrease in one time offering costs that were expensed in 2009 when the company made the decision to not move forward with its IPO effort. This decrease was offset by an increase in general and administrative expenses of \$3.7 million which was attributable to \$1.6 million of share-based compensation expense in 2010. There was an additional \$500,000 in bonus for employees as a result of meeting certain corporate performance goals in 2010 that were not met in 2009.

Detailed changes in expenses for the year ended December 31, 2010 compared to the same period in 2009 were as follows:

Rent and other operating expenses were comparable period over period.

General and administrative expense increased \$3.7 million, or 48.2%, from \$7.7 million for the year ended December 31, 2009 to \$11.5 million for the same period in 2010. The increase was primarily due to \$1.6 million of share-based compensation expense in 2010 and an additional \$500,000 in bonus for employees as a result of meeting certain corporate performance goals in 2010 that were not met in 2009.

Real estate tax expense increased \$243,000, or 3.9%, from \$6.2 million for the year ended December 31, 2009 to \$6.5 million for the same period in 2010. This increase was a result of an increase in real estate tax expense associated with 13 newly acquired facilities included in the \$79.2 million of acquisitions and investments made during the year ended December 31, 2010 as well as the real estate tax expense from those investments made in the year ended December 31, 2009 that were not owned for the entire 2009 period. The increase was also due to increases in real estate taxes from investments held more than one year, offset by a real estate tax refund to tenants as a result of lower actual real estate taxes in the 2009 period. To a much lesser extent the increase was associated with year-to-year increases in real estate taxes related to investments held more than a year.

Depreciation expense increased \$326,000, or 1.9%, from \$17.5 million for the year ended December 31, 2009 to \$17.9 million for the same period in 2010. The increase was a result of an increase in depreciation expense associated with 13 newly acquired facilities included in the \$79.2 million of acquisitions and investments made during the year ended December 31, 2010 as well as the depreciation expense from those investments made in the year ended December 31, 2009 that were not owned for the entire 2009 period.



**Table of Contents**

Loss on impairment of assets increased \$96,000, from \$0 for the year ended December 31, 2009 to \$96,000 for the same period in 2010. The 2010 expense was to record a property at estimated selling price less costs to dispose.

*Other Income and Expenses Including Income (Loss) from Discontinued Operations*

Interest and other income decreased \$333,000 or 71.5%, from \$466,000 for the year ended December 31, 2009 to \$133,000 for the same period in 2010. Most of this decrease was a result of a decrease in average cash balances.

Interest expense decreased \$3.8 million, or 14.5%, from \$26.6 million for the year ended December 31, 2009 to \$22.7 million for the same period in 2010. The majority of the decrease was due to a decrease in swap interest expense relating to contracts expiring in 2010 as well as a significant paydown of debt in September 2010.

Income relating to the change in fair value of derivatives decreased \$4.1 million, or 58.1%, from a gain of \$7.0 million in the year ended December 31, 2009 to a gain of \$2.9 million in the same period in 2010. This is a result of a change in the fair value of our swaps during the period.

Amortization increased \$458,000, or 83.3%, from \$550,000 for the year ended December 31, 2009 to \$1.0 million for the same period in 2010. The increase was due to additional fees incurred in conjunction with our new \$405 million mortgage term loan entered into in September 2010.

Gain on sale of assets, net was \$512,000 for the year ended December 31, 2010 as a result of the disposal of two properties in July 2010 and one property in December 2010.

Loss on extinguishment of debt was \$2.3 million for the year ended December 31, 2010. This cost was a result of prepaying certain corporate indebtedness prior to maturity and the non-cash write-off by deferred financing costs.

**Property Acquisitions and Dispositions**

Aviv REIT had the following rental property activity during the year ended December 31, 2011 as described below:

In January 2011, Aviv Financing I, L.L.C., an indirect wholly-owned subsidiary of Aviv REIT ( Aviv Financing I ), acquired a property in Kansas from an unrelated third party for a purchase price of \$3,045,000. Aviv REIT financed this purchase with cash and borrowings of \$2,131,000 under the Acquisition Credit Line.

In March 2011, Aviv Financing II, L.L.C., an indirect wholly-owned subsidiary of Aviv REIT ( Aviv Financing II ), acquired a property in Pennsylvania from an unrelated third party for a purchase price of approximately \$2,200,000. Aviv REIT financed this purchase with cash.

In March 2011, Aviv Financing II acquired a property in Ohio from an unrelated third party for a purchase price of approximately \$9,581,000. Aviv REIT financed this purchase through cash.

In March 2011, Aviv Financing II acquired a property in Florida from an unrelated third party for a purchase price of approximately \$10,000,000. Aviv REIT financed this purchase with borrowings of \$10,200,000 under the 2014 Revolver.

Edgar Filing: AVIV REIT, INC. - Form S-4/A

In April 2011, Aviv Financing II acquired three properties in Ohio from an unrelated third party for a purchase price of \$9,250,000. Aviv REIT financed this purchase with cash.

In April 2011, Aviv Financing II acquired a property in Kansas from an unrelated third party for a purchase price of \$1,300,000. Aviv REIT financed this purchase with cash.

**Table of Contents**

In April 2011, Aviv Financing II acquired a property in Texas from an unrelated third party for a purchase price of \$2,093,000. Aviv REIT financed this purchase with cash.

In April 2011, Aviv Financing II acquired three properties in Texas from an unrelated third party for a purchase price of \$8,707,000. Aviv REIT financed this purchase with cash.

In May 2011, Aviv Financing II acquired three properties in Kansas from an unrelated third party for a purchase price of \$2,273,000. Aviv REIT financed this purchase with cash.

In May 2011, Aviv Financing II acquired a property in Missouri from an unrelated third party for a purchase price of \$5,470,000. Aviv REIT financed this purchase with cash.

In May 2011, Aviv Financing II acquired a property in Connecticut from an unrelated third party for a purchase price of \$12,000,000. Aviv REIT financed this purchase with cash. As part of this acquisition, Aviv REIT recognized an approximate \$3,333,000 addition to the purchase price as per the guidance within ASC 805 as it relates to the earn-out provision defined at closing (Level 3). Aviv REIT financed this purchase with cash.

In August 2011, Aviv Financing II acquired a property in Pennsylvania from an unrelated third party for a purchase price of \$6,100,000. Aviv REIT financed this purchase through borrowings under the Acquisition Credit Line.

In August 2011, Aviv Financing II acquired a property in Connecticut from an unrelated third party for a purchase price of \$5,500,000. Aviv REIT financed this purchase through borrowings under the Acquisition Credit Line.

In September 2011, Aviv Financing I acquired a property in Ohio from an unrelated third party for a purchase price of \$3,200,000. Aviv REIT financed this purchase through borrowings under the Acquisition Credit Line.

In November 2011, Aviv Financing I acquired a property in Oklahoma from an unrelated third party for a purchase price of \$3,300,000. Aviv REIT financed this purchase through borrowings of \$1,940,000 under the Acquisition Credit Line.

In November 2011, Aviv Financing I sold three vacant land parcels in Massachusetts to unrelated third parties for a sales price of \$1,360,000 and recognized a gain of approximately \$1,110,000.

In November 2011, Aviv Financing I acquired five properties in Kansas from an unrelated third party for a purchase price of \$10,800,000. Aviv REIT financed this purchase through borrowings of \$7,560,000 under the Acquisition Credit Line.

In November 2011, Aviv Financing I acquired seven properties in Pennsylvania and Ohio from an unrelated third party for a purchase price of \$50,142,813. Aviv REIT financed this purchase with cash and through borrowings of approximately \$37,340,000 under the Acquisition Credit Line.

In November 2011, Aviv Financing I acquired a property in Pennsylvania from an unrelated third party for a purchase price of \$6,657,187. Aviv REIT financed this purchase with cash. In December 2011, Aviv REIT added borrowings of approximately

## Edgar Filing: AVIV REIT, INC. - Form S-4/A

\$4,660,000 under the Acquisition Credit Line in connection with this property.

In December 2011, Aviv Financing I acquired eleven properties in California and Nevada from an unrelated third party for a purchase price of \$24,845,100. Aviv REIT financed this purchase with cash and through borrowings of \$17,392,000 under the Acquisition Credit Line.

## **Table of Contents**

In December 2011, Aviv Financing I acquired a property in Arkansas from an unrelated third party for a purchase price of \$4,750,000. Aviv REIT financed this purchase with cash and through borrowings of \$3,325,000 under the Acquisition Credit Line.

In December 2011, Aviv Financing I sold a vacant land parcel in Massachusetts to an unrelated third party for a sales price of \$150,000 and recognized a gain of approximately \$60,000.

## **Liquidity and Capital Resources**

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings. We believe that the net cash provided by operations and availability under our 2016 Revolver will be adequate to fund our operating requirements, debt service and the payment of dividends in accordance with REIT requirements of the federal income tax laws for the next twelve months. We expect to meet our long-term liquidity requirements, such as scheduled debt maturities and property acquisitions, through long-term secured and unsecured borrowings and the issuance of additional equity securities.

We intend to repay indebtedness incurred under our credit facilities from time to time, to provide capacity for acquisitions or otherwise, out of cash flow and from the proceeds of issuances of additional equity interests and other securities.

We intend to invest in additional properties and portfolios as suitable opportunities arise and adequate sources of financing are available. We are currently evaluating additional potential investments consistent with the normal course of our business. These potential investments are in various stages of evaluation with both existing and new tenants and include acquisitions, development projects, income producing capital expenditures and other investment opportunities. There can be no assurance as to whether or when any portion of these investments will be completed. Our ability to complete investments is subject to a number of risks and variables, including our ability to negotiate mutually agreeable terms with the counterparties and our ability to finance the purchase price. We may not be successful in identifying and consummating suitable acquisitions or investment opportunities, which may impede our growth and negatively affect our results of operations and may result in the use of a significant amount of management resources. We expect that future investments in properties will depend on and will be financed by, in whole or in part, our existing cash, the proceeds from issuances of securities or borrowings (including under Acquisition Credit Line and our 2016 Revolver).

### *Indebtedness Outstanding*

Our indebtedness outstanding is comprised principally of borrowings under our Term Loan, Acquisition Credit Line and the Senior Notes. We had a total indebtedness of approximately \$597.9 million as of December 31, 2011 (excluding a debt premium of approximately \$2.6 million). Substantially all of such indebtedness is scheduled to mature in late 2015 or thereafter.

As of December 31, 2011, we were in compliance with the financial covenants of our outstanding debt and lease agreements and the indenture governing our Senior Notes.

### **Term Loan and Acquisition Credit Line**

On September 17, 2010, Aviv Financing I entered into a five year credit agreement with General Electric Capital Corporation, which provides a \$405.0 million mortgage term loan and a \$100.0 million acquisition credit line, which we refer to as the Term Loan and the Acquisition Credit Line, respectively. The Partnership provides a limited unsecured guarantee of the Term Loan and the Acquisition Credit Line.

The interest rate applicable to the Term Loan and the Acquisition Credit Line is based upon LIBOR, subject to a 1.25% floor, plus 4.5%. At our option the interest rate may be calculated at the prime rate plus 4.5%. The interest rate under the Term Loan and the Acquisition Credit Line was 5.75% on December 31, 2011.

---

**Table of Contents**

The Acquisition Credit Line is available for draw until September 2013 and can be paid down and redrawn until that time. The Acquisition Credit Line may be used for financing acquisitions and certain property improvements. Draws on the Acquisition Credit Line are limited to 70% of the total cost of the applicable acquisition or renovation and draws for renovation projects are further limited to an aggregate of \$25.0 million outstanding at any one time.

The initial term of the Term Loan and the Acquisition Credit Line expires in September 2015, with two one-year extension options provided that certain conditions precedent for the extensions are satisfied, including, without limitation, payment of a fee equal to 0.25% of the then existing principal balance of the Term Loan and the Acquisition Credit Line and meeting certain debt service coverage and debt yield tests.

The Term Loan and the Acquisition Credit Line contain customary covenants that include restrictions on the ability to make acquisitions and other investments, pay dividends, incur additional indebtedness, and sell or otherwise transfer certain assets as well as customary events of default. The Term Loan and the Acquisition Credit Line generally require the consolidated borrowers under the facility to maintain a debt service coverage ratio of 1.50:1.00 and a distribution coverage ratio of 1.10:1.00. In addition, the Partnership and its consolidated subsidiaries must maintain a debt service coverage ratio of 1.25:1.00 and a debt yield ratio of greater than 17.25%. We are permitted to include cash on hand in calculating such debt service coverage ratios.

Immediately following any draw on the Acquisition Credit Line, both before and after giving effect to such draw, the consolidated borrowers under the Term Loan and the Acquisition Credit Line must have a pro forma debt yield ratio of at least 18%. Our debt yield ratio is the ratio of (i) either consolidated EBITDA or rental revenue for the most recently completed two fiscal quarter period times two to (ii) the average daily outstanding principal balance of loans outstanding under the Term Loan and the Acquisition Credit Line during the period.

**7.75% Senior Notes due 2019**

On February 4, 2011 we, through the Partnership and Aviv Healthcare Capital Corporation (collectively, the Issuers), issued \$200.0 million aggregate principal amount of senior unsecured notes (the Senior Notes) in a private placement. The Issuers are majority owned subsidiaries of Aviv REIT. Such Senior Notes were sold at par, resulting in gross proceeds of \$200.0 million and net proceeds of approximately \$194.3 million after deducting commissions and expenses. The net proceeds from the offering of such Senior Notes were used to repay all outstanding indebtedness under our acquisition credit line and to partially repay our outstanding mortgage term loan.

On April 5, 2011 we issued an additional \$100.0 million aggregate principal amount of Senior Notes. Such Senior Notes were sold at a premium, resulting in gross proceeds of \$102.8 million and net proceeds of approximately \$99.8 million after deducting commissions and expenses. The net proceeds from the offering of such Senior Notes were used to partially repay indebtedness outstanding under our mortgage term loan, and together with proceeds from additional equity investments made by Aviv REIT's shareholders, to fund pending investments.

On July 21, 2011, the Issuers launched an exchange offer in order to provide investors with an opportunity to exchange the Senior Notes issued in the aforementioned private placements for freely tradable notes that have been registered under the Securities Act of 1933. The exchange was consummated on August 22, 2011, and 100% of the Senior Notes were exchanged for registered Senior Notes.

The obligations under the Senior Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by Aviv REIT and certain of our existing and, subject to certain exceptions, future subsidiaries.

The Senior Notes are redeemable at the option of the Issuers, in whole or in part, at any time, and from time to time, on or after February 15, 2015, at the redemption prices set forth in the indenture governing the Senior Notes (the Indenture), plus accrued and unpaid interest to the applicable redemption date. In addition, prior to February 15, 2015, the Issuers may redeem all or a portion of the Senior Notes at a redemption price

**Table of Contents**

equal to 100% of the principal amount of the Senior Notes redeemed, plus a make-whole premium, plus accrued and unpaid interest to the applicable redemption date. At any time, or from time to time, on or prior to February 15, 2014, the Issuers may redeem up to 35% of the principal amount of the Senior Notes, using the proceeds of specific kinds of equity offerings, at a redemption price of 107.75% of the principal amount to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date.

The Indenture governing the Senior Notes contains restrictive covenants that, among other things, restrict the ability of Aviv REIT, the Issuers and their restricted subsidiaries to: (i) incur or guarantee additional indebtedness; (ii) incur or guarantee secured indebtedness; (iii) pay dividends or distributions on, or redeem or repurchase, their capital stock; (iv) make certain investments or other restricted payments; (v) sell assets; (vi) create liens on their assets; (vii) enter into transactions with affiliates; (viii) merge or consolidate or sell all or substantially all of their assets; and (ix) pay dividends or other amounts to Aviv REIT. The Indenture also provides for customary events of default, including, but not limited to, the failure to make payments of interest or premium, if any, on, or principal of, the Senior Notes, the failure to comply with certain covenants and agreements specified in the Indenture for a period of time after notice has been provided, the acceleration of other indebtedness resulting from the failure to pay principal on such other indebtedness prior to its maturity, and certain events of insolvency. If any event of default occurs, the principal of, premium, if any, and accrued interest on all the then outstanding Senior Notes may become due and payable immediately.

*Revolving Credit Facilities***2014 Revolver**

On February 4, 2011, the Partnership, under Aviv Financing IV, L.L.C., an indirect wholly-owned subsidiary of the Partnership, entered into a \$25 million secured revolving credit facility with Bank of America (the 2014 Revolver ). On each payment date, the Partnership pays interest only in arrears on any outstanding principal balance of the 2014 Revolver. The interest rate under the 2014 Revolver is generally based on the Prime lending rate, but has a LIBOR option (subject to a floor of 1.0%), plus, in the case of both Prime and LIBOR, a margin that is determined by our leverage ratio from time to time. The initial term of the 2014 Revolver expires in January 2014 with a one-year extension option. We have the right to increase the amount of the 2014 Revolver by up to \$75.0 million (resulting in total availability of \$100.0 million), provided that certain conditions precedent are satisfied.

As of December 31, 2011, the 2014 Revolver had an outstanding balance of \$15 million. Subsequently, the balance was repaid, the properties securing the 2014 Revolver were released, and the borrowing availability under the 2014 Revolver was reduced to \$0. The 2014 Revolver is currently secured only by a pledge of the capital stock of Aviv Financing IV, L.L.C. (our subsidiary which may in the future act as the holding company of subsidiaries owning properties on which first lien mortgages securing the 2014 Revolver may be granted). Subsequent to December 31, 2011, no such property-owning subsidiaries existed. However, the 2014 Revolver remains effective, and we may add properties to such subsidiaries in the future, thereby creating borrowing availability under the facility. The borrowing availability under the 2014 Revolver is subject to a borrowing base calculation based on, among other factors, the lesser of (i) the amount of a hypothetical mortgage based on the net revenues for the prior four quarters (on a pro forma basis for recently acquired properties) and (ii) 65% of the appraised value, in each case, of the properties securing the 2014 Revolver. The maximum availability under the 2014 Revolver may be permanently reduced at our option.

**2016 Revolver**

On January 31, 2012, the Partnership, under Aviv Financing V, L.L.C., an indirect wholly-owned subsidiary of the Partnership, entered into a \$187.5 million secured revolving credit facility with General Electric Capital Corporation (the 2016 Revolver ). On each payment date, the Partnership pays interest only in arrears on any outstanding principal balance of the 2016 Revolver. The interest rate under our 2016 Revolver is generally based on LIBOR (subject to a floor of 1.0%) plus 4.25%. The initial term of 2016 Revolver expires in January 2016 with a one-year extension option, provided that certain conditions precedent are satisfied. The

**Table of Contents**

proceeds from the 2016 Revolver are available for general corporate purposes. The amount of the 2016 Revolver may be increased by up to \$87.5 million (resulting in total availability of up to \$275 million), provided that certain conditions precedent are satisfied.

The 2016 Revolver is currently secured by first lien mortgages on 23 of our properties, a pledge of the capital stock of our subsidiaries that own such properties and of Aviv Financing V, L.L.C. (the holding company of such property-owning subsidiaries) and other customary collateral, including an assignment of leases and rents with respect to such mortgaged properties. The borrowing availability under the 2016 Revolver is subject to a borrowing base calculation based on, among other factors, the lesser of (i) 70% of the appraised value of the properties securing the 2016 Revolver, (ii) the aggregate EBITDAR (earnings before interest expense, income taxes, depreciation and amortization, rent expense paid to the Partnership and certain other extraordinary items) reported by the tenants of the properties securing the 2016 Revolver for the most recent two fiscal quarters *multiplied by 2 divided by 18.6%* and (iii) rental revenue from the properties securing the 2016 Revolver for the most recent two fiscal quarters *multiplied by 2 divided by 15.5%*. As of March 2, 2012, the borrowing availability under the 2016 Revolver based on clause (i) of the preceding sentence was \$40.5 million. As of March 2, 2012, the 2016 Revolver had an outstanding principal balance of \$17.6 million.

The maximum availability under the 2016 Revolver may be permanently reduced, at the Partnership's option, provided that, if such reduction is a partial reduction of the maximum availability under the 2016 Revolver and occurs prior to January 31, 2013, a fee of 0.5% will be due on the amount of such reduction. The outstanding principal under the 2016 Revolver may be repaid in whole or in part without premium or penalty, provided that such prepayments (i) are made in a minimum principal amount of \$2,000,000 and integral multiples of \$1,000,000 in excess thereof and (ii) are made no more than once per month.

The 2016 Revolver provides that no loans or other extensions of credit can be made under the 2016 Revolver unless the maximum amount available under the 2016 Revolver (based on the borrowing base calculation as of the relevant date) has been drawn.

**Revolving Credit Facilities Generally**

The 2014 Revolver and 2016 Revolver contain customary covenants that include restrictions on the ability to make acquisitions and other investments, pay dividends, incur additional indebtedness, and sell or otherwise transfer certain assets as well as customary events of default. The 2014 Revolver and 2016 Revolver also require us to comply with specified financial covenants, which include a maximum leverage ratio, a minimum fixed charge coverage ratio and a minimum tangible net worth requirement. We are permitted to include cash on hand in calculating our leverage ratio under both the 2014 Revolver and 2016 Revolver.

**Contractual Obligations**

The following table shows the amounts due in connection with the contractual obligations described above as of December 31, 2011 (including future interest payments).

	Payments Due by Period (in thousands)				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Mortgage term loan and other notes payable	\$ 22,569	\$ 66,332	\$ 275,165(1)	\$	\$ 364,066
7 <sup>3</sup> / <sub>4</sub> % Senior Notes due 2019 (2)	23,250	46,500	46,500	350,375	466,625
<b>Total</b>	<b>\$ 45,819</b>	<b>\$ 112,832</b>	<b>\$ 321,665(1)</b>	<b>\$ 350,375</b>	<b>\$ 830,691</b>

(1) Primarily relates to maturity of indebtedness under our Term Loan and Acquisition Credit Line in September 2015. Does not give effect to any amounts to be drawn under the acquisition credit line which would also mature in September 2015. See Term Loan and Acquisition Credit Line above.



(2) Reflects \$300 million outstanding of our 7 <sup>3</sup>/<sub>4</sub>% Senior Notes due 2019.

## **Table of Contents**

### *Cash Flows*

#### *Year Ended December 31, 2011 Compared to Year Ended December 31, 2010*

Cash provided by operations decreased \$2.6 million, or 4.7%, from \$54.7 million for the year ended December 31, 2010 to \$52.1 million for the same period in 2011. The decrease was due to a decrease in net income for the year ended December 31, 2011 compared to the same period in 2010.

Cash used in investing activities increased \$131.9 million from \$75.1 million for the year ended December 31, 2010 to \$207.1 million for the same period in 2011. This increase was largely due to the increase in acquisition and investment activity in the year ended December 31, 2011, as compared to the same period in 2010.

Cash provided by financing activities increased \$164.5 million from cash provided of \$17.9 million for the year ended December 31, 2010 to cash provided of \$182.8 million for the same period in 2011. The increase was primarily due to the \$159.9 million increase in outstanding debt and \$40.4 million equity issuance during the period used for investment activity. No cash was used to redeem partnership units in 2011 as was the case in the same period in 2010 along with an additional deferred contribution of \$35.0 million.

#### *Year Ended December 31, 2010 Compared to Year Ended December 31, 2009*

Cash provided by operations increased \$14.6 million, or 36.6%, from \$40.0 million for the year ended December 31, 2009 to \$54.7 million for the same period in 2010. The increase was primarily due to an increase in our accounts payable, an increase in net income, and an increase in non-cash stock-based compensation and non-cash loss on extinguishment of debt.

Cash used in investing activities increased \$36.6 million, or 95.1%, from cash used of \$38.5 million for the year ended December 31, 2009 to cash used of \$75.1 million for the same period in 2010. This increase was largely due to the increase in investment activity in the year ended December 31, 2010, as compared to the same period in 2009.

Cash provided by financing activities increased \$13.3 million, or 286.9%, from \$4.6 million for the year ended December 31, 2009 to \$17.9 million for the same period in 2010. The increase was primarily due to our transaction with Lindsay Goldberg on September 17, 2010.

### **Summary of Critical Accounting Policies**

#### **Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the REIT, the Partnership, the Operating Partnership, and all controlled subsidiaries and joint ventures. Aviv REIT considers itself to control an entity if it is the majority owner of and has voting control over such entity or the power to control a variable interest entity. The portion of the net income or loss attributed to third parties is reported as net income



---

## **Table of Contents**

allocable to noncontrolling interests on the consolidated statements of operations, and such parties' portion of the net equity in such subsidiaries is reported on the consolidated balance sheets as noncontrolling interests. All significant intercompany balances and transactions have been eliminated in consolidation.

### **Rental Properties**

Aviv REIT periodically assesses the carrying value of rental properties and related intangible assets in accordance with ASC 360, *Property, Plant, and Equipment* (ASC 360), to determine if facts and circumstances exist that would suggest that assets might be impaired or that the useful lives should be modified. In the event impairment in value occurs and a portion of the carrying amount of the rental properties will not be recovered in part or in whole, a provision will be recorded to reduce the carrying basis of the rental properties and related intangibles to their estimated fair value. The estimated fair value of Aviv REIT's rental properties is determined by using customary industry standard methods that include discounted cash flow and/or direct capitalization analysis.

### **Revenue Recognition**

Rental income is recognized on a straight-line basis over the term of the lease when collectibility is reasonably assured. Differences between rental income earned and amounts due under the lease are charged or credited, as applicable, to deferred rent receivable. Income recognized from this policy is titled deferred rental income. Additional rents from expense reimbursements for insurance, real estate taxes, and certain other expenses are recognized in the period in which the related expenses are incurred and are reflected as tenant recoveries on the consolidated statements of operations.

### **Lease Accounting**

Aviv REIT, as lessor, makes a determination with respect to each of its leases whether they should be accounted for as operating leases or direct financing leases. The classification criteria is based on estimates regarding the fair value of the leased facilities, minimum lease payments, effective cost of funds, the economic life of the facilities, the existence of a bargain purchase option, and certain other terms in the lease agreements. Payments received under operating leases are accounted for in the statement of operations as rental income for actual rent collected plus or minus a straight-line adjustment for estimated minimum lease escalators. Assets subject to operating leases are reported as rental properties in the consolidated balance sheets. For facilities leased as direct financing arrangements, an asset equal to Aviv REIT's net initial investment is established on the balance sheet titled assets under direct financing leases. Payments received under the financing lease are bifurcated between interest income and principal amortization to achieve a consistent yield over the stated lease term using the interest method. Principal amortization (accretion) is reflected as an adjustment to the asset subject to a financing lease.

All of Aviv REIT's leases contain fixed or formula-based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease.

### **Loan Receivables**

Loan receivables consist of capital improvement loans to tenants and working capital loans to operators. Loan receivables are carried at their principal amount outstanding. Management periodically evaluates outstanding loans and notes receivable for collectability. When management identifies potential loan impairment indicators, such as nonpayment under the loan documents, impairment of the underlying collateral, financial difficulty of the operator, or other circumstances that may impair full execution of the loan documents, and management believes it is probable that all amounts will not be collected under the contractual terms of the loan, the loan is written down to the present value of the expected future cash flows. As of December 31, 2011 and December 31, 2010, loan receivable reserves amounted to \$2.2 million and \$0.8 million, respectively. No other circumstances exist that would suggest that additional reserves are necessary at the balance sheet dates.

## **Table of Contents**

### **Stock-Based Compensation**

Aviv REIT follows ASC 718, *Stock Compensation* (ASC 718), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statements of operations based on their grant date fair values. On September 17, 2010, Aviv REIT adopted a 2010 Management Incentive Plan (the Plan) as part of the transaction with Lindsay Goldberg. A pro-rata allocation of non-cash stock-based compensation expense is made to Aviv REIT and noncontrolling interests for awards granted under the Plan. The Plan's non-cash stock-based compensation expense by Aviv REIT through December 31, 2011 is summarized in Footnote 9 in the notes to financial statements appearing elsewhere in this prospectus.

### **Fair Value of Financial Instruments**

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

- Level 1      Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or;
- Level 2      Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
- Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Aviv REIT's interest rate swaps are valued using models developed internally by the respective counterparty that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy.

Cash and cash equivalents and derivative financial instruments are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon Aviv REIT's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. Aviv REIT had outstanding mortgage and other notes payable obligations with a carrying value of approximately \$600.5 million and \$440.6 million as of December 31, 2011 and December 31, 2010, respectively. The fair value of debt as of December 31, 2011 was \$597.7 million and as of December 31, 2010 approximates its carrying value based upon interest rates available to Aviv REIT on similar borrowings. Management estimates the fair value of its loan receivables using a discounted cash flow analysis based upon Aviv REIT's current interest rates for loan receivables with similar maturities and collateral securing the indebtedness. Aviv REIT had outstanding loan receivables with a carrying value of \$33.0 million and \$36.6 million as of December 31, 2011 and December 31, 2010, respectively. The fair value of loan receivables as of December 31, 2011 and as of December 31, 2010 approximate its carrying value based upon interest rates available to Aviv REIT on similar borrowings.

### **Derivative Instruments**

Aviv REIT has implemented ASC 815, *Derivatives and Hedging* (ASC 815), which establishes accounting and reporting standards requiring that all derivatives, including certain derivative instruments embedded in other contracts, be recorded as either an asset or liability measured at their fair value unless they qualify for a normal purchase or normal sales exception. When specific hedge accounting criteria are not met, ASC 815 requires that changes in a derivative's fair value be recognized currently in earnings. Changes in the fair market values of Aviv REIT's derivative instruments are recorded in the consolidated statements of operations if the derivative does not qualify for or Aviv REIT does not elect to apply hedge accounting. If the

---

## **Table of Contents**

derivative is deemed to be eligible for hedge accounting, such changes are reported in accumulated other comprehensive income within the consolidated statement of changes in equity, exclusive of ineffectiveness amounts, which are recognized as adjustments to net income. All of the changes in the fair market values of our derivative instruments are recorded in the consolidated statements of operations for our interest rate swaps that were terminated in September 2010. In November 2010, we entered into two interest rate swaps and account for changes in fair value of such hedges through accumulated other comprehensive (loss) income in equity in our financial statements via hedge accounting.

### **Income Taxes**

For federal income tax purposes, Aviv REIT elected, with the filing of its initial 1120 REIT, U.S. Income Tax Return for Real Estate Investment Trusts, to be taxed as a Real Estate Investment Trust ( REIT ) effective as of the transaction with Lindsay Goldberg that occurred on September 17, 2010. To qualify as a REIT, Aviv REIT must meet certain organizational, income, asset and distribution tests. Aviv REIT currently intends to comply with these requirements and maintain REIT status. If Aviv REIT fails to qualify as a REIT in any taxable year, Aviv REIT will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not elect REIT status for four subsequent years. However, Aviv REIT may still be subject to federal excise tax. In addition, Aviv REIT may be subject to certain state and local income and franchise taxes. Historically, Aviv REIT and its predecessor have generally only incurred certain state and local income and franchise taxes, but these amounts were immaterial in each of the periods presented. Prior to the transaction with Lindsay Goldberg, the Partnership was a limited partnership and the consolidated operating results were included in the income tax returns of the individual partners. No uncertain income tax positions exist as of December 31, 2011 or December 31, 2010, respectively.

### **Business Combinations**

The Company allocates the purchase price of facilities between net tangible and identified intangible assets acquired and liabilities assumed, the Company makes estimates of the fair value of the tangible and intangible assets and acquired liabilities using information obtained from multiple sources as a result of preacquisition due diligence, marketing, leasing activities of the Company's diverse operator base, industry surveys of critical valuation metrics such as capitalization rates, discount rates and leasing rates and appraisals obtained as a requirement of the Mortgage (Level 3). The Company allocates the purchase price of facilities to net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of ASC 805, *Business Combinations* (ASC 805). The determination of fair value involves the use of significant judgment and estimation.

The Company determines fair values as follows:

Other assets acquired and other liabilities assumed are valued at stated amounts, which approximate fair value.

Rental properties are valued using discounted cash flow projections that assume certain future revenue and costs and consider capitalization and discount rates using current market conditions.

The Company allocates the purchase price of facilities to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values.

Assumed debt balances are valued at fair value, with the computed discount/premium amortized over the remaining term of the obligation.

The Company determines the value of land either based on real estate tax assessed values in relation to the total value of the asset, internal analyses of recently acquired and existing comparable properties within the Company's portfolio, or third party appraisals. The fair value of in-place leases, if any, reflects: (i) above and below-market leases, if any, determined by discounting the difference between the estimated current market rent

## **Table of Contents**

and the in-place rentals, the resulting intangible asset or liability of which is amortized to rental revenue over the remaining life of the associated lease plus any fixed rate renewal periods if applicable; (ii) the estimated value of the cost to obtain tenants, including tenant allowances, tenant improvements, and leasing commissions, which is amortized over the remaining life of the associated lease; and (iii) an estimated value of the absorption period to reflect the value of the rents and recovery costs foregone during a reasonable lease-up period as if the acquired space was vacant, which is amortized over the remaining life of the associated lease. The Company also estimates the value of tenant or other customer relationships acquired by considering the nature and extent of existing business relationships with the tenant, growth prospects for developing new business with such tenant, such tenant's credit quality, expectations of lease renewals with such tenant, and the potential for significant, additional future leasing arrangements with such tenant. The Company amortizes such value, if any, over the expected term of the associated arrangements or leases, which would include the remaining lives of the related leases. The amortization is included in the consolidated statements of operations in rental income.

## **Reclassifications**

Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no effect on Aviv REIT's consolidated financial position or results of operations.

## **Quantitative and Qualitative Disclosures about Market Risk**

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We use some derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based on their credit rating and other factors.

We entered into a swap arrangement on November 5, 2010 to hedge \$200 million of floating rate debt. If LIBOR were to increase by 100 basis points, we do not expect there would be any significant effect on the interest expense on our pro forma variable rate debt as our floating rate credit agreement is subject to a LIBOR floor of 125 basis points. Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure. The fair value of our debt outstanding as of December 31, 2011 was approximately \$597.7 million.

---

**Table of Contents**

**BUSINESS**

**Our Company**

We operate as a self-administered, self-managed real estate investment trust, or REIT, that focuses on the ownership of healthcare properties, principally skilled nursing facilities ( SNFs ). We generate our revenues through long-term triple-net leases with a diversified group of high quality operators throughout the United States. Through our predecessor entities, we have been in the business of financing SNF operators through triple-net leases for over 30 years. We believe that we have one of the largest SNF portfolios in the United States which consisted of 225 properties, of which 200 were SNFs, with 20,875 licensed beds in 26 states leased to 35 operators, as of December 31, 2011. For the year ended December 31, 2011, our revenues and Adjusted EBITDA were \$104.7 million and \$91.6 million, respectively. See Presentation of Non-GAAP Financial Information and Portfolio Statistics and Summary Financial Data.

We believe we are well positioned to benefit from our diversified portfolio of properties and extensive network of operator relationships. We focus on cultivating close relationships with our operators by working closely with them to help them achieve their business objectives. As a result of these efforts, we are in a position to effectively manage our portfolio, make additional investments and continue to expand our business. From April 2005 through December 2011, we completed \$663.5 million of acquisitions. In 2011, we completed \$217.9 million of acquisitions and investments. We target EBITDAR and EBITDARM coverages that we believe allow us to balance our rental income with appropriate operating and financial performance for our operators. Our EBITDAR and EBITDARM coverages for the twelve months ended September 30, 2011 were 1.5x and 2.0x, respectively.

The structure of our triple-net leases has significantly contributed to our consistent and stable performance and positions us to benefit from a long-term stream of rental income. Our leases typically have initial terms of 10 years or more, annual rent escalation provisions of 2% to 3% and typically do not have operator purchase options. We also seek additional support for the rental income generated by the leases through guarantees, master leases, cross-default provisions and security deposits. As of December 31, 2011, the leases for 223 of our 225 properties were supported by personal and/or corporate guarantees.

**Our Competitive Strengths**

We believe the following strengths serve as the foundation for our success:

*Track Record of Disciplined Investing*

We, through our predecessor entities, have been in the business of owning healthcare properties for over 30 years and were one of the first providers of financing to SNF operators through triple-net leases. We are disciplined and selective about the investments we make and have a strong track record of identifying operators and attractive markets in which to invest. This has enabled us to successfully complete \$663.5 million of acquisitions from April 2005 to December 2011, including \$217.9 million of acquisitions and investments in 2011. In order to effectively manage our investments, we have implemented systems and processes to monitor the performance of our operators and properties, including annual site visits, regular contact with our operators and quarterly financial reviews.

*Large, Diverse Portfolio*

We believe we have one of the largest portfolios of SNFs in the United States, with significant operator and geographic diversification. As of December 31, 2011, our portfolio consisted of 225 properties with 20,875 licensed beds. We lease our properties to a diversified group of 35 operators with no single operator representing more than 15.8% of our annualized total rent under existing leases for the year ended December 31, 2011. Our properties are located in 26 states, with no state representing more than 16.9% of our annualized total rent under



## **Table of Contents**

existing leases for the year ended December 31, 2011. We believe our track record and extensive network of industry relationships puts us in a position to continue to identify and complete investments that enhance the quality and diversification of our portfolio.

### *High Quality Operators*

As a result of our many years of experience and industry contacts, we have a portfolio of, and an ability to identify, high quality operators. We believe each of our 35 operators possesses local market knowledge, hands-on management and a proven track record. Many of our operators are among the largest and most established SNF operators in their respective markets, with management typically possessing 20 years or more of industry experience. We believe our management team's extensive experience provides us with a key advantage in evaluating an operator's prospects for success and enables us to identify the appropriate operator for each of our properties. As of December 31, 2011, 175 of our 225 properties are leased to operators with whom we have had a relationship for at least 5 years, and 82 of our 225 properties are leased to operators with whom we have had a relationship for at least 10 years.

### *Attractive Long-Term Leases*

Our existing portfolio of leases and our lease structure position us to take advantage of a stable, long-term stream of rental income. Our leases typically have initial terms of 10 years or more, annual rent escalation provisions of 2% to 3%, guarantees, master lease or cross-default provisions and security deposits. Our leases typically are co-terminous within an operator relationship and do not have operator purchase options. As of December 31, 2011, the leases for 223 of our 225 properties were supported by personal and/or corporate guarantees. We proactively seek to extend our leases, including at the time we make additional acquisitions, capital expenditures or other investments with our operators. As of December 31, 2011, our leases had an average remaining term of 8.4 years. Our track record of successfully extending our leases enables us to benefit from continuity of management by our operators.

### *Experienced Senior Management Team Supported by Strong Equity Sponsorship*

Many members of our management team have been with us for 10 years or more, have significant industry experience and also have a meaningful ownership stake. Our senior management team has extensive experience in the SNF industry and other relevant areas of expertise. Craig Bernfield, our Chairman, President and Chief Executive Officer and co-founder, has more than 20 years of experience as an investor in the SNF industry. In addition, Steven Insoft, our Chief Operating Officer, Chief Financial Officer and Treasurer, also has more than 20 years of experience in our industry, including with investors, operators and other REITs.

In September 2010, we entered into a new strategic partnership with an affiliate of Lindsay Goldberg, LLC ( Lindsay Goldberg ), a highly regarded private investment firm. We believe our relationship with Lindsay Goldberg has provided us with valuable support to facilitate our growth. Lindsay Goldberg has invested \$302.8 million in our company's equity to date, and has committed to provide additional equity capital to support our growth.

## **Our Business Strategies**

Our primary goal is to continue our track record of disciplined investing, which we intend to accomplish through the following business strategies:

### *Maintain Balance Sheet Strength and Liquidity*

We plan to maintain a capital structure that will provide substantial resources and liquidity to support our business and its continued growth. We had approximately \$78.6 million of liquidity as of December 31, 2011, consisting of cash and cash equivalents and borrowings available under our Acquisition Credit Line and

---

## **Table of Contents**

our 2014 Revolver. The Acquisition Credit Line also permits a portion of the borrowing availability to be used to fund property improvements, for which we typically receive increased rents. In January 2012, we closed on our 2016 Revolver which as of March 2, 2012 had an availability of approximately \$40.5 million. In the future, we intend to use a mix of debt financing sources, including unsecured term debt, credit facility borrowings and mortgage debt, to continue to optimize both our flexibility and cost of capital. In addition, Lindsay Goldberg has committed to provide additional equity capital to support our growth.

### *Continue to Grow and Enhance Portfolio Diversification*

We plan to capitalize on our successful track record by strategically and opportunistically pursuing new investments that will further enhance the diversification, strength and success of our portfolio. We evaluate acquisition opportunities on an ongoing basis and are in various stages of due diligence, preliminary discussions or competitive bidding with respect to a number of potential transactions, some of which would be significant. We intend to continue to make disciplined investments in a broad range of property and portfolio transactions, including through the following strategies:

#### *Pursue Additional Investments with our Existing Operators*

We intend to work closely with our existing operators to identify additional investment opportunities in their existing markets, as well as to leverage our experience and relationships with them to expand into new markets and property types. We believe our focus and commitment to relationships are key factors in our operators' decisions to enter into leases with us. In addition to new property acquisitions, we plan to continue to support our operators by providing capital for modernization and improvement of our properties, for which we typically receive increased rents.

#### *Expand our Network of Operator Relationships*

We intend to continue to expand our extensive network of operator relationships that we have built and cultivated over the years. We plan to strengthen these relationships that have allowed us to identify a significant number of transactions over the years. When making new investments, we will continue to focus on operators that meet our investment criteria, including our standards for quality and experience of management, credit worthiness and historical financial and operating performance. We believe our reputation, experience and credibility will lead us to relationships with new high quality operators and related investment opportunities.

#### *Selectively Diversify into Other Healthcare Property Types*

We intend to continue to acquire assisted living facilities, independent living facilities, retirement communities, continuum of care facilities and other healthcare properties. When pursuing these transactions, we intend to enter into triple-net leases with experienced operators that meet our investment criteria.

## **Our Portfolio**

As of December 31, 2011, our portfolio consisted of 225 properties with 20,875 licensed beds in 26 states leased to 35 operators. As of December 31, 2011, our properties consisted of 200 SNFs, 10 traumatic brain injury facilities, 12 assisted living facilities, two independent living facilities and one vacant parcel of land. We lease our properties to a diversified group of 35 operators with no single operator representing more than 15.8% of our annualized total rent under existing leases for the year ended December 31, 2011. We have a geographically diversified portfolio of properties located in 26 states with no state representing more than 16.9% of our annualized total rent under existing leases for the year ended December 31, 2011.

For the twelve months ended September 30, 2011, our Portfolio Occupancy was 73.9% and our Quality Mix was 45.8%. Since 2006, our annual Portfolio Occupancy has remained stable. When making new investments, we seek to balance these measures with value and lease rent levels.

**Table of Contents**

The following tables set forth information about our operator and state diversification as of and for the year ended December 31, 2011.

**Operator Diversification**

<b>Operator</b>	<b>Percentage of Total Rent (1)</b>	<b>Number of Properties</b>	<b>Number of Licensed Beds</b>
Saber	15.8%	25	2,422
Evergreen	10.9	17	1,552
Daybreak	10.0	32	3,267
SunMar	8.2	13	1,463
Benchmark	6.3	14	1,436
Cathedral Rock	6.0	12	1,080
Sun	4.0	11	973
Deseret	3.8	17	889
ConvaCare	3.6	8	1,132
Eagle	3.6	10	691
Bridgemark	3.2	6	702
New Beginnings	3.2	3	366
Preferred	2.7	4	561
Maplewood	2.7	4	343
Care Meridian	2.2	11	144
Markleysburg	1.9	5	502
Hi-Care	1.5	3	319
Good Samaritan	1.4	2	214
Covenant Care	1.1	2	302
Hope	0.9	2	104
Lion	0.8	1	330
Concepts	0.8	3	337
Transitions Healthcare	0.7	1	135
Homestead	0.6	6	613
Heyde	0.6	2	157
Gilmer	0.5	1	112
Orion	0.5	1	109
24/7	0.5	1	85
Northpoint	0.5	1	95
UltraCare Healthcare	0.4	1	73
LTP Generations	0.3	2	95
Health Dimensions	0.2	1	90
Fountain	0.2	1	80
Tana Bell	0.2	1	65
Safe Haven	0.2	1	37
<b>Total</b>	<b>100.0%</b>	<b>225</b>	<b>20,875</b>

(1) Total rent represents the annualized rent under existing leases for the year ended December 31, 2011.

**Table of Contents****State Diversification**

State	Percentage of Total Rent (1)	Number of Properties	Number of Licensed Beds
California	16.9%	32	2,413
Texas	13.4	43	4,620
Ohio	8.7	16	1,405
Arkansas	7.6	14	1,835
Pennsylvania	7.6	10	1,134
Missouri	7.1	15	1,556
Washington	4.7	12	661
New Mexico	4.6	9	782
Illinois	4.3	9	1,029
Kansas	3.8	16	915
Massachusetts	3.5	10	877
Arizona	2.9	5	641
Connecticut	2.6	4	343
Oregon	2.3	6	493
Idaho	1.7	5	467
Nevada	1.4	2	181
Nebraska	1.0	2	282
Michigan	1.0	2	204
Florida	1.0	1	90
Wisconsin	0.9	3	247
Minnesota	0.7	3	162
Virginia	0.5	1	104
Montana	0.5	2	174
Utah	0.5	1	85
Tennessee	0.4	1	102
Oklahoma	0.4	1	73
<b>Total</b>	<b>100.0%</b>	<b>225</b>	<b>20,875</b>

(1) Total rent represents the annualized rent under existing leases for the year ended December 31, 2011. In the case where the property's master lease includes more than one state, rent was allocated proportionately by number of licensed beds in each state.

**Portfolio Occupancy**

The following table sets forth information about our Portfolio Occupancy by state as of September 30, 2011:

State	Portfolio Occupancy	State Average Occupancy (1)
California	88.4%	85.0%
Texas	60.2%	70.8%
Arkansas	78.7%	73.5%

Edgar Filing: AVIV REIT, INC. - Form S-4/A

Missouri	63.5%	71.7%
Washington	79.5%	80.9%
New Mexico	83.1%	83.1%
Illinois	80.1%	78.3%
Ohio	78.3%	85.0%
Massachusetts	89.7%	88.4%
Pennsylvania	89.0%	90.2%

**Table of Contents**

- (1) Represents Nursing Facility State Occupancy Rate as reported by American Health Care Association (AHCA). AHCA occupancy data is calculated by dividing the sum of all facility patients in the state occupying certified beds by the sum of all the certified beds in the state reported at the time of the current standard survey. The data is based on the most current standard health surveys conducted in SNFs on or before December 2011.

**Lease Expiration**

The following table sets forth information regarding the expiration dates of our leases as of December 31, 2011:

<b>Year</b>	<b>Number of Properties with Leases Expiring</b>	<b>Percentage of Total Rent (1)</b>
2013	5	3.2
2014	5	0.8
2015	11	3.9
2016	8	4.0
2017	10	2.8
2018	22	11.9
2019	8	4.3
2020	40	14.5
2021	99	44.4
2022	2	0.5
Thereafter	12	9.7
<b>Total</b>	<b>222(2)</b>	<b>100.0%</b>

- (1) Total rent represents the rent under existing leases for the year ended December 31, 2011.
- (2) The total number of properties with leases expiring excludes two properties for which we provide asset management services only, one property subject to a leasehold mortgage and one property subject to a second mortgage loan.

**Our Industry**

We operate as a REIT and own healthcare properties, principally SNFs, located in the United States. According to The Centers for Medicare & Medicaid Services, or CMS, healthcare is one of the largest industries in the United States and total U.S. healthcare expenditures are projected to grow from approximately \$2.6 trillion in 2010 to approximately \$4.6 trillion in 2020. Within the healthcare industry, national expenditures for SNFs are expected to grow from approximately \$144 billion in 2010 to approximately \$219 billion in 2020, according to CMS, representing a compound annual growth rate, or CAGR, of 4.3%. The SNF market is highly fragmented and, according to the American Health Care Association, comprises approximately 15,650 facilities with approximately 1.7 million certified beds as of December 2011.

This growth will be driven, in part, by the aging of the population and increased life expectancies. According to the U.S. Census Bureau, the number of Americans aged 65 or older is expected to increase from approximately 37 million in 2006 to approximately 55 million in 2020, representing a CAGR of 2.8%, compared to a total U.S. population CAGR of 0.9% over the same period. In response to growing healthcare

costs, the U.S. federal government has adopted cost containment measures that encourage the treatment of patients in more cost effective settings, such as SNFs. As a result, we believe that many high-acuity patients that would have been previously treated in long-term acute care hospitals and in-patient rehabilitation facilities are increasingly being cared for in SNFs. We believe that these trends will support a growing demand for the services provided by SNF operators, which in turn will support a growing demand for our properties.

## **Table of Contents**

The growth in the total demand for SNF services has resulted in a greater need for many of our operators to access capital for growth, which we believe provides an attractive opportunity for us to invest in healthcare properties. Operators are increasingly relying on capital sources, such as our company, to finance their growth plans for acquisitions and other real estate-related investments so they may deploy their capital into their operations. To generate liquidity and operating capital, operators also often decide to sell real estate assets and lease them back, enabling them to monetize the value of their real estate, while maintaining control over their operations. These sale-leaseback transactions enable us to acquire properties and benefit from continuity of management.

### **Competition**

The market for making investments in healthcare facilities is highly competitive and fragmented. We compete with other public and private companies who provide lease and/or mortgage financing to operators of a variety of different types of healthcare properties. We also face competition leasing available properties to prospective operators. We compete with these other companies based on reputation, purchase price and financing alternatives offered and the relationship that develops during the term of the lease.

We have experience identifying and underwriting the abilities of qualified regional and national operators. We believe that this experience helps us identify new tenant relationships and new opportunities with existing relationships. We believe that our historical focus primarily on SNFs has enabled us to develop broad expertise in the markets in which we compete.

### **Regulation**

Typically, operators of SNFs receive significant funding from governmental programs and are regulated by the states and the federal government. Operators of SNFs are subject to federal and state laws that regulate the type and quality of the nursing care provided, ancillary services (e.g., respiratory, occupational, physical and infusion therapies), qualifications of the administrative personnel and nursing staff, the adequacy of the physical plant and equipment, distribution of pharmaceuticals, reimbursement and rate setting and operating policies. In addition, most, if not all, of our tenants are subject to extensive laws and regulations pertaining to healthcare fraud and abuse, including kickbacks and false claims. The following discussion describes certain material U.S. federal and state healthcare laws and regulations that may affect our operations and those of our tenants. However, the discussion does not address all applicable federal, state and local healthcare laws and regulations that could affect our operations and those of our tenants.

*Licensing and Certification.* Our tenants and facilities are subject to regulatory and licensing requirements of federal, state and local authorities and are periodically surveyed by them to confirm compliance. Failure to obtain licensure or loss or suspension of licensure or certification may prevent a facility from operating or result in a suspension of reimbursement payments until all licensure or certification issues have been resolved and the necessary licenses or certification are obtained or reinstated. Transfers of operations of SNFs and other healthcare facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and real estate.

*Certificate of Need.* Some states require that SNFs obtain governmental approval, in the form of a Certificate of Need, or CON, or similar certification, that generally varies by state and is subject to change, prior to the addition or construction of new beds, the addition of services or certain capital expenditures. The CON laws and regulations may restrict our ability to add new facilities or expand an existing facility's size or services. In addition, CON laws may constrain our ability to lease a particular property to a new tenant.

*Medicare and Medicaid Certification.* A significant portion of the revenues of our tenants that operate SNFs is derived from participation in government-funded reimbursement programs, primarily Medicare and Medicaid, and failure to maintain certification to participate in these programs could result in a loss of funding from such programs. Medicare and Medicaid laws also require operators of SNFs to comply with extensive standards governing operations.



---

**Table of Contents**

*Fraud and Abuse Laws and Regulations.* There are various highly complex federal and state laws governing a wide array of referrals, financial relationships and arrangements and prohibiting fraud by healthcare providers, including criminal provisions that prohibit financial inducements for referrals, filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or failing to refund overpayments or improper payments. Violations of these laws subject persons and entities to termination from participation in Medicare, Medicaid and other federally funded healthcare programs or result in the imposition of treble damages and fines or other penalties.

*Other Laws.* Other laws that impact how our tenants conduct their operations include: federal and state laws designed to protect the confidentiality and security of patient health information; state and local licensure laws; laws protecting consumers against deceptive practices; laws generally affecting our tenants' management of property and equipment and how our tenants generally conduct their operations, such as fire, health and safety, and environmental laws; federal and state laws affecting assisted living facilities mandating quality of services and care, and quality of food service; resident rights (including abuse and neglect laws); and health standards set by the federal Occupational Safety and Health Administration.

*Legislative and Regulatory Developments.* On March 23, 2010, the President signed into law the Patient Protection and Affordable Care Act ( PPACA ) and the Health Care and Education Reconciliation Act of 2010, which amends the PPACA (collectively, the Health Reform Laws ). Together, these two measures make the most sweeping and fundamental changes to the U.S. health care system undertaken since the creation of Medicare and Medicaid. These new laws include a large number of health-related provisions that are scheduled to take effect over the next four years, including expanding Medicaid eligibility, requiring most individuals to have health insurance, establishing new regulations on health plans, establishing health insurance exchanges and modifying certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste, including through new tools to address fraud and abuse. Because all of our properties are used as healthcare properties, we will be impacted by the risks associated with the healthcare industry, including healthcare reform. While the expansion of healthcare coverage may result in some additional demand for services provided by tenants, reimbursement levels may be lower than the costs required to provide such services, which could materially adversely affect the ability of tenants to generate profits and pay rent under their lease agreements with us and thereby could materially adversely affect our business, financial position or results of operations. The Health Reform Laws also enhance certain fraud and abuse penalty provisions that could apply to our operators and tenants in the event of one or more violations of the federal health care regulatory laws. In addition, there are provisions that impact the health coverage that we and our tenants provide to our respective employees. Furthermore, regulatory proposals and rules are released on an ongoing basis that may have an impact on the healthcare system in general and the skilled nursing and long-term care industries in particular. On July 29, 2011, CMS released its final rule regarding 2012 Medicare payment rates for SNFs, which became effective October 1, 2011. The rule recalibrates the method of calculating Medicare reimbursement rates, and is likely to cause the reimbursement rates for SNFs to be reduced by approximately 11.1% on a system-wide basis for fiscal year 2012.

**Environmental Matters**

In addition to environmental risks relating to releases of hazardous substances, our properties are subject to environmental laws regulating, among other things, air emissions, wastewater discharges and the handling and disposal of wastes, including medical wastes. Certain of our properties utilize above or underground storage tanks to store heating oil for use at the properties. Other properties were built during the time that asbestos-containing building materials were routinely installed in residential and commercial structures. Our leases obligate our tenants to comply with applicable environmental laws and to indemnify us if their noncompliance

## **Table of Contents**

results in losses or claims against us. A tenant's failure to comply could result in fines and penalties or the requirement to undertake corrective actions which may result in significant costs to the tenant and thus adversely affect their ability to meet their obligations to us.

Pursuant to U.S. federal, state and local environmental laws and regulations, a current or previous owner or operator of real property may be required to investigate, remove and/or remediate a release of hazardous substances or other regulated materials at, or emanating from, such property. Further, under certain circumstances, such owners or operators of real property may be held liable for property damage, personal injury and/or natural resource damage resulting from or arising in connection with such releases. Certain of these laws have been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. We also may be liable under certain of these laws for damage that occurred prior to our ownership of a property or at a site where we sent wastes for disposal. The failure to properly remediate a property may also adversely affect the owner's ability to lease, sell or rent the property or to borrow funds using the property as collateral.

In connection with the ownership of our current or past properties and any properties that we may acquire in the future, we could be legally responsible for environmental liabilities or costs relating to a release of hazardous substances or other regulated materials at or emanating from such property. In order to assess the potential for such liability, we typically engage a consultant to conduct a limited environmental assessment of each property prior to acquisition and oversee our properties in accordance with environmental laws. Most of our leases require tenants to conduct all activities in compliance with environmental laws and to indemnify the owner for any harm caused by the failure to do so. We are not aware of any environmental issues that are expected to have a material impact on the operations of any of our properties. See Risk Factors Risks Relating to Our Business and Operations.

## **Insurance**

Under the terms of our leases, our tenants are required to maintain comprehensive general liability, fire, flood, earthquake, boiler and machinery, nursing home or long-term care professional liability and extended coverage insurance with respect to our properties with policy specifications, limits and deductibles set forth in the lease agreement or other written agreement between us and the tenant. In some limited situations, we have agreed in our leases to pay half of the cost of earthquake insurance. We believe that our properties are covered by adequate insurance provided by reputable companies and with commercially reasonable deductibles and limits. Our leases provide that insurance premiums are the responsibility of the tenant, and our tenants are responsible for any increases in premiums. In addition, we carry contingent property and liability coverage for our properties encumbered by the existing credit facility.

## **Employees**

As of December 31, 2011, we had 24 full-time employees and six part-time employees. We believe that our relationships with our employees are good. None of our employees is represented by a union.

## **Corporate Information**

Aviv REIT was incorporated as a Maryland corporation on July 30, 2010 and operates in a manner intended to allow it to qualify as a REIT for federal income tax purposes. Aviv REIT is the sole general partner of the Partnership. The Partnership was formed as a Delaware partnership on March 4, 2005.

Our headquarters are located at 303 West Madison Street, Suite 2400, Chicago, Illinois 60606. Our telephone number is (312) 855-0930. Our internet website is <http://www.avivreit.com>. The information contained on, or accessible through, our website is not incorporated by reference into this prospectus and should not be considered a part of this prospectus.

**Table of Contents**

**Legal Proceedings**

In late 2011, after a dispute with a small number of its limited partners, the Partnership filed a declaratory judgment motion in the Delaware Chancery Court seeking confirmation that certain adjustments to the distributions of cash flows of the Partnership were made in accordance with the partnership agreement following the investment in the Partnership by Aviv REIT and related financing transactions. The dispute relates to the relative distributions among classes of limited partners that existed prior to the investment by Aviv REIT.

In addition, we are involved in various unresolved legal actions and proceedings, which arise in the normal course of our business. Although the outcome of a particular proceeding can never be predicted, we do not believe that the result of any of these other matters will have a material adverse effect on our business, operating results, or financial position.

**Table of Contents****MANAGEMENT**

Set forth below are the names, ages (as of December 31, 2011) and positions of Aviv REIT's directors and executive officers:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Craig M. Bernfield	50	Chairman of the Board (Class B), Chief Executive Officer and President
Steven J. Insoft	47	Chief Operating Officer, Chief Financial Officer and Treasurer
Michael W. Dees	38	Director (Class A)
Alan E. Goldberg	57	Director (Class A)
Robert D. Lindsay	57	Director (Class A)
Ari Ryan	36	Director (Class C)
J. Russell Triedman	42	Director (Class A)

The following are biographical summaries of the experience of Aviv REIT's directors and executive officers.

*Craig M. Bernfield.* Mr. Bernfield is our Chief Executive Officer and President and has served in such capacity since he co-founded Aviv Healthcare Properties Limited Partnership in 2005. Since September 2010, Mr. Bernfield has also served as the Chairman of our board of directors. Prior to co-founding our company, Mr. Bernfield was Chief Executive Officer and President of Karell Capital Ventures, Inc., or KCV, which he joined in 1990. KCV managed the entities that were combined in 2005 in connection with the formation of Aviv Healthcare Properties Limited Partnership. Mr. Bernfield has been an investor in the nursing home industry for approximately 20 years and was the co-founder of some of the entities that were combined in 2005. Mr. Bernfield received a J.D. degree from The University of Chicago Law School and a B.S. degree in Finance from the College of Business at the University of Illinois at Urbana-Champaign. Mr. Bernfield brings extensive business, managerial and leadership experience to our board of directors. With over 20 years of experience as an investor in the SNF industry, Mr. Bernfield provides the board of directors with a vital understanding and appreciation of our business and the industry. His position as co-founder, Chief Executive Officer and President of our company also make Mr. Bernfield uniquely qualified to serve as the Chairman of our board of directors.

*Steven J. Insoft.* Mr. Insoft is our Chief Operating Officer, Chief Financial Officer and Treasurer and has served in such capacity since 2005. Prior to joining our company in 2005, Mr. Insoft spent eight years as a Vice President and Senior Investment Officer of Nationwide Health Properties, Inc., a publicly-traded REIT. Before that, he was President and Chief Financial Officer of CMI Senior Housing & Healthcare, Inc., a privately-held nursing home and assisted living facility operations and development company, for seven years. Mr. Insoft received an M.B.A. from Columbia University and a B.S.E. in Electrical Engineering from the University of Pennsylvania.

*Michael W. Dees.* Mr. Dees has served as a member of our board of directors since September 2010. Mr. Dees has been with Lindsay Goldberg since 2004, serving as Principal before becoming Partner in 2009. Previously, he worked at Morgan Stanley in the mergers and acquisitions and the Capital Partners groups in New York and in the Real Estate Private Equity group in Tokyo. Mr. Dees has served as a director for Rosetta LLC and Klöckner & Co. AG. Mr. Dees currently serves as a director of Bell Nursery Holdings, LLC, Crane & Co., Inc., OTLG C.V. and Weener Plastik AG. Mr. Dees' experience advising growth-oriented companies and his position with an affiliate of Aviv REIT's largest stockholder, LG Aviv L.P., qualify him for service on our board of directors.

*Alan E. Goldberg.* Mr. Goldberg has served as a member of our board of directors since September 2010. Mr. Goldberg is a Co-Managing Partner of Goldberg Lindsay & Co., LLC, which he co-founded in 2001.

**Table of Contents**

Previously, he served as Chairman and Chief Executive Officer of Morgan Stanley Private Equity from February 1998 to January 2001. Mr. Goldberg joined Morgan Stanley in 1978. Mr. Goldberg has served as a director of Energy Solutions, Inc., Wacker Construction Equipment AG, Klöckner & Co. AG, FSB Global Holdings, Inc., Alliant Insurance Services, Inc., Keystone Foods Holdings LLC, Smurfit-Stone Container Corporation and Rosetta LLC. Mr. Goldberg currently serves as a director of FAPS Holdings, Inc., Maine Beverage Company, LLC, PL Olefins LLC, Continental Energy Systems LLC, Intermex Holdings, Inc., The Brock Group, Inc., Brightstar Corp., PL Propylene LLC, RECON Holdings III Inc., Ambulatory Services of America, Inc., Crane & Co., Inc., Scandza AS, PSC, LLC, Panadero Aggregates Holdings, LLC and Pacific Architects and Engineers Incorporated. He also serves as a trustee of Yeshiva University. Mr. Goldberg's years of business, financial, managerial, executive and board experience across a broad spectrum of industries make him a valuable member of our board of directors. He also indirectly controls (together with Robert D. Lindsay) Aviv REIT's largest stockholder, LG Aviv L.P.

*Robert D. Lindsay.* Mr. Lindsay has served as a member of our board of directors since September 2010. Mr. Lindsay is a Co-Managing Partner of Goldberg Lindsay & Co., LLC, which he co-founded in 2001. In addition, Mr. Lindsay serves as the Managing General Partner of Bessemer Holdings, which he joined in 1991. Prior to Bessemer Holdings, Mr. Lindsay was a Managing Director at Morgan Stanley Private Equity. Mr. Lindsay has served as a director of Energy Solutions, Inc., Wacker Construction Equipment AG, Klöckner & Co. AG, Keystone Foods Holdings LLC, FSB Global Holdings, Inc., Rosetta LLC and Alliant Insurance Services, Inc. He also serves as President and CEO of Bessemer Securities LLC, a director of The Bessemer Group, Incorporated and its subsidiary banks, including Bessemer Trust Company, N.A., and as a director of Pike Electric Corporation, FAPS Holdings, Inc., Maine Beverage Company, LLC, PL Olefins LLC, Continental Energy Systems LLC, Intermex Holdings, Inc., The Brock Group LLC, Bell Nursery Holdings, LLC, Brightstar Corporation, PL Propylene LLC, Ambulatory Services of America, Inc., Crane & Co., Inc., Scandza AS, PSC, LLC, Panadero Aggregates Holdings, LLC and Pacific Architects and Engineers Incorporated. He also serves as a trustee of the Cold Spring Harbor Biological Laboratory and St. Paul's School in Concord, New Hampshire. Mr. Lindsay's years of business, financial, managerial, executive and board experience across a broad spectrum of industries make him a valuable member of our board of directors. He also indirectly controls (together with Alan E. Goldberg) Aviv REIT's largest stockholder, LG Aviv L.P.

*Ari Ryan.* Mr. Ryan has served as a member of our board of directors since September 2010. Mr. Ryan is an independent real estate investor and developer and entrepreneur. Mr. Ryan participates in real estate syndications and financing and as a consultant to start up enterprises of all types. He currently manages a private commercial and residential real estate portfolio and serves on the board of directors of the Friends of the Israel Defense Forces, Western Region. Mr. Ryan is the grandson of the late Zev Karkomi, our co-founder. Mr. Ryan's entrepreneurial experience in the real estate industry and his familial connection to our co-founder make him a valuable member of our board of directors.

*J. Russell Triedman.* Mr. Triedman has served as a member of our board of directors since September 2010. Mr. Triedman also serves as a Partner at Lindsay Goldberg, LLC, which he joined in 2001. Previously, he worked as a Principal at Bessemer Holdings from 2000 to 2001. He also worked as a Director at Fox Paine & Company, LLC, a San Francisco-based private equity firm, in the mergers and acquisitions and high yield finance groups at Cravath, Swaine & Moore LLP and in the private equity group of Brown Brothers Harriman & Co. Mr. Triedman has served as a director of Keystone Foods Holdings LLC and FSB Global Holdings, Inc. Mr. Triedman also serves as a director of Continental Energy Systems LLC, Pike Electric Corporation and Pacific Architects and Engineers Incorporated. Mr. Triedman's experience advising growth-oriented companies and his position with an affiliate of Aviv REIT's largest stockholder, LG Aviv L.P., qualify him for service on our board of directors.

**Board of Directors**

Aviv REIT's charter provides for three classes of directors: Class A Directors, Class B Directors and Class C Directors. Each director serves for a term expiring at the next annual meeting of stockholders and when

**Table of Contents**

his successor has been duly elected and qualifies. The number and identity of directors serving on Aviv REIT's board of directors is determined pursuant to a Stockholders Agreement (the "Stockholders Agreement") entered into by Aviv REIT, Lindsay Goldberg, an entity formed by Mr. Bernfield and Mr. Ryan, as representative of certain limited partners (the "Karkomi Investors") related to the family of Zev Karkomi, who co-founded Aviv Healthcare Properties Limited Partnership with Mr. Bernfield. The Stockholders Agreement provides for a total of eleven votes to be cast at all meetings of Aviv REIT's board of directors. Subject to certain exceptions, the Class A Directors, who are designated by Lindsay Goldberg, are entitled to cast a total of four such votes, the Class B Directors, who are designated by Mr. Bernfield, are entitled to cast a total of six such votes and the Class C Directors, who are designated by the Karkomi Investors, are entitled to cast one such vote. If Mr. Bernfield dies or becomes disabled, the Class B Directors will be designated by an individual previously designated by Mr. Bernfield and agreed to by Lindsay Goldberg. For additional information regarding our relationship with Lindsay Goldberg, see "Certain Relationships and Related Transactions."

**Table of Contents**

**COMPENSATION DISCUSSION AND ANALYSIS**

The primary goal of our executive compensation program is to attract, motivate and retain top-caliber talent needed to lead us in achieving business success. Our compensation approach has traditionally been reflective of the operation of our business as a closely held private company and the compensation tools available to us in that structure. Historically, the principal owners have been solely responsible for setting and adjusting the overall design of our pay programs for the named executive officers. Our Chief Executive Officer has negotiated executive compensation packages as part of the hiring process and reviewed each executive's compensation as part of the annual performance review and budgeting process.

Historically, in setting or adjusting our executive compensation packages, management has relied upon going rate information provided by recruiting firms, our historical pay practices, and wage increase information from various publicly available sources when making decisions about the amounts and forms of compensation provided to our executives. Additionally, the Chief Executive Officer has considered the following:

seniority, skill and responsibilities of each executive;

internal equity among pay levels of our executive officers; and

the individual performance of each executive officer.

Our current executive compensation program consists of the following elements, each of which is described in more detail below:

<b>Element</b>	<b>Description</b>	<b>Rationale</b>
<b>Base salary</b>	Based on position-specific responsibilities and performance	Required to deliver competitive pay and attract and retain required talent
	Paid at a rate established at the beginning of each year	
<b>Annual incentive</b>	Opportunity to earn a percentage of base salary based upon performance against pre-determined company and individual performance objectives	Provide compensation opportunity that encourages strong performance and focuses individuals on key goals
<b>Equity</b>	Differentiated equity awards granted based on level of responsibility, seniority and/or ability to influence value creation	Provide competitive earning opportunity Aligns executives with shareholder value creation
<b>1. Class D Units</b>		Provides a long-term incentive vehicle to provide additional performance-based pay opportunity
<b>2. Phantom Class C Units</b>		

Creates a retention mechanism

**3. Management Incentive Plan (MIP)**

**Benefits and Perquisites**

Consistent with those offered to all employees

Executives should not receive preferential perquisite, health or welfare treatment



**Table of Contents**

Our compensation philosophy and structure were established in 2008 following our engagement of Towers Perrin. (Towers Watson was then formed as a result of the 2010 merger between Towers Perrin and Watson Wyatt). In October 2010, we engaged Pay Governance LLC, the Consultant (following the merger of Towers Perrin and Watson Wyatt, our principal consultant participated in the formation of Pay Governance). Our principal owners engaged Towers Perrin to conduct a review of and assist in formalizing our executive compensation program.

Prior to 2011, the last formal competitive assessment was conducted by Towers Perrin in 2008 and covered base salary levels, short-term incentive awards, and equity incentive awards for our named executive officers. Towers Perrin relied on data from three primary sources in order to define competitive market compensation levels and assist us in formulating compensation ranges and in developing incentive program design for our named executive officers. The three data sources included:

proxy data obtained from publicly-traded non-healthcare REITs;

proxy data obtained from publicly-traded healthcare industry REITs; and

general industry data obtained from Towers Perrin's compensation database.

The review has remained relevant for our organization and workforce and provided the general framework within which decisions regarding executive compensation were made for 2011.

**Base salary**

Salaries for named executive officers are established based on position-specific responsibilities, taking into account competitive market compensation for similar positions, the skills and experience of the individual, internal equity among executive officers, individual performance, and other subjective relevant factors. Base salaries have historically been reviewed annually and adjustments made where deemed appropriate, or at other times to reflect significant changes in job responsibilities or market conditions.

**Annual incentive awards**

For fiscal year 2011, bonuses were awarded under our annual incentive program. Target annual bonus opportunities were set based on our employee pay structure and internal equity considerations. Bonuses are paid in lump sum by March 15th of the following fiscal year.

The table below illustrates the annual incentive award opportunity levels for our named executive officers, as a percent of base salary.

Officer	Threshold	Target	High	Portion of Award Tied to Corporate Performance
Craig M. Bernfield	25%	50%	75%	100%
Steven J. Insoft	12.5%	25%	37.5%	65%

All employees have the opportunity to earn a maximum of 150% of their target award, depending on performance.

The measures used for the determination of the award are largely objective and reflect the applicable named executive officer's role in the overall success of our business. Mr. Insoft also has select departmental and team-based goals in addition to his corporate performance goals. The achievement of such departmental and team-based goals is determined through our formal review process, which includes both a mid-year and year-end review for each of such named executive officers.



**Table of Contents**

All employees have some portion of their annual incentive opportunity tied to the performance of the business as a whole. The corporate performance goals used in determining 2011 bonuses are set forth below.

Measure of Corporate Performance	Weighting (as a % of Total Corporate Component)
AFFO Growth	50.0%
Rent Collection	12.5%
EBITDARM Coverage	12.5%
Gross Investment	25.0%

**Equity Awards***D Unit Awards*

Mr. Insoft, along with a number of our employees, has been granted Class D units.

Mr. Insoft received a grant of 2,000 Class D units in January of 2006 following his commencement of employment with us. His award of 2,000 Class D units reflected his relative status in the organization as the Senior Vice President, Finance, in consideration of the size of the awards provided to other employees and expectations for him to become the Chief Financial Officer and contribute to our long-term success. We also intended for his award to provide a meaningful retention value.

The Class D units vest as follows:

20% vested on December 31, 2010;

40% vested on December 31, 2011; and

the remaining 40% vest upon the earlier of:

expiration of a lock-up period with respect an initial public offering by us; and

at the time of certain fundamental transactions involving Aviv Healthcare Properties Limited Partnership; subject to the named executive officer's employment with us through the applicable vesting date.

*Phantom Class C Units*

In 2007, Mr. Insoft was also granted phantom Class C units with a value equal to 5% of the Class C units as of any date. Mr. Insoft was granted the phantom Class C units as part of discussions related to his hiring, given our desire for him to participate in an equity-based arrangement that would align him with investors. The final value and terms and conditions of the grant itself were finalized after his hiring date. The grant was made in November of 2007 in recognition of our goals to align him with investors and his anticipated role as CFO. In addition, we wanted to recognize the value of unvested awards that Mr. Insoft was forfeiting at his prior employer in his decision to join our organization.

Of the original phantom Class C units granted, 80% were settled as of December 31, 2011 in Class C Units. The remaining 20% of such phantom Class C units will vest on December 31, 2012, generally subject to Mr. Insoft's continued employment with us through the applicable vesting date. The vesting of such phantom Class C units will accelerate in the event of a change in control following which Mr. Bernfield ceases to control our organization. If such phantom Class C units become vested, then they will be settled in Class C units or cash at our discretion on January 1, 2018. In addition, certain earnings on the Class C units underlying such phantom interest, once vested, are payable annually to

Mr. Insoft until such interest is settled.

**Table of Contents**

*Management Incentive Plan*

Each of our named executive officers was granted awards under our Management Incentive Program (MIP), which was adopted in 2010 in conjunction with our Lindsay Goldberg recapitalization. Outstanding awards granted under the MIP have two components, which are described in the table below.

<b>MIP Award Type</b>	<b>Description</b>	<b>Vesting Treatment</b>
Time-Based Nonqualified Stock Options	Option to purchase shares of Aviv REIT, Inc. at a price established at the time of grant, subject to time-based vesting	Annually in 25% tranches over 4 years beginning on 1st anniversary of grant date, with accelerated vesting upon a liquidity event, subject to employment with us through the applicable vesting date
Performance-Based Nonqualified Stock Options	Option to purchase shares of Aviv REIT, Inc. at a price established at the time of grant, subject to performance-based vesting	Fully upon a liquidity event, provided that Lindsay Goldberg has achieved a 15% internal rate of return on its investment in us, subject to employment with us through such date

In addition, named executive officers are entitled to receive dividend equivalents on their time-based nonqualified stock options (NSOs). Dividend equivalents accrued since the date of grant of each NSO are paid to the named executive officer upon vesting of the portion of the NSO on which such dividend equivalent is based. Following vesting and until the NSO is exercised or terminated, periodic additional dividend equivalents will be paid generally on the earlier of:

the last day of the calendar quarter in which such dividends were paid to shareholders of Aviv REIT, Inc.; and

three business days following the named executive officer's termination of employment with us.

**Benefits and perquisites**

Each of our named executive officers participates in the retirement and health/welfare benefit plans generally available to all employees. In 2011, we did not offer any perquisites to our named executive officers.

**Employment agreements**

We have no agreements in place with either of our named executive officers, and they are considered at will employees.

**Table of Contents****EXECUTIVE COMPENSATION**

The following table sets forth the compensation paid to (i) our Chief Executive Officer and President and (ii) our Chief Operating Officer, Chief Financial Officer and Treasurer, each of whom was serving as an executive officer on December 31, 2011.

**Summary compensation table**

The following table sets forth the annual base salary, bonus, long-term equity incentive awards and other compensation earned by or granted with respect to our named executive officers during 2011, 2010 and 2009.

Name and Principal Position	Year	Salary	Bonus	Stock	Non-Equity	All Other	Total
		(\$)	(\$)	Awards (1)	Compensation (\$)	Compensation (\$)(2)	(\$)
Craig M. Bernfield, Chief Executive Officer & President	2011	\$ 500,092	\$ 0	\$ 115,760	\$ 375,075	\$ 0	\$ 990,927
	2010	\$ 490,286	\$ 0	\$ 1,017,138	\$ 275,783	\$ 0	\$ 1,783,207
	2009	\$ 480,673	\$ 0	\$ 0	\$ 60,085	\$ 0	\$ 540,758
Steven J. Insoft, Chief Operating Officer, Chief Financial Officer & Treasurer	2011	\$ 306,591	\$ 0	\$ 61,657	\$ 114,975	\$ 0	\$ 483,223
	2010	\$ 300,579	\$ 0	\$ 542,492	\$ 94,395	\$ 176,225	\$ 1,113,691
	2009	\$ 294,685	\$ 0	\$ 0	\$ 50,648	\$ 206,798	\$ 552,131

(1) Reflects the value of time-based MIP awards which were granted in 2011. While the time-based NSOs have a grant date fair market value for financial reporting purposes, the performance-based NSOs have a grant date fair value but it is impossible to know at the time of the grant the likelihood of vesting due to the return threshold and employment requirements.

(2) Mr. Insoft received distributions from unsettled Phantom Class C Units in 2009, 2010 and 2011.

**Grants of plan-based awards**

The following table shows certain information relating to our non-equity incentive plan awards and options to purchase shares of our common stock granted to the named executive officers in 2011.

Name	Grant Date	Estimated Possible Potential			All Other Stock Awards: Number of Shares of Stock or	All Other Option Awards: Number of Securities Underlying	Exercise Price or Base Price of Option Awards	Grant Date Closing Price of Common Stock	Grant Date Fair Value of Stock and Option
		Threshold (\$)	Target (\$)	Maximum (\$)					
Craig M. Bernfield		\$ 125,025	\$ 250,050	\$ 375,075					

Edgar Filing: AVIV REIT, INC. - Form S-4/A

	1/4/2011(1)		195	\$ 1,124.22	\$ 1,124.22	\$ 29,073
	1/4/2011(2)		390	\$ 1,124.22	\$ 1,124.22	\$ 0
	10/28/2011(1)		494	\$ 1,138.93	\$ 1,138.93	\$ 86,687
	10/28/2011(2)		988	\$ 1,138.93	\$ 1,138.93	\$ 0
Steven J. Insoft		\$ 38,325	\$ 76,650	\$ 114,975		
	1/4/2011(1)		104	\$ 1,124.22	\$ 1,000.00	\$ 15,505
	1/4/2011(2)		208	\$ 1,124.22	\$ 1,000.00	\$ 0
	10/28/2011(1)		263	\$ 1,138.93	\$ 1,083.93	\$ 46,151
	10/28/2011(2)		526	\$ 1,138.93	\$ 1,083.93	\$ 0

**Table of Contents**

(1) Time-based nonqualified stock options.

(2) Performance-based nonqualified stock options. As noted in the Summary Compensation Table, there is no grant date fair value for these awards, as it is impossible to know at the time of grant the likelihood of vesting due to the return threshold and employment requirements.

**Outstanding equity awards at fiscal year end**

The following table sets forth certain information concerning unexercised options held by the named executive officers at December 31, 2011.

Name	Option Awards			Stock Awards		Market Value of Shares or Units of Stock that Have Not Yet Vested (\$)
	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 Not Yet Vested	
Craig M. Bernfield	2,292	25,209	\$ 1,000.00			
		560	\$ 1,083.93			
		585	\$ 1,124.22			
		1,482	\$ 1,183.93			
Steven J. Insoft	1,222 27	13,445	\$ 1,000.00		800 Class D Units	\$ 213,119
		299	\$ 1,083.93			
		312	\$ 1,124.22			
		789	\$ 1,138.93			

**Option exercises and stock vested at fiscal year end**

No options were exercised in 2011. The table below shows stock awards that vested on December 31, 2011. No other awards vested during the year.

Name	Number of Shares	
	Acquired on Vesting	Value Realized on Vesting
Craig M. Bernfield	800	\$213,119
Steven J. Insoft (1)	1	\$272,905

(1) Includes 800 Class D Units and 1% of Class C value vested on 12/31/11.



**Potential payments upon change of control**

As described above, the following will result from certain change in control transactions:

40% of the Class D units held by a named executive officer will become vested upon the earlier of:

expiration of a lock-up period with respect an initial public offering by us; and

at the time of certain fundamental transactions involving Aviv Healthcare Properties Limited Partnership.

Any unvested phantom Class C units held by Mr. Insoft will become fully vested upon a change in control following which Mr. Bernfield ceases to control our organization, subject to his employment with us through such date.

**Table of Contents**

Unvested time-based NSOs under the MIP become vested upon a liquidity event, subject to employment with us through such date.

Performance-based NSOs under the MIP become fully vested upon a liquidity event, provided that Lindsay Goldberg has achieved a 15% internal rate of return on its investment in us, subject to employment with us through such date.

Assuming a change in control event occurred on December 31, 2011, the table below summarizes the estimate of the full benefit that would be realized by our executives. The table shows the full value of all equity that would vest related to the change in control. No other payments or benefits are provided under a change in control. No payments or benefits are provided under any other potential termination event.

<b>Name</b>	<b>Change-in-Control</b>
<b>Craig M. Bernfield</b>	
Cash Severance	\$ 0
Class D Unit	0
MIP	1,017,138
<b>Total</b>	<b>\$ 1,017,138</b>
<b>Steven J. Insoft</b>	
Cash Severance	\$ 0
Class D Unit	213,119
Phantom Class C Unit	0
MIP	542,492
<b>Total</b>	<b>\$ 755,611</b>

**DIRECTOR COMPENSATION**

We have not established a director compensation program at this time. While certain advisors to our board of directors have received compensation, no compensation was paid to any director in 2011.

---

**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Related party transactions are transactions in which we are a participant where the amount involved exceeds \$120,000, and a member of our board of directors, an executive officer or a holder of more than 5% of our voting securities (or an immediate family member of any of the foregoing) has a direct or indirect material interest. We have not implemented a formal written policy relating to the review, approval or ratification of related party transactions. However, in practice all such related party transactions are reported to, and approved by, our full board of directors. Factors considered by the board when deliberating such transactions include: Our board of directors will consider all relevant facts and circumstances when deliberating such transactions, including whether the terms of the transaction are fair to us and whether the transaction is consistent with, and contributes to, our growth strategy.

The related party transactions listed below were all approved by our General Partner prior to the formation of our board of directors.

**Strategic Equity Transaction with Lindsay Goldberg**

In September 2010, we consummated a strategic equity transaction with an affiliate of Lindsay Goldberg, LLC ( Lindsay Goldberg ). Lindsay Goldberg is a private investment firm that focuses on partnering with well-managed, closely-held businesses and entrepreneur-led enterprises to help facilitate growth and value creation in industries such as healthcare, consumer products, commodity-based manufacturing, energy services, business services, financial services and energy infrastructure. Lindsay Goldberg manages approximately \$10 billion of capital across three funds and its team of investment professionals has collectively completed more than 120 transactions with an aggregate value in excess of \$15 billion. Some of its other investments include ASA Medical, Brightstar, Brock, Continental Energy Systems, PetroLogistics and PSC.

In connection with the transaction, Lindsay Goldberg, through the formation of our current general partner, Aviv REIT, made an aggregate investment in us, including through the contribution of limited partnership interests it purchased from certain of our limited partners concurrently with its investment, of \$217.8 million. Lindsay Goldberg subsequently made an aggregate of \$125.0 million in additional equity investments in Aviv REIT, and may elect to make additional discretionary equity investments in Aviv REIT. As a result of the transaction, Lindsay Goldberg owns a majority of the equity of Aviv REIT.

In connection with the transaction, we entered into a Stockholders Agreement with Lindsay Goldberg, a representative of certain limited partners related to the family of Zev Karkomi and an entity formed by Mr. Bernfield. The Stockholders Agreement sets forth certain provisions regarding the governance and control of Aviv REIT. The Stockholders Agreement provides that, subject to certain exceptions, Lindsay Goldberg is entitled to designate up to four Class A Directors, with such directors being entitled to cast a total of four votes on any matter before the board of directors, Mr. Bernfield is entitled to designate up to four Class B Directors, with such directors being entitled to cast a total of six votes on any matter before the board of directors, and the Karkomi Investors are entitled to designate one Class C Director, with such director entitled to cast one vote on any matter before the board of directors. If Mr. Bernfield dies or becomes disabled, the Class B Directors will be designated by an individual previously designated by Mr. Bernfield and agreed to by Lindsay Goldberg. The Stockholders Agreement also requires that certain material corporate activities must be approved by all Class A Directors in addition to the Class B Directors. Further, during any period in which the value of the common stock of Aviv REIT held by Lindsay Goldberg, as calculated at any fiscal year end in accordance with the Stockholders Agreement among the stockholders of Aviv REIT, is less than 79.5% of the aggregate amount of investments made by Lindsay Goldberg in Aviv REIT, the Class A Directors shall be entitled to cast such number of votes equal to the percentage of Lindsay Goldberg's fully diluted ownership of Aviv REIT multiplied by eleven, the Class C Director shall be entitled to cast one vote and the Class B Directors shall be entitled to cast any remaining votes.

**Table of Contents**

**Loans to Mr. Insoft**

On November 1, 2007, Steven Insoft, our Chief Financial Officer and Treasurer, was granted phantom partnership units in Aviv Healthcare Properties Limited Partnership equal to a percentage of the value of units held by certain of the limited partners. The award vests ratably over time and may be settled in cash or in class C units of Aviv Healthcare Properties Limited Partnership. On September 17, 2010 and December 31, 2010, Mr. Insoft's award vested in part and Mr. Insoft was awarded class C units representing the vested portion of his award. In addition, we paid Mr. Insoft an amount of cash representing the taxes due on the vested portion of his award. In exchange, Mr. Insoft executed promissory notes payable to us in the aggregate principal amount of \$311,748 that accrued interest at the then-applicable long-term Federal rate. On April 29, 2011, Mr. Insoft repaid the promissory notes in full. The aggregate amount repaid was \$315,421. From the date of issuance to the date of repayment, Mr. Insoft paid an aggregate of \$5,788 of interest on the notes.

**Table of Contents**

**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 the board of directors of Aviv REIT. The indenture governing the Notes, our Term Loan, our Acquisition Credit Line, our 2014 Revolver and our 2016 Revolver limit our ability to make certain investments, incur or guarantee indebtedness or sell our assets. See *Description of Exchange Notes Covenants* and *Description of Other Indebtedness*.

**Investment Policies**

*Investments in Real Estate or Interests in Real Estate*

We conduct all of our investment activities through our operating partnership and its subsidiaries. Our investment objectives are to increase cash flow, provide quarterly cash distributions, maximize the value of our properties and acquire properties with cash flow growth potential. Additionally, we will seek to selectively expand and upgrade both our current properties and any newly-acquired properties. Our business is focused primarily on healthcare properties, principally SNFs, and activities directly related thereto. We have not established a specific policy regarding the relative priority of our investment objectives. We currently lease our properties to our tenants pursuant to long-term triple-net leases which require the tenant 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. We currently intend to focus on acquiring SNFs in those areas in which we own and also strategically select new markets when opportunities are available that meet our investment criteria. We anticipate that future investment and development activity will be focused primarily in the United States, but will not be limited to any geographic area. We intend to engage in 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. Investments are also subject to our policy not to be treated as an investment company under the Investment Company Act of 1940, as amended, or 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, but anticipate that our real estate investments will continue to be diversified among a relatively large number of facilities. As of December 31, 2011, our portfolio of investments consists of 225 properties located in 26 states leased to 35 operators.

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

*Purchase, Sale and Development of Properties*

Our policy is to acquire properties primarily for generation of current income and long-term value. Although we do not currently intend to sell any properties, we will sell certain properties where our management determines such properties do not fit our strategic objectives or where such action would be in the best interest of

## **Table of Contents**

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

### *Investments in Real Estate Mortgages*

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. The mortgages in which we may invest may be either first mortgages or junior mortgages, and may or may not be insured by a governmental agency. 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 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 we 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 in which our indebtedness will be taken (including recourse or non-recourse debt, cross collateralized debt, etc.). We may from time to time modify our debt policy in light of then-current economic conditions, relative costs of debt and equity capital, market values of our properties, general market conditions for debt and equity securities, growth and acquisition opportunities and other factors.

To the extent that our board of directors or management determines that it is necessary to raise additional capital, we may borrow under our credit facilities, 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 a joint venture, or employ a combination of these methods. As long as our operating partnership is in existence, the proceeds of all equity capital raised by us will be contributed to our operating partnership in exchange for additional interests in our operating partnership, which will dilute the ownership interests of the limited partners in our operating partnership.

### **Other Investment 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

**Table of Contents**

cash or property. We may issue additional series of our preferred stock from time to time. 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 U.S. 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 without notice to or the vote of our stockholders.

*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 joint ventures in which we or they 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, but are not limited to, fees, long-term management contracts, options to acquire additional ownership and promoted equity positions.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of Aviv REIT's common stock as of March 1, 2012 for the following: (i) each of Aviv REIT's directors and named executive officers, (ii) all persons who are directors and executive officers of Aviv REIT as a group and (iii) any person who is known by Aviv REIT to be the beneficial owner of more than 5% of Aviv REIT's common stock. No director or named executive officer is the beneficial owner of Aviv REIT's preferred stock, and no person is known by Aviv REIT to be the beneficial owner of more than 5% of Aviv REIT's preferred stock.

Name of Beneficial Owner	Amount of Common Stock Beneficially Owned (1)	Percent of Common Stock
<b>Directors and Named Executive Officers:</b>		
Craig M. Bernfield	2,394(2)	*
Steven J. Insoft	1,276(3)	*
Michael W. Dees		
Alan E. Goldberg	292,968(4)	99.99%
Robert D. Lindsay	292,968(4)	99.99%
Ari Ryan		
J. Russell Trieman		
<b>All persons who are directors and executive officers as a group</b> (7 persons, each of whom is named above)		
	292,969	100.00%
<b>5% Stockholder:</b>		
LG Aviv L.P.	292,968(5)	99.99%
Alan E. Goldberg	292,968(4)	99.99%
Robert D. Lindsay	292,968(4)	99.99%

\* Less than 1.00%.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Percentage ownership is determined based on 292,969 shares of Aviv REIT common stock outstanding as of March 1, 2012. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned.
- (2) Includes 2,393 shares of common stock issuable upon exercise of stock options vesting on or before April 30, 2012.
- (3) Represents 1,276 shares of common stock issuable upon exercise of stock options vesting on or before April 30, 2012.
- (4) Mr. Lindsay and Mr. Goldberg indirectly have shared control over LG Aviv L.P., the majority stockholder of Aviv REIT. By virtue of this relationship, they may be deemed to have or share beneficial ownership of securities held by LG Aviv L.P. Mr. Lindsay and Mr. Goldberg expressly disclaim beneficial ownership of such securities, except to the extent of their respective pecuniary interests therein. The address for Mr. Lindsay and Mr. Goldberg is c/o Lindsay Goldberg LLC, 630 Fifth Avenue, 30th Floor, New York, New York 10111.



## Edgar Filing: AVIV REIT, INC. - Form S-4/A

- (5) LG Aviv L.P. is the direct owner of the shares. Mr. Lindsay and Mr. Goldberg indirectly have shared control over LG Aviv L.P. LG Aviv L.P. disclaims beneficial ownership of such shares, except to the extent of its pecuniary interest therein. The address for LG Aviv L.P. is c/o Lindsay Goldberg LLC, 630 Fifth Avenue, 30<sup>th</sup> Floor, New York, New York, 10111.

**Table of Contents**

The following table sets forth certain information regarding the beneficial ownership of each class of the partnership units of Aviv Healthcare Properties Limited Partnership as of March 1, 2012 for the following: (i) each of Aviv REIT's directors and named executive officers, (ii) all persons who are directors and executive officers of Aviv REIT as a group and (iii) any person who is known by Aviv REIT to be the beneficial owner of more than 5% of Aviv Healthcare Properties Limited Partnership's units.

Name of	Amount of		Percent		Amount of		Percent		Amount of		Percent		Amount of	
	Class A	of	Class B	of	Class C	of	Class D	of	Class F	of	Class G	of	Class G	of
Beneficial Owner	Units	Class	Units	Class	Units	Class	Units	Class	Units	Class	Units	Class	Units	Class
Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)	Beneficially Owned (1)
<b>Directors and Named Executive Officers:</b>														
Craig M. Bernfield	1,099,793	8.2%	932,247	20.6%	48.5(2)	48.5%			100	100.0%	292,969(3)	100.0%		
Steven J. Insoft.					3.0(4)	3.0%	400	5.0%						
Michael W. Dees														
Alan E. Goldberg											292,968(5)	99.99%		
Robert D. Lindsay											292,968(5)	99.99%		
Ari Ryan (6)	6,845,291	50.9%	2,786,183	59.3%	48.5(7)	48.5%								
J. Russell Trieman														
<b>All persons who are directors and executive officers as a group (7 persons, each of whom is named above)</b>														
	7,958,988	59.1%	3,616,067	79.9%	100.0	100.0%	900	11.2%	100	100.0%	292,969	100.0%		
<b>5% Unitholder:</b>														
Aviv REIT, Inc. (8)											292,969	100.0%		
Alan E. Goldberg (5)											292,968(5)	99.99%		
Robert D. Lindsay (5)											292,968(5)	99.99%		
Craig M. Bernfield (9)	1,099,793	8.2%	932,247	20.6%	48.5(2)	48.5%			100	100.0%	292,969(3)	100.0%		
Steven J. Insoft (9)							400	5.0%						
Ari Ryan (6)(9)	6,845,291	50.9%	2,786,183	59.3%	48.5(7)	48.5%								

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Percentage ownership is determined based on 13,467,223 Class A Units, 4,523,145 Class B Units, 100 Class C Units, 8,050 Class D Units, 100 Class F Units, 292,969 Class G Units and 125 Class G Preferred Units of Aviv Healthcare Properties Limited Partnership outstanding as of March 1, 2012. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all units beneficially owned.

(2) Includes 1 unit that is held by Mr. Bernfield subject to a phantom unit award grant to Mr. Insoft.

(3) Represents 292,968 Class G Units held by Aviv REIT, Inc. and 1 Class G Unit held by Craig M. Bernfield REIT, L.L.C. Mr. Bernfield, as Chief Executive Officer and President of Aviv REIT, Inc., has shared control over Aviv REIT, Inc. By virtue of his position, he may be deemed to have beneficial ownership of securities beneficially owned by Aviv REIT, Inc. Mr. Bernfield expressly disclaims beneficial ownership of such securities, except to the extent of his pecuniary interest therein.

**Table of Contents**

- (4) Reflects Class C Units held by Steven J. Insoft Investments, L.L.C., which is 99% owned by Mr. Insoft and 1% owned by his wife, Susan M. Insoft. Such units are also pledged as collateral to secure a loan in favor of Mr. Insoft.
- (5) Mr. Lindsay and Mr. Goldberg indirectly have shared control over LG Aviv L.P., the majority stockholder of Aviv REIT, Inc., which is the general partner of Aviv Healthcare Properties Limited Partnership. By virtue of this relationship, they may be deemed to have or share beneficial ownership of securities held by Aviv REIT, Inc. Mr. Lindsay and Mr. Goldberg expressly disclaim beneficial ownership of such securities, except to the extent of their respective pecuniary interests therein. The address for Mr. Lindsay and Mr. Goldberg is c/o Lindsay Goldberg LLC, 630 Fifth Avenue, 30th Floor, New York, New York 10111.
- (6) Mr. Ryan holds Class A Units, Class B Units and Class C Units through various trusts and limited liability companies, of which he is the sole beneficial owner. Such units are also pledged as collateral to secure various loans.
- (7) Includes 1 unit that is held by Mr. Ryan subject to a phantom unit award grant to Mr. Insoft.
- (8) The address for Aviv REIT, Inc. is 303 West Madison Street, Suite 2400, Chicago, Illinois, 60606.
- (9) The address for Mr. Bernfield, Mr. Insoft and Mr. Ryan is c/o Aviv REIT, Inc., 303 West Madison Street, Suite 2400, Chicago, Illinois, 60606.
- No director or named executive officer is the beneficial owner of Aviv Healthcare Capital Corporation's common stock. As of March 1, 2012, Aviv Healthcare Properties Limited Partnership was the beneficial owner of 100% of Aviv Healthcare Capital Corporation's common stock. Aviv Healthcare Properties Limited Partnership's address is c/o Aviv REIT, Inc., 303 West Madison Street, Suite 2400, Chicago, Illinois, 60606.

**Table of Contents****DESCRIPTION OF OTHER INDEBTEDNESS****Existing Notes**

In February and April 2011, we completed the offering of \$300,000,000 aggregate principal amount of our 7<sup>3/4</sup>% Senior Notes due 2019 (the Existing Notes ). In August 2011, all of the Existing Notes were subsequently exchanged for substantially identical registered notes under the Securities Act. The terms of the Existing Notes are identical to the Exchange Notes except as to the offering price and issue date and which, together with the Old Notes and Exchange Notes, will be treated as a single class under the indenture governing the Old Notes and the Existing Notes. The Existing Notes mature on February 15, 2019 and bear interest at a rate of 7.750% per annum, payable semi-annually in cash in arrears on February 15 and August 15 of each year. The Existing Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by Aviv REIT and, with certain exceptions, all of our existing and future restricted subsidiaries, other than the Issuers. The Existing Notes and the senior guarantees are our general unsecured senior obligations and are effectively subordinated to all of our and the guarantors' existing and future secured indebtedness to the extent of the assets securing such secured indebtedness, *pari passu* with all existing and future senior unsecured indebtedness and senior to all existing and future senior subordinated indebtedness. Guarantees provided by subsidiary guarantors that are borrowers under our Acquisition Credit Line and our Term Loan will be such guarantors' subordinated unsecured obligations and will be contractually junior to such guarantors' obligations under the Acquisition Credit Line and Term Loan. For additional information on the terms of the Existing Notes, including terms relating to, among other things, redemption, repurchase at the option of holders upon specified changes of control, covenants and events of default, see Description of Exchange Notes.

**Term Loan and Acquisition Credit Line**

On September 17, 2010, Aviv Financing I entered into a five year credit agreement with General Electric Capital Corporation, which provides a \$405.0 million mortgage term loan and a \$100.0 million acquisition credit line, which we refer to as the Term Loan and the Acquisition Credit Line, respectively. The Partnership provides a limited unsecured guarantee of the Term Loan and the Acquisition Credit Line.

The interest rate applicable to the Term Loan and the Acquisition Credit Line is based upon LIBOR, subject to a 1.25% floor, plus 4.5%. At our option the interest rate may be calculated at the prime rate plus 4.5%. The interest rate under the Term Loan and the Acquisition Credit Line was 5.75% on December 31, 2011.

The Acquisition Credit Line is available for draw until September 2013 and can be paid down and redrawn until that time. The Acquisition Credit Line may be used for financing acquisitions and certain property improvements. Draws on the Acquisition Credit Line are limited to 70% of the total cost of the applicable acquisition or renovation and draws for renovation projects are further limited to an aggregate of \$25.0 million outstanding at any one time.

The initial term of the Term Loan and the Acquisition Credit Line expires in September 2015, with two one-year extension options provided that certain conditions precedent for the extensions are satisfied, including, without limitation, payment of a fee equal to 0.25% of the then existing principal balance of the Term Loan and the Acquisition Credit Line and meeting certain debt service coverage and debt yield tests.

The Term Loan and the Acquisition Credit Line contain customary covenants that include restrictions on the ability to make acquisitions and other investments, pay dividends, incur additional indebtedness, and sell or otherwise transfer certain assets as well as customary events of default. The Term Loan and the Acquisition Credit Line generally require the consolidated borrowers under the facility to maintain a debt service coverage ratio of 1.50:1.00 and a distribution coverage ratio of 1.10:1.00. In addition, the Partnership and its consolidated subsidiaries must maintain a debt service coverage ratio of 1.25:1.00 and a debt yield ratio of greater than 17.25%. We are permitted to include cash on hand in calculating such debt service coverage ratios.

---

## **Table of Contents**

Immediately following any draw on the Acquisition Credit Line, both before and after giving effect to such draw, the consolidated borrowers under the Term Loan and the Acquisition Credit Line must have a pro forma debt yield ratio of at least 18%. Our debt yield ratio is the ratio of (i) either consolidated EBITDA or rental revenue for the most recently completed two fiscal quarter period times two to (ii) the average daily outstanding principal balance of loans outstanding under the Term Loan and the Acquisition Credit Line during the period.

The borrowers under the Term Loan and the Acquisition Credit Line will provide guarantees of the Notes, which guarantees will be subordinated to the obligations of such borrowers under the Term Loan and the Acquisition Credit Line. In turn, each guarantor of the Notes that is not a borrower under our Term Loan and the Acquisition Credit Line, the 2014 Revolver or the 2016 Revolver and has not previously guaranteed such facilities has provided guarantees to the lenders under such facilities, which guarantees will be subordinated to the obligations of such subsidiaries under the Notes guarantees.

### **Senior Secured Revolving Credit Facilities**

#### *2014 Revolver*

On February 4, 2011, the Partnership, under Aviv Financing IV, L.L.C., an indirect wholly-owned subsidiary of the Partnership, entered into a \$25 million secured revolving credit facility with Bank of America (the 2014 Revolver ). On each payment date, the Partnership pays interest only in arrears on any outstanding principal balance of the 2014 Revolver. The interest rate under the 2014 Revolver is generally based on the Prime lending rate, but has a LIBOR option (subject to a floor of 1.0%), plus, in the case of both Prime and LIBOR, a margin that is determined by our leverage ratio from time to time. The initial term of the 2014 Revolver expires in January 2014 with a one-year extension option. We have the right to increase the amount of the 2014 Revolver by up to \$75.0 million (resulting in total availability of \$100.0 million), provided that certain conditions precedent are satisfied.

As of December 31, 2011, the 2014 Revolver had an outstanding balance of \$15 million. Subsequently, the balance was repaid, the properties securing the 2014 Revolver were released, and the borrowing availability under the 2014 Revolver was reduced to \$0. The 2014 Revolver is currently secured only by a pledge of the capital stock of Aviv Financing IV, L.L.C. (our subsidiary which may in the future act as the holding company of subsidiaries owning properties on which first lien mortgages securing the 2014 Revolver may be granted). Subsequent to December 31, 2011, no such property-owning subsidiaries existed. However, the 2014 Revolver remains effective, and we may add properties to such subsidiaries in the future, thereby creating borrowing availability under the facility. The borrowing availability under the 2014 Revolver is subject to a borrowing base calculation based on, among other factors, the lesser of (i) the amount of a hypothetical mortgage based on the net revenues for the prior four quarters (on a pro forma basis for recently acquired properties) and (ii) 65% of the appraised value, in each case, of the properties securing the 2014 Revolver. The maximum availability under the 2014 Revolver may be permanently reduced at our option.

#### *2016 Revolver*

On January 31, 2012, the Partnership, under Aviv Financing V, L.L.C., an indirect wholly-owned subsidiary of the Partnership, entered into a \$187.5 million secured revolving credit facility with General Electric Capital Corporation (the 2016 Revolver ). On each payment date, the Partnership pays interest only in arrears on any outstanding principal balance of the 2016 Revolver. The interest rate under our 2016 Revolver is generally based on LIBOR (subject to a floor of 1.0%) plus 4.25%. The initial term of 2016 Revolver expires in January 2016 with a one-year extension option, provided that certain conditions precedent are satisfied. The proceeds from the 2016 Revolver are available for general corporate purposes. The amount of the 2016 Revolver may be increased by up to \$87.5 million (resulting in total availability of up to \$275 million), provided that certain conditions precedent are satisfied.

The 2016 Revolver is currently secured by first lien mortgages on 23 of our properties, a pledge of the capital stock of our subsidiaries that own such properties and of Aviv Financing V, L.L.C. (the holding company

## **Table of Contents**

of such property-owning subsidiaries) and other customary collateral, including an assignment of leases and rents with respect to such mortgaged properties. The borrowing availability under the 2016 Revolver is subject to a borrowing base calculation based on, among other factors, the lesser of (i) 70% of the appraised value of the properties securing the 2016 Revolver, (ii) the aggregate EBITDAR (earnings before interest expense, income taxes, depreciation and amortization, rent expense paid to the Partnership and certain other extraordinary items) reported by the tenants of the properties securing the 2016 Revolver for the most recent two fiscal quarters *multiplied by 2 divided by 18.6%* and (iii) rental revenue from the properties securing the 2016 Revolver for the most recent two fiscal quarters *multiplied by 2 divided by 15.5%*. As of March 2, 2012, the borrowing availability under the 2016 Revolver based on clause (iii) of the preceding sentence was approximately \$40.5 million. As of March 2, 2012, the 2016 Revolver had an outstanding principal balance of \$17.6 million. The 2016 Revolver was subsequently repaid in full from the net proceeds of the sale of the Old Notes.

The maximum availability under the 2016 Revolver may be permanently reduced, at the Partnership's option, provided that, if such reduction is a partial reduction of the maximum availability under the 2016 Revolver and occurs prior to January 31, 2013, a fee of 0.5% will be due on the amount of such reduction. The outstanding principal under the 2016 Revolver may be repaid in whole or in part without premium or penalty, provided that such prepayments (i) are made in a minimum principal amount of \$2,000,000 and integral multiples of \$1,000,000 in excess thereof and (ii) are made no more than once per month.

The 2016 Revolver provides that no loans or other extensions of credit can be made under the 2014 Revolver unless the maximum amount available under the 2016 Revolver (based on the borrowing base calculation as of the relevant date) has been drawn.

### *Revolving Credit Facilities Generally*

The 2014 Revolver and 2016 Revolver contain customary covenants that include restrictions on the ability to make acquisitions and other investments, pay dividends, incur additional indebtedness, and sell or otherwise transfer certain assets as well as customary events of default. The 2014 Revolver and 2016 Revolver also require us to comply with specified financial covenants, which include a maximum leverage ratio, a minimum fixed charge coverage ratio and a minimum tangible net worth requirement. We are permitted to include cash on hand in calculating our leverage ratio under both the 2014 Revolver and the 2016 Revolver.

### **Other Indebtedness**

In November 2010, we entered into loan agreements in the aggregate principal amount of \$7.8 million relating to the acquisition of a SNF located in California. The loans accrue interest at the rate of 6.0% per annum and are secured by a lien on the property. Payments of principal and accrued interest are made monthly and the loan is to be paid in full no later than December 2015.

---

**Table of Contents**

**DESCRIPTION OF EXCHANGE NOTES**

The indenture under which the Exchange Notes are to be issued is the same indenture under which the Old Notes and Existing Notes were issued. Any Old Note that remains outstanding after the completion of the exchange offer, together with the Exchange Notes issued in connection with the exchange offer and the Existing Notes issued in February and April 2011, will be treated as a single class of securities under the indenture. As used in this Description of Exchange Notes, except as otherwise specified or the context otherwise requires, the Old Notes, the Exchange Notes and the Existing Notes are referred to together as the Notes.

The following is a summary of the material provisions of the indenture governing the Notes among Aviv REIT, Inc., Aviv Healthcare Properties Limited Partnership, Aviv Healthcare Capital Corporation, the subsidiary guarantors and The Bank of New York Mellon Trust Company, N.A., as trustee. It does not restate that agreement, and we urge you to read the indenture in its entirety, which is available upon request to Aviv REIT 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 noteholder.

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 Aviv Healthcare Properties Limited Partnership and not any of its subsidiaries, the term Issuers as used in this section refers only to Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation and not to any of their subsidiaries and the term Aviv REIT or Parent as used in this section refers only to Aviv REIT, Inc. and not to any of its subsidiaries.

**General**

On February 4, 2011, the Issuers, Aviv REIT and the subsidiary guarantors entered into an indenture providing for the issuance by the Issuers of their 7<sup>3/4</sup>% Senior Notes due 2019. On February 4, 2011 and April 5, 2011 the Issuers issued \$300,000,000 aggregate principal amount of such notes (the Existing Notes). On March 28, 2012 the Issuers issued an additional \$100,000,000 aggregate principal amount of such notes (the Old Notes), which constituted Additional Notes for purposes of the indenture. The Issuers may issue additional notes from time to time under the indenture, subject to the terms and conditions of the indenture. The Notes and any further Additional Notes 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. Additional Notes will not necessarily be fungible with the Notes for U.S. federal income tax purposes.

The Notes are unsecured senior obligations of the Issuers and will mature on February 15, 2019. The Notes bear interest at a rate of 7.750% per annum, payable semiannually to holders of record at the close of business on the February 1 or the August 1 immediately preceding the interest payment date on February 15 and August 15 of each year, commencing August 15, 2012.

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 Exchange Notes will accrue from February 15, 2012 or from the date of the last payment of interest on the Old Notes, whichever is later. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. We will not pay interest on Old Notes tendered and accepted for exchange.

The Exchange 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 Exchange 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.

---

## **Table of Contents**

Subject to the covenants described below under **Covenants** and applicable law, the Issuers are entitled to issue additional notes under the indenture, in addition to the Notes. The Existing Notes, the Old Notes, the Exchange Notes and any other 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. Additional notes will not necessarily be fungible with the Notes for U.S. federal income tax purposes.

### **Guaranties and Subsidiary Guarantors**

The Notes are guaranteed on an unsecured senior basis by Aviv REIT and certain subsidiaries of the Partnership (such subsidiaries are referred to herein as **Senior Guaranty Subsidiaries**) and on an unsecured subordinated basis by certain other subsidiaries of the Partnership that are borrowers under our existing Acquisition Line and Term Loan (such subsidiaries are referred to herein as **Subordinated Guaranty Subsidiaries**). The Subordinated Guaranty Subsidiaries have agreed in the indenture that they will not incur or suffer to exist any indebtedness that is senior in right of payment to the applicable Subordinated Guaranty Subsidiaries' guarantee other than the Acquisition Line and the Term Loan (or any Permitted Refinancing Indebtedness incurred in exchange for, or the net proceeds of which are used to refund, refinance or replace, the Acquisition Line or Term Loan and that was otherwise permitted by the indenture) and any secured Currency Agreements or Interest Rate Agreements with the lenders under the Acquisition Line and the Term Loan. See **Covenants** **Prohibition on Incurrence of Senior Debt** by the Subordinated Guaranty Subsidiaries. Certain other subsidiaries of the Partnership hold properties that are subject to mortgages the terms of which prohibit such subsidiaries from entering into guarantees of other indebtedness, including the Notes and our revolving credit facility (such subsidiaries are referred to herein as **Real Property Non-Guarantor Subsidiaries**). Accordingly, 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 do not otherwise guarantee (or become a co-borrower in respect of) Indebtedness of the Issuers or of a Subsidiary Guarantor that ranks equally with or subordinate in right of payment to the Notes (or the applicable Subsidiary Guaranty). As of the date of this prospectus, there are no Unrestricted Subsidiaries.

Our revenues attributable to the properties held by the Subordinated Guaranty Subsidiaries were \$52.2 million for the year ended December 31, 2011, and, as of December 31, 2011, these properties accounted for 40.9% of our total real estate investments, net of accumulated depreciation. After giving pro forma effect to the sale of the Old Notes and the use of proceeds therefrom, as of December 31, 2011, the Subordinated Guaranty Subsidiaries would have had aggregate secured indebtedness to third parties of approximately \$196.9 million. Our revenues attributable to the properties held by the Real Property Non-Guarantor Subsidiaries were \$1.6 million for the year ended December 31, 2011, and, as of December 31, 2011, these properties accounted for 2.8% of our total real estate investments, net of accumulated depreciation. As of December 31, 2011, the Real Property Non-Guarantor Subsidiaries had aggregate mortgage indebtedness to third parties of approximately \$13.8 million.

The guarantees of Aviv REIT and the Subsidiary Guarantors will be unconditional regardless of the enforceability of the Notes and the indenture. Subject to certain exceptions, each future Restricted Subsidiary that subsequently guarantees Indebtedness of the Issuers or of a Subsidiary Guarantor (or the applicable Subsidiary Guaranty) will be required to execute a Subsidiary Guaranty. See **Covenants** **Future Guaranties by Restricted Subsidiaries**.



## **Table of Contents**

Pursuant to the indenture, (A) a Subsidiary Guarantor may consolidate with, merge with or into, or transfer all or substantially all its assets to any other Person to the extent described below under **Covenants Consolidation, Merger and Sale of Assets** and (B) the Capital Stock of a Subsidiary Guarantor may be sold or otherwise disposed of to another Person to the extent described below under **Covenants Limitation on Asset Sales**; *provided, however*, that, in the case of a consolidation, merger or transfer of all or substantially all the assets of such Subsidiary Guarantor, if such other Person is not the Parent, the Issuers or a Subsidiary Guarantor, such Subsidiary Guarantor's obligations under its Subsidiary Guaranty must be expressly assumed by such other Person, except that such assumption will not be required in the case of:

- (1) the sale (including any sale pursuant to any exercise or remedies by a holder of Indebtedness of the Company or of a Subsidiary Guarantor) or other disposition (including by way of consolidation or merger) of a Subsidiary Guarantor, including the sale or disposition of Capital Stock of a Subsidiary Guarantor, following which such Subsidiary Guarantor is no longer a Subsidiary of the Parent; or

(2) the sale or disposition of all or substantially all the assets of a Subsidiary Guarantor; in each case other than to the Parent or a Subsidiary of the Parent and as permitted by the indenture and if in connection therewith the Parent provides a certificate to the trustee to the effect that the Parent will comply with its obligations described below under **Covenants Limitation on Asset Sales** in respect of such disposition. Upon any sale or disposition described in clause (1) or (2) above, the obligor on the related Subsidiary Guaranty will be released from its obligations thereunder.

The Subsidiary Guaranty of a Subsidiary Guarantor also will be released under specified circumstances, including in connection with a disposition of a Subsidiary Guarantor's Capital Stock if various conditions are satisfied. See **Covenants Future Guaranties by Restricted Subsidiaries**.

## **Optional Redemption**

*Optional Redemption.* Except as described below, the Issuers are not entitled to redeem any Notes prior to February 15, 2015. 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 February 15, 2015, upon not less than 30 days nor more than 60 days notice, at the following redemption prices (expressed as percentages of the principal amount thereof) if redeemed during the 12-month period commencing on February 15 of the years indicated below, in each case together with accrued and unpaid interest thereon to the redemption date:

<b>Year</b>	<b>Redemption Price</b>
2015	103.875%
2016	101.938%
2017 and thereafter	100.000%

Prior to February 15, 2015, the Issuers will be entitled, at their option, to redeem 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 to, the redemption date (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date). Notice of such redemption must be mailed by first-class mail to each holder's registered address or as otherwise provided in accordance with the procedures of DTC, not less than 30 nor more than 60 days prior to the redemption 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 February 15, 2015 (such redemption price being described in the first paragraph in this **Optional Redemption** section exclusive of any accrued interest) plus (ii) all required remaining scheduled interest payments due on such Note through February 15, 2015 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate, over (B) the principal amount of such Note on such redemption date.

**Table of Contents**

*Adjusted Treasury Rate* means, with respect to any redemption date, (1) the yield, 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 February 15, 2015, 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, in each case, plus 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 February 15, 2015, 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 February 15, 2015.

*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 each of Banc of America Securities LLC and its successors and assigns, Morgan Stanley & Co. Incorporated 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 upon Equity Offerings.* At any time, or from time to time, on or prior to February 15, 2014, 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 the Existing Notes and any additional notes) issued under the indenture at a redemption price of 107.750% of the principal amount thereof plus accrued and unpaid interest thereon, if any, to the date of redemption; *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 make 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 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 Notes are being sold and may be less than any redemption price then in effect and could be for cash or other consideration.

---

## **Table of Contents**

### **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
- (2) on a *pro rata* basis, by lot or by such method as the trustee will deem fair and appropriate.

No Notes of a principal amount of \$2,000 or less will be redeemed in part. If a partial redemption is made with the proceeds of an Equity Offering, the trustee will select the Notes on a *pro rata* basis to the extent practicable, by lot or such other method as the trustee in its sole discretion shall deem to be fair and appropriate, unless another method is required by law or applicable exchange or depository requirements (subject to DTC procedures). Notice of redemption will be mailed by first-class mail or 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 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. Notices of redemption may be given prior to the completion of an Equity Offering, and any redemption or notice may, at the Issuers' discretion, be subject to the completion of an Equity Offering. 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.

### **Ranking**

The Notes are 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 are effectively junior to all of the Issuers' secured Indebtedness to the extent of the value of the collateral securing such debt, including our \$25.0 million revolving credit facility, contractually subordinated to the Indebtedness of the Subordinated Guaranty Subsidiaries under the Acquisition Line and the Term Loan (and any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan, including our existing swap arrangements relating to \$200.0 million of our outstanding Indebtedness under the Term Loan) and structurally subordinated to all Indebtedness of the Real Property Non-Guarantor Subsidiaries. As of December 31, 2011, after giving pro forma effect to the sale of the Old Notes and the use of proceeds therefrom (but not giving effect to any other transactions occurring after December 31, 2011):

- (1) the Issuers and Subsidiary Guarantors, on a consolidated basis, would have had approximately \$619.6 million of Indebtedness outstanding, including the Notes, \$196.9 million of which would have been comprised of secured Indebtedness of the Subordinated Guaranty Subsidiaries outstanding under our Term Loan (all of which would be contractually and effectively senior to the subordinated guaranties in favor of the Notes);
- (2) the Issuers and Senior Guaranty Subsidiaries would have had \$10.0 million in secured borrowings available under our 2014 Revolver given the borrowing base requirements of the facility (all of which would be effectively senior to the Notes to the extent of the value of the underlying assets);
- (3) the Subordinated Guaranty Subsidiaries would have had \$100.0 million in secured borrowings available under our Acquisition Credit Line (all of which would be contractually and effectively senior to the subordinated guaranties in favor of the Notes); and

---

**Table of Contents**

- (4) the Real Property Non-Guarantor Subsidiaries would have had \$7.7 million of Indebtedness outstanding (all of which would have been structurally senior to the Notes).

For information regarding the effect of transactions after December 31, 2011, see note (1) under Capitalization.

The guarantee of each Senior Guaranty Subsidiary is an unsecured senior obligation of such Senior Guaranty Subsidiary and ranks equally in right of payment with all existing and future unsecured senior Indebtedness of such Senior Guaranty Subsidiary. The guarantee of each Subordinated Guaranty Subsidiary is an unsecured subordinated obligation of such Subordinated Guaranty Subsidiary and ranks equally with all existing and future unsecured senior Indebtedness of such Subordinated Guaranty Subsidiary except that the such guarantee is subordinated to the Indebtedness of such Subordinated Guaranty Subsidiary under the Acquisition Line and the Term Loan (or any Permitted Refinancing Indebtedness incurred in exchange for, or the net proceeds of which are used to refund, refinance or replace, the Acquisition Line or Term Loan and that was otherwise permitted by the indenture) and any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan. See Guaranties and Subsidiary Guarantors for a description of which entities will guarantee the Notes.

**Subordination of Guaranties of Subordinated Guaranty Subsidiaries**

The indenture provides that no payments or distributions may be made by the Subordinated Guaranty Subsidiaries on their guaranties of the Notes until the full and final payment in cash and performance of all obligations under the documents governing the Acquisition Line and the Term Loan and any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan. If any payment or distribution is received by the Trustee or any holder of Notes prior to the full and final payment in cash and performance of all obligations under the documents governing the Acquisition Line and the Term Loan and any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan, then the holder thereof will generally be required to deliver such payment or distribution to General Electric Capital Corporation in its capacity as Administrative Agent (the Senior Agent ) for the lenders under the Acquisition Line and the Term Loan and the counterparties under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan to the extent necessary to pay the Acquisition Line, the Term Loan and any obligations under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan in full in cash, and, until so delivered, the same shall be held in trust as the property of the Senior Agent and the lenders under the Acquisition Line and the Term Loan and the counterparties under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan. Notwithstanding the foregoing, subject to compliance with the documents governing the Acquisition Line and the Term Loan and any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan, the Subordinated Guaranty Subsidiaries will be entitled to make dividends and distributions to their equity owners (including, ultimately, the Senior Guaranty Subsidiaries and the Issuers which are not subject to subordination provisions under the indenture).

Neither the Trustee nor any holder of Notes shall challenge the existence or priority of the Acquisition Line, the Term Loan or any secured Currency Agreements or Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan or declare any of the Subordinated Guaranty Subsidiaries' guaranties of the Notes to be due and payable or otherwise accelerate the maturity of the principal of such guaranties until the full and final payment in cash and performance of all obligations under the documents governing the Acquisition Line and the Term Loan and any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan.

Further, neither the Trustee nor any holder of Notes shall contest the validity, perfection, priority or enforceability of any Lien granted or ostensibly granted by any Subordinated Subsidiary Guarantor to, or arising in favor of, the Senior Agent or any lender under the Acquisition Line or the Term Loan or any counterparty

---

**Table of Contents**

under any secured Currency Agreements or Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan, any payment on the Acquisition Line, the Term Loan or any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan, or the allowance of the Acquisition Line, the Term Loan or any secured Currency Agreements or Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan as a senior secured claim. Further, neither the Trustee nor any holder of Notes shall have any right to seek, be party to, or accept any Lien granted by any Subordinated Subsidiary Guarantor or enforce any such Lien.

Upon any payment or distribution of the assets of the Subordinated Guaranty Subsidiaries upon a total or partial liquidation or dissolution or reorganization of or bankruptcy or similar proceeding relating to such Subordinated Guaranty Subsidiaries or their property:

- (1) the lenders under the Acquisition Line and the Term Loan and the counterparties under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan shall first be fully and finally paid in cash before the holders of the Notes are entitled to receive any payment;
- (2) until the Acquisition Line, the Term Loan and any obligations under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan are fully and finally paid in cash, any payment or distribution to which the holders of the Notes would be entitled but for the subordination provisions of the indenture will be made to lenders under the Acquisition Line and the Term Loan and the counterparties under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan in accordance with the priorities then existing among such lenders to the extent necessary to pay in full all such amounts then remaining unpaid, except that the holders of the Notes may receive certain securities that are subordinate and junior in right of payment to the payment of the Acquisition Line, the Term Loan and any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan;
- (3) until the Acquisition Line, the Term Loan and any obligations under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan are fully and finally paid in cash, (i) all or any lenders under the Acquisition Line and the Term Loan and any counterparties under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan may provide financing to the applicable Subordinated Guaranty Subsidiaries or any of their affiliates and subsidiaries pursuant to Section 364 of the U.S. federal Bankruptcy Code or other applicable law on such terms and conditions and in such amounts as such lenders, in their sole discretion, may decide, without seeking or obtaining the consent of the Trustee or any holder of Notes and (ii) the Trustee and the holders of the Notes shall not oppose or object to the payment of interest as provided under Section 506(b) and (c) of the U.S. federal Bankruptcy Code to any lenders under the Acquisition Line and the Term Loan or counterparties under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan; and
- (4) if a distribution is made to holders of Notes that, due to the subordination provisions of the indenture, should not have been made to them, such holders of Notes are required to hold it in trust for the lenders under the Acquisition Line and the Term Loan and the counterparties under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan.

Notwithstanding the foregoing, the holders of the Notes and the Trustee (i) may file a proof of claim in a bankruptcy or similar proceeding involving any Subordinated Guaranty Subsidiary, which proof of claim shall indicate the subordination provisions of the indenture and (ii) shall be entitled to file any necessary responsive or defensive pleadings in opposition to any motion, claim, adversary proceeding or other pleading made by any Person objecting to or otherwise seeking the disallowance of the claims of the holders of the Notes.

## **Table of Contents**

The Subordinated Guaranty Subsidiaries have agreed in the indenture that they will not incur or suffer to exist any indebtedness that is senior in right of payment to the applicable Subordinated Guaranty Subsidiary's guaranty other than the Acquisition Line and the Term Loan (or any Permitted Refinancing Indebtedness incurred in exchange for, or the net proceeds of which are used to refund, refinance or replace, the Acquisition Line or Term Loan and that was otherwise permitted by the indenture) and any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan. In the event that the Acquisition Line or the Term Loan are refinanced by Permitted Refinancing Indebtedness, the subordination provisions described above will be permitted to apply equivalently to such Permitted Refinancing Indebtedness.

The subordination provisions described above will not prevent a Default from occurring under the indenture upon the failure of the Issuers to pay interest or principal with respect to the Notes when due by their terms.

Because amounts otherwise payable to the holders of the Notes by the Subordinated Guaranty Subsidiaries in a bankruptcy or similar proceeding are required to be paid to the lenders under the Acquisition Line and the Term Loan and the counterparties under any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan instead, the holders of the Notes may receive less, ratably, than the holders of trade payables or other unsecured, unsubordinated creditors in any such proceeding. Holders of the Notes may not be fully repaid if we or the Subordinated Guaranty Subsidiaries become insolvent or otherwise fail to make payment on the Notes.

A holder by its acceptance of Notes agrees to be bound by such provisions and authorizes and expressly directs the Trustee, on its behalf, to take such action as may be necessary or appropriate to effectuate the subordination provided for in the indenture and appoints the Trustee its attorney-in-fact for such purpose.

## **Suspension of Covenants**

During a Suspension Period, the 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 Guaranties by Restricted Subsidiaries ;

Covenants Limitation on Transactions with Affiliates ;

Covenants Limitation on Asset Sales ;

Covenants Prohibition on Incurrence of Senior Debt by the Subordinated Guaranty Subsidiaries ; and

Edgar Filing: AVIV REIT, INC. - Form S-4/A

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

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

---

**Table of Contents**

*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 officers 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.

On each Reversion Date, all Indebtedness, liens thereon and dividend blockages incurred during the Suspension Period prior to such Reversion Date will be deemed to have been outstanding on the Issue Date.

For purposes of calculating the amount available to be made as Restricted Payments under clause (C) of the first paragraph of the Limitation on Restricted Payments covenant, calculations under that clause will be made with reference to the Transaction Date, as set forth in that clause. Accordingly, (x) Restricted Payments made during the Suspension Period not otherwise permitted pursuant to any of clauses (1) through (12) under the third paragraph under the Limitation on Restricted Payments covenant will reduce the amount available to be made as Restricted Payments under clause (C) of the first paragraph of such covenant; *provided, however*, that the amount available to be made as a Restricted Payment on the Transaction Date shall not be reduced to below zero solely as a result of such Restricted Payments, but may be reduced to below zero as a result of negative cumulative Adjusted Funds From Operations during the Suspension Period for the purpose of the first bullet under clause (C) of the first paragraph of such covenant, and (y) the items specified in the five bullets under clause (C) of the first paragraph of such covenant that occur during the Suspension Period will increase the amount available to be made as a Restricted Payment under clause (C) of the first paragraph of such covenant. Any Restricted Payment made during the Suspension Period that is of the type described in the third paragraph of the Limitation on Restricted Payments covenant (other than the Restricted Payment referred to in clause (2) of the such third paragraph or an exchange of Capital Stock for Capital Stock or Indebtedness referred to in clause (3) or (4) of such third paragraph), and the Net Cash Proceeds from any issuance of Capital Stock referred to in clauses (3) and (4) of the third paragraph of the Limitation on Restricted Payments covenant, shall be included in calculating the amounts permitted to be incurred under such clause (C) on each Reversion 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 the Parent, the Issuers or any Restricted Subsidiaries thereof, 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 for up to 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.

**Covenants**

The indenture contains, among others, the following covenants:

*Limitation on Indebtedness*

- (1) The Parent will not Incur any Indebtedness (including Acquired Indebtedness) other than the guarantees 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 the Parent provided such





---

**Table of Contents**

Indebtedness is permitted by and Incurred in accordance with this covenant. The Parent will not permit any of its Restricted Subsidiaries (including the Issuers) to Incur any Indebtedness (including Acquired Indebtedness) if, immediately after giving effect to the Incurrence of such additional Indebtedness and the receipt and application of the proceeds therefrom, the aggregate principal amount of all outstanding Indebtedness of the Parent and its Restricted Subsidiaries on a consolidated basis is greater than 60% of 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 the receipt and 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 is greater than 40% of Adjusted Total Assets.
- (3) The Parent will not permit any of its Restricted Subsidiaries (including the Issuers) 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 the receipt and application of the proceeds therefrom, the Interest Coverage Ratio of the Issuers and their Restricted Subsidiaries on a consolidated basis would be at least 2.0 to 1.0.
- (4) Notwithstanding paragraphs (1), (2) or (3) above, the Parent or any of its Restricted Subsidiaries (except as specified below) may Incur each and all of the following:
  - (A) Indebtedness of the Parent, the Issuers or any of the Subsidiary Guarantors outstanding under any Credit Facility at any time in an aggregate principal amount not to exceed \$400 million;
  - (B) Indebtedness of the Issuers or any of their Restricted Subsidiaries owed to:

the Issuers evidenced by an unsubordinated promissory note, or

any Restricted Subsidiary;

*provided, however*, 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 Currency Agreements and Interest Rate Agreements; *provided* that such agreements (i) are designed primarily 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) 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 by reason of fees, indemnities and compensation payable thereunder;
- (D) Indebtedness of the Issuers or any of the Subsidiary Guarantors, to the extent the net proceeds thereof are promptly:

used to purchase Notes tendered in an Offer to Purchase made as a result of a Change in Control,

Edgar Filing: AVIV REIT, INC. - Form S-4/A

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

---

**Table of Contents**

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 by the Parent of Indebtedness of the Issuers or any of the Subsidiary Guarantors, (ii) Guarantees by any Restricted Subsidiaries of the Issuers of Indebtedness of the Issuers provided the guarantee of such Indebtedness is permitted by and made in accordance with the Future Guaranties by Restricted Subsidiaries covenant described below, and (iii) any Guarantees by a Subsidiary Guarantor of any Indebtedness of any other Subsidiary Guarantor;
- (F) Existing Indebtedness;
- (G) Indebtedness represented by the Notes and the Guaranties issued on the Issue Date and the exchange notes and related exchange guarantees to be issued in exchange for such Notes and Guaranties 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 acceptance, bank guarantees, letter of credit, warehouse receipt or similar facilities, and reinvestment obligations related thereto, entered into in the ordinary course of business;
- (J) Indebtedness in respect of workers compensation claims, self-insurance obligations, indemnities, bankers acceptances, performance, completion and surety bonds or guarantees and similar types of obligations 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;
- (L) Indebtedness supported by a letter of credit procured by the Issuers or 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 (11) under the third paragraph under the Limitation on Restricted Payments covenant or (iii) made in reliance on clause (9) or (18) 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) or (3) of this covenant or clauses (F), (G), (N), (O) or (P) of this paragraph (4);

- (O) Indebtedness of Restricted Subsidiaries that are not 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 million and 2.0% of

**Table of Contents**

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); or

- (P) additional Indebtedness of the Issuers and Restricted Subsidiaries in an aggregate principal amount at any time outstanding not to exceed the greater of \$20 million and 2.0% of the 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).
- (5) Notwithstanding any other provision of this Limitation on Indebtedness covenant, the maximum amount of Indebtedness that the 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. Further, notwithstanding any other provision of this Limitation on Indebtedness covenant, the maximum principal amount of Indebtedness, other than obligations under Currency Agreements and Interest Rate Agreements, that the Subordinated Guaranty Subsidiaries may Incur pursuant to this Limitation on Indebtedness covenant shall not exceed \$340 million, which amount shall be permanently reduced by any scheduled amortization or mandatory repayments (other than out of the net proceeds of any Permitted Refinancing Indebtedness incurred which are used to refund, refinance or replace such Indebtedness) of such Indebtedness of such Subordinated Guaranty Subsidiaries.
- (6) For purposes of determining any particular amount of Indebtedness under this Limitation on Indebtedness covenant,

Indebtedness Incurred and outstanding under the Credit Agreement, our Acquisition Line or our Term Loan on or prior to the Issue Date shall be treated as Incurred pursuant to clause (A) of paragraph (4) of this Limitation on Indebtedness covenant, and

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 (P) 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. 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

**Table of Contents**

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.

*Maintenance of Total Unencumbered Assets*

The Issuers and their Restricted Subsidiaries will maintain 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*

The 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 the Parent or of any Restricted Subsidiary of the Parent held by Persons other than the Parent or any of its Restricted Subsidiaries, other than (i) dividends or distributions payable solely in shares of its Capital Stock (other than Disqualified Stock) and (ii) pro rata dividends or other distributions made by a 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 the Parent held by any Person (other than a Restricted Subsidiary of the Parent);
- (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 Guaranty of such Subsidiary Guarantor, in each case excluding (i) any intercompany Indebtedness between or among the Parent, the Issuers or any of the Subsidiary Guarantors and (ii) the payment, purchase, redemption, defeasance, acquisition or retirement (collectively, a purchase ) of such subordinated Indebtedness purchased 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 purchase; 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





---

**Table of Contents**

- (C) the aggregate amount of all Restricted Payments (the amount, if other than in cash, to be determined in good faith by the Board of Directors of the Parent, whose determination shall be conclusive and evidenced by a Board Resolution) made after the Issue Date shall exceed the sum of, without duplication:

95% of the aggregate amount of the Adjusted Funds From Operations (or, if the Adjusted 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 during which the Issue Date occurs and ending on the last day of the last fiscal quarter 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 if no such reports have yet been required to be filed with the SEC pursuant to the indenture, for which internal financial statements are available), *plus*

100% of the aggregate Net Cash Proceeds received by the Parent 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 the Parent, including from an issuance or sale permitted by the indenture of Indebtedness of the Parent or any of its Restricted Subsidiaries for cash subsequent to the Issue Date upon the conversion of such Indebtedness into Capital Stock (other than Disqualified Stock) of the Parent but excluding any options, warrants or other rights that are redeemable at the option of the holder for cash or Indebtedness, or are required to be redeemed, prior to the Stated Maturity of the Notes, *plus*

an amount equal to 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, repayments of loans or advances, or other transfers of assets, in each case to the Parent or any of its Restricted Subsidiaries or from the Net Cash Proceeds from the sale of any such Investment (except, in each case, to the extent any such payment or proceeds are included in the calculation of Adjusted Funds From Operations) or from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries (valued in each case as provided in the definition of Investments ) not to exceed, in each case, the amount of Investments previously made by the Parent and its Restricted Subsidiaries in such Person or Unrestricted Subsidiary and treated as a Restricted Payment, *plus*

the fair market value of noncash tangible assets or Capital Stock acquired in exchange for an issuance of Capital Stock (other than Disqualified Stock or Capital Stock issued in exchange for Capital Stock of the Parent utilized pursuant to clauses (3) or (4) of the second succeeding paragraph) of the Parent subsequent to the Issue Date (including upon conversion or exchange of the Common Units for Capital Stock of the Parent, in which case the fair market value shall equal the fair market value received upon issuance of such Common Units), *plus*

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

Notwithstanding the foregoing, the 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) that is necessary to maintain the Parent's status as a REIT under the Code if (i) the aggregate principal amount of all outstanding Indebtedness of the Parent and its Restricted Subsidiaries on a consolidated basis at such time is less than 60% of Adjusted Total Assets and (ii) no Default or Event of Default shall have occurred and be continuing.

**Table of Contents**

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 said date of declaration or notice, such payment would comply with the foregoing paragraph;
- (2) the payment, redemption, repurchase, defeasance or other acquisition or retirement for value of Indebtedness that is subordinated in right of payment to the Notes or to a Subsidiary Guaranty including premium, if any, and accrued and unpaid interest, with the proceeds of, or in exchange for, Indebtedness Incurred in compliance with paragraph (1), (2) or (3) or pursuant to clause (N) of paragraph (4) of the Limitation on Indebtedness covenant;
- (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 the Parent (other than any Disqualified Stock or any Capital Stock sold to a Restricted Subsidiary of the Parent or to an employee stock ownership plan or any trust established by the Parent) or from substantially concurrent contributions to the equity capital of the Parent (collectively, including any such contributions, *Refunding Capital Stock*) (with any offering within 90 days deemed as substantially concurrent); and (b) the declaration and payment of accrued dividends on any Capital Stock redeemed, repurchased, retired, defeased or acquired out of the proceeds of the sale of Refunding Capital Stock within 90 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 repurchase, redemption, retirement, defeasance or other acquisition 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 Guaranty of such Subsidiary Guarantor in exchange for, or out of the proceeds of, an issuance of, shares of the Capital Stock (other than Disqualified Stock) of the Parent within 90 days of such principal payment, repurchase, redemption, retirement, defeasance or other acquisition;
- (5) payments or distributions to dissenting stockholders 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 applicable to mergers, consolidations and transfers of all or substantially all of the property and assets of the Parent;
- (6) the payment of regularly scheduled cash dividends on shares of Redeemable Cumulative Preferred Stock in an amount not to exceed \$15,625 per calendar year;
- (7) the repurchase, redemption or other acquisition or retirement for value of any shares of Capital Stock of the Parent held by any current or former officer, director, consultant or employee of the Parent or any of its Restricted Subsidiaries (or any permitted transferees, assigns, estates or heirs of any of the foregoing); *provided, however*, the aggregate amount paid by the Parent and its Restricted Subsidiaries pursuant to this clause (7) 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 the Parent or a Restricted Subsidiary thereof for the purpose of financing the acquisition of such Capital Stock), with unused amounts in any calendar year being carried over for one additional calendar year; *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 the Parent, in each case, to officers,

**Table of Contents**

directors, consultants or employees of the Parent or any of its Subsidiaries that occurs after the Issue Date, to the extent such cash proceeds (i) have not otherwise been and are not thereafter applied to permit the payment of any other Restricted Payment or (ii) are not attributable to loans made by the Parent or a Restricted Subsidiary thereof for the purpose of financing the acquisition of such Capital Stock, plus (B) the cash proceeds of key man life insurance policies received by the Parent and its Restricted Subsidiaries after the Issue Date, less (C) the amount of any Restricted Payments previously made pursuant to clauses (A) and (B) of this clause (7); *provided further, however*, that cancellation of Indebtedness owing to the Parent from members of management of the Parent or any Restricted Subsidiary thereof in connection with a repurchase of Capital Stock of the Parent shall not be deemed to constitute a Restricted Payment for purposes of the indenture;

- (8) the repurchase of Capital Stock deemed to occur (i) upon the exercise of options or warrants if such Capital Stock represents all or a portion of the exercise price thereof, and (ii) in connection with the withholding of a portion of the Capital Stock granted or awarded to a director or an employee to pay for the taxes payable by such director or employee upon such grant or award;
- (9) upon the occurrence of a Change of Control (or similarly defined term in other Indebtedness) and within 90 days after completion of the Offer to Purchase (including the purchase of all Notes tendered), any repayment, repurchase, redemption, defeasance or other acquisition or retirement for value of any Indebtedness of the Issuers or any Subsidiary Guarantor that is contractually subordinated to the Notes or to any Subsidiary Guaranty that is required to be repurchased or redeemed pursuant to the terms thereof as a result of such Change of Control (or similarly defined term in other Indebtedness), at a purchase price not greater than 101% of the outstanding principal amount or liquidation preference thereof (plus accrued and unpaid interest and liquidated damages, if any);
- (10) within 90 days after completion of any offer to repurchase Notes pursuant to the covenant described above under the caption *Limitation on Asset Sales* (including the purchase of all Notes tendered), any repayment, repurchase, redemption, defeasance or other acquisition or retirement for value of any Indebtedness of the Issuers or any Subsidiary Guarantor that is contractually subordinated to the Notes or to any Subsidiary Guaranty that is required to be repurchased or redeemed 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 or liquidation preference thereof (plus accrued and unpaid interest and liquidated damages, if any);
- (11) the payment of cash in lieu of the issuance of fractional shares of Capital Stock upon exercise or conversion of securities exercisable or convertible into Capital Stock of the Parent; or
- (12) additional Restricted Payments in an aggregate amount not to exceed \$20 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 whether the conditions of clause (C) of the first paragraph of this covenant have been met with respect to any subsequent Restricted Payments. The net amount of any Restricted Payment permitted pursuant to clauses (2) through (12) of the immediately preceding paragraph shall be excluded in calculating whether the conditions of clause (C) of the first paragraph of this covenant have been met with respect to any subsequent Restricted Payments. The amount of all Restricted Payments (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 the Parent or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. In determining whether any Restricted Payment is permitted by

---

**Table of Contents**

this covenant, the Parent and its Restricted Subsidiaries may allocate all or any portion of such Restricted Payment among the categories described in clauses (1) through (12) 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.

*Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*

The Parent will not, and will not permit any of its 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 to:

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

pay any Indebtedness owed to the Parent or any other Restricted Subsidiary,

make loans or advances to the Parent or any other Restricted Subsidiary, or

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

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 Guaranties, the Credit Agreement, the Acquisition Line, the Term Loan and any other agreement in effect on the Issue Date as in effect on the Issue 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 less favorable, taken as a whole, to the holders of the Notes than those in effect on the Issue Date;
- (2) existing under, by reason of or with respect to any other Credit Facility of the Issuers permitted under the indenture; *provided, however*, that the encumbrances and restrictions contained in the agreement or agreements governing the other Credit Facility are not materially less favorable, taken as a whole, to the holders of the Notes than those contained in any of the Credit Agreement, the Acquisition Line or the Term Loan (with respect to other credit agreements) or the indenture (with respect to other indentures), in each case as in effect on the Issue Date;
- (3) existing under, by reason of or with respect to applicable law, rule, regulation or administrative or court order;
- (4) existing with respect to any Person or the property or assets of such Person acquired by the Parent or any Restricted Subsidiary, existing at the time of such acquisition 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 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 less favorable, taken as a whole, to the holders of the Notes 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;

---

**Table of Contents**

- (5) existing under, by reason of or with respect to provisions in joint venture, operating or similar agreements to the extent they are limited in application to the Restricted Subsidiary party to such agreement;
- (6) in the case of the last bullet in the first paragraph of this Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries covenant:

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

existing by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Parent or any Restricted Subsidiary 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 that impose encumbrances or restrictions on the property so acquired or covered thereby, 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 the Parent or any Restricted Subsidiary in any manner material to the 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 the covenant described under Limitation on Indebtedness; *provided*, that the encumbrances and restrictions contained in the agreements governing such Indebtedness are not materially less favorable, taken as a whole, to the holders of the Notes than those contained in the agreements governing the Indebtedness being refinanced; and
- (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 less favorable, taken as a whole, to the holders of the Notes than is customary in comparable financings (as determined by the good faith judgment of the Parent), and

the 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.

Nothing contained in this Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries covenant shall prevent the Parent or any Restricted Subsidiary from restricting the sale or other disposition of property or assets of the Parent or any of its Restricted Subsidiaries that secure Indebtedness of the Issuers or any of their Restricted Subsidiaries. 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

---

**Table of Contents**

Stock, and (2) the subordination of loans or advances made to a Restricted Subsidiary to other Indebtedness incurred by such Restricted Subsidiary shall not be deemed a restriction on the ability to make loans or advances.

*Future Guaranties by Restricted Subsidiaries*

The Parent will not permit any Restricted Subsidiary of the Issuers, directly or indirectly, to Guarantee any Indebtedness of the Issuers or of a Subsidiary Guarantor ( *Guaranteed Indebtedness* ), unless in either case such Restricted Subsidiary within 30 calendar days executes and delivers a supplemental indenture to the indenture providing for a Subsidiary Guaranty by such Restricted Subsidiary; *provided, however*, that this paragraph shall not be applicable to any Guarantee of any Restricted Subsidiary that existed at the time such Person became a Restricted Subsidiary and was not Incurred in connection with, or in contemplation of, such person becoming a Restricted Subsidiary. The Parent may elect, in its sole discretion, to cause any Subsidiary that is not otherwise required to be a Guarantor to become a Guarantor, in which case such Subsidiary shall not be required to comply with the 30 calendar day period described above.

If the Guaranteed Indebtedness:

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

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

Any such Subsidiary Guaranty by a Restricted Subsidiary issued pursuant to this covenant shall provide by its terms that it shall be automatically and unconditionally released and discharged:

- (1) upon any sale, exchange or transfer (including by way of merger or consolidation), to any Person not a Subsidiary of the Parent, of Capital Stock held by the Parent and its Restricted Subsidiaries in, or all or substantially all the assets of, such Restricted Subsidiary (which sale, exchange or transfer is not prohibited by the indenture) such that, immediately after giving effect to such transaction, such Restricted Subsidiary would no longer constitute a Subsidiary of the Parent,
- (2) in connection with the merger or consolidation of such Restricted Subsidiary with (a) an Issuer or (b) any other Guarantor (provided that the surviving entity remains a Guarantor),
- (3) if the Parent properly designates such Restricted Subsidiary as an Unrestricted Subsidiary under the indenture,
- (4) upon the Legal Defeasance (as defined below) or Covenant Defeasance (as defined below) or satisfaction and discharge of the indenture,
- (5) upon a liquidation or dissolution of such Restricted Subsidiary permitted under the indenture, or
- (6) upon the release or discharge of the Guarantee that resulted in the creation of such Subsidiary Guaranty, except a discharge or release by or as a result of payment under such Guarantee.

*Limitation on Transactions with Affiliates*



Edgar Filing: AVIV REIT, INC. - Form S-4/A

The 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

**Table of Contents**

rendering of any service) with any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Parent or with any Affiliate of the 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, taken as a whole, to the 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 with a Person that is not such a holder or an Affiliate.

The foregoing limitation 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 the Parent or (B) for which the Parent or any Restricted Subsidiary delivers to the trustee a written opinion of a nationally recognized investment banking, appraisal or accounting firm stating that the transaction is fair to the Parent or such Restricted Subsidiary from a financial point of view;
- (2) any transaction solely between the Parent and any of its Restricted Subsidiaries or solely between Restricted Subsidiaries;
- (3) the payment of reasonable fees and compensation to, and indemnification and similar arrangements on behalf of, current, former or future directors of the Parent or any Restricted Subsidiary;
- (4) the issuance or sale of Capital Stock (other than Disqualified Stock) of the Parent;
- (5) any Restricted Payments not prohibited by the Limitation on Restricted Payments covenant;
- (6) any contracts, instruments or other agreements or arrangements in each case as in effect on the date of the indenture, and any transactions pursuant thereto or contemplated thereby, or any amendment, modification or supplemental 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 the Parent and the Restricted Subsidiaries, taken as a whole, at the time executed than the original agreement or arrangements as in effect on the date of the indenture;
- (7) any employment, consulting, service or termination agreement, or customary indemnification arrangements, entered into by the Parent or any Restricted Subsidiary with current, former or future officers and employees of the Parent or such Restricted Subsidiary and the payment of compensation to officers and employees of the Parent or any Restricted Subsidiary (including amounts paid pursuant to employee benefit plans, employee stock option or similar plans), in each case in the ordinary course of business;
- (8) loans and advances to officers and employees of the Parent or any Restricted Subsidiary 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 and consistent with past practice;
- (9) transactions with a Person that is an Affiliate of the Parent solely because the Parent, directly or indirectly, owns Capital Stock of, or controls such Person; or

Edgar Filing: AVIV REIT, INC. - Form S-4/A

- (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.

---

**Table of Contents**

Notwithstanding the foregoing, any transaction or series of related transactions covered by the first paragraph of this Limitation on Transactions with Affiliates covenant and not covered by (2) through (11) of the immediately foregoing paragraph:

the aggregate amount of which exceeds \$10 million in value must be approved or determined to be fair in the manner provided for in clause (1)(A) or (B) above; and

the aggregate amount of which exceeds \$25 million in value, must be determined to be fair in the manner provided for in clause (1)(B) above.

*Limitation on Asset Sales*

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

- (1) the consideration received by the Parent or such Restricted Subsidiary is at least equal to the fair market value of the assets sold or disposed of; and
- (2) at least 75% of the consideration 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 the Parent or any Restricted Subsidiary (as shown on the most recent consolidated balance sheet of the Parent and its Restricted Subsidiaries other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Guaranty) that are assumed by the transferee of any such assets pursuant to an agreement that releases the 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 by the Issuers 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 (to the extent of the cash or Temporary Cash Investments received in that conversion); and
- (c) any Designated Non-Cash Consideration received by the Issuers or any such Restricted Subsidiary in such Asset Sale having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this clause (c) that is at the time outstanding, not to exceed the greater of (x) \$20 million and (y) 2.0% of the Parent's Adjusted Total Assets at the time of the receipt of such Designated Non-Cash Consideration, with the fair market value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value.

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

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

Edgar Filing: AVIV REIT, INC. - Form S-4/A

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

**Table of Contents**

- (3) prepay, repay, redeem or purchase Pari Passu Indebtedness of the Issuer or of any Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor; *provided, however*, that if the Parent, the Issuers or a Subsidiary Guarantor shall so prepay, repay, redeem or purchase any such Pari Passu Indebtedness, the Issuers will equally and ratably reduce obligations under the Notes if the Notes are then prepayable or, if the Notes may not then be prepaid, the Issuers shall make an offer (in accordance with the procedures set forth below) with the ratable proceeds to all holders to purchase their Notes at 100% of the principal amount thereof, plus accrued but unpaid interest, if any, thereon, up to the principal amount of Notes that would otherwise be prepaid;
- (4) fund all or a portion of an optional redemption of the Notes as described under **Optional Redemption** ;
- (5) make one or more capital expenditures;
- (6) acquire Replacement Assets to be used or that are useful in a Permitted Business; or
- (7) undertake any combination of the foregoing;

*provided*, that the 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, the Parent or any of its Restricted Subsidiaries has entered into and not abandoned or rejected a binding agreement to acquire the assets or Capital Stock of a Permitted Business, make a capital expenditure or acquire Replacement Assets in compliance with the provisions described in clauses (2), (5) and (6) of this paragraph, and that acquisition, purchase or capital expenditure is thereafter completed within 180 days after the end of such 365-day period. Pending the final application of any such excess Net Cash Proceeds, the Parent may temporarily reduce the revolving Indebtedness under any Credit Facility or otherwise invest such excess Net Cash Proceeds in any manner that is not prohibited by the indenture. The amount of such excess Net Cash Proceeds required to be applied (or to be committed to be applied) during such 365 day period as set forth in this paragraph and not so applied by the end of such 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 **Limitation on Asset Sales** covenant totals at least \$15 million, the Issuers shall 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) 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), plus, in each case, accrued and unpaid interest (if any) to the Payment Date. If any Excess Proceeds remain after consummation of an Offer to Purchase, the 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 tendered into such Offer to Purchase exceeds the amount of Excess Proceeds, the Parent shall select the Notes 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 shall be reset at zero. The 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 in accordance with the indenture). 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 **Limitation on Asset Sales** covenant totals less than \$15 million.

**Prohibition on Incurrence of Senior Debt by the Subordinated Guaranty Subsidiaries**

The Subordinated Guaranty Subsidiaries will not incur or suffer to exist any Indebtedness that is senior in right of payment to the applicable Subordinated Guaranty Subsidiary's guarantee other than the Acquisition

**Table of Contents**

Line and the Term Loan (or any Permitted Refinancing Indebtedness incurred in exchange for, or the net proceeds of which are used to refund, refinance or replace, the Acquisition Line or Term Loan and that was otherwise permitted by the indenture) and any secured Currency Agreements and Interest Rate Agreements provided to the lenders under the Acquisition Line and the Term Loan.

**Consolidation, Merger and Sale of Assets**

The Parent will not 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 the Parent unless:

- (1) the Parent shall be the continuing Person, or the Person (if other than the Parent) formed by such consolidation or into which the Parent is merged or that acquired such property and assets of the Parent shall be a corporation, limited liability company, partnership (including a limited partnership) or trust organ