AMENDED CLASS ACTION COMPLAINT
FOR VIOLATION OF THE FEDERAL SECURITIES LAWS
Lead Plaintiffs City of Livonia Employees’ Retirement System and Jerry Pehlke, Jr. ("Lead Plaintiffs"), plaintiff Anna Feuerbach, and plaintiff Ann Feuerbach (collectively, "Plaintiffs"), by their attorneys, on behalf of themselves and all others similarly situated, allege the following based upon the investigation of Plaintiffs’ counsel, except as to allegations specifically pertaining to Plaintiffs, which is based on personal knowledge. The investigation of counsel included, among other things, a review of Skilled Healthcare Group, Inc.’s ("Skilled Healthcare" or the “Company”) public filings with the United States Securities and Exchange Commission ("SEC"), press releases issued by the Company, interviews with former employees of Skilled Healthcare, public conference calls, media, analyst and news reports about the Company, and other publicly available data, including, but not limited to, publicly available trading data relating to the price and trading volume of Skilled Healthcare’s publicly traded securities. Plaintiffs believe that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a class action for violations of the federal securities laws on behalf of two classes: (1) all persons other than defendants who purchased the Class A common stock of Skilled Healthcare pursuant and/or traceable to the Company’s Registration Statement and Prospectus issued in connection with the Company’s Initial Public Offering (the “IPO”) on May 14, 2007, seeking to pursue remedies under the Securities Act of 1933 (the “Securities Act”); and (2) all persons other than defendants who purchased the Class A common stock of Skilled Healthcare between May 14, 2007 and June 9, 2009, inclusive, seeking to pursue remedies under the Securities Exchange Act of 1934 ("Exchange Act").

2. Headquartered in Foothill Ranch, California, Skilled Healthcare provides long-term healthcare services. At the time of its initial public offering ("IPO") in May 2007, the Company owned or leased facilities across the country, primarily in California, Texas, Missouri, Kansas and Nevada, with approximately 8,900 licensed
beds. During the Class Period, Skilled Healthcare’s two operating segments were long-term care (“LTC”), comprised of skilled nursing and assisted living facilities, and ancillary services, consisting of rehabilitative services and hospice care.

3. Originally formed in 1998, the Company filed for bankruptcy in 2001, emerged from reorganization in 2003, and in 2005, through a series of transactions involving equity contributions and the issuance and assumption of debt, was purchased by, inter alia, members of management and current majority and controlling shareholder Onex Corporation, one of Canada’s largest corporations. In 2006 and 2007, the Company acquired new facilities in several states and planned development of several more to open in 2008 and 2009. To fund this expansion, the Company originally planned an IPO in 2006; it was eventually completed on May 14, 2007, and raised approximately $120 million for Skilled Healthcare.

4. The Company derives its revenues from a variety of sources, including patients’ private payment, payment by insurance carriers and managed care providers, and payment from government sources, primarily Medicare and Medicaid. Challenges with respect to Skilled Healthcare’s ability to collect amounts invoiced varied depending upon payment source: individual clients’ inability to pay; insurance companies’ claim denials; and governmental sources’ inability or refusal to pay because of budget cuts, certification delays, incomplete or untimely submissions, and increased billing scrutiny. Skilled Healthcare was also subject to frequent state and federal audits.

5. Consequently, it was critical for the Company to carefully monitor its accounts receivable. While the business possesses excellent growth prospects as Baby Boomers age, the complexity of state, federal and private reimbursement procedures and processes mandated active management of the Company’s collection activities.

6. The longer a receivable is outstanding, the more remote the likelihood of collection. In accordance with Generally Accepted Accounting Principles (“GAAP”), provisions needed to be taken to reserve against non-recoverability of
outstanding receivables. To comply with GAAP's loss contingency provisions, Skilled Healthcare was required to adopt policies which provided an allowance for doubtful accounts ("ADA") to write off amounts that it was probable Skilled Healthcare would not collect.

7. To ensure that receivables did not grow stale and subject to ADA, throughout the Class Period, defendants indicated that they were undertaking efforts to reduce the Company's average collection period, which is measured in days sales outstanding ("DSOs"). During Class Period conference calls, both the Company's CEO and CFO mentioned a concerted effort to pursue receivables; this included the goal in 2008, for example, to reduce DSOs to the 50-55 day range (barring unusual events). The Company also discussed, from time to time, its decisions to take charges based upon aged receivables.

8. On these interrelated topics, defendants described "sizing reserves against accounts receivable" as an "elaborate" process. For example, in Q3 2008, the President of the ancillary services segment indicated that charges had been taken in his segment to be "prudent" when the Company was not "comfortable" with the age of certain receivables. Commenting upon the same charges, CFO Devasis Ghose echoed this sentiment: "We evaluate these at each period. We believe we are prudently reserved at this point in time."

9. In fact, the interplay between DSOs and ADA was followed closely by the market. For example, an analyst report issued shortly after the IPO contained two side-by-side bar graphs which indicated that during the first quarter of 2007 ("Q1 2007"), while Skilled Healthcare had DSOs of 55.8, which ranked it second among four industry competitors (38.2, 46.6 and 58.8), its ADA as a percentage of gross receivables was the lowest, 8.8%, when the others ranged from 10.5% to 17.9%.

10. When it became a public company, Skilled Healthcare acknowledged that it was required to put into place internal controls and procedures dedicated to ensuring accurate and transparent operational and financial reporting under the

11. In its Form 10-K for 2007, at 33, Skilled Healthcare indicated that it was not required to comply with the requirement of the Sarbanes-Oxley Act that a public accounting firm independently audit management’s assessment of the Company’s internal controls over financial reporting until the year ended December 31, 2008. However, by February 2008, CEO Hendrickson indicated that “we’re right on target and we don’t think that there’ll be any problem in completing it and being pretty much in compliance by the end of the year.”

12. Following the IPO, both the Company’s CEO and CFO signed certifications attesting to the accuracy of the periodic reports, the sufficiency of the design and effectiveness of internal controls over financial reporting and that they had reported to the Company’s auditors and the audit committee of the board of directors “[a]ny fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.”

13. As detailed herein, in both Skilled Healthcare’s IPO documents and in later press releases and periodic SEC filings, defendants reported accounts receivable, ADA, cost of sales, net income (loss) and earnings (loss) figures, however, that were materially false. On June 10, 2009, the Company surprised investors and the market by issuing a press release and holding a follow-up conference call to announce that Skilled Healthcare would be restating its financial results for the periods between January 1, 2006 and March 31, 2009.

14. Delivering a short statement, and taking no questions, CEO Hendrickson indicated that there was an “apparent understatement of the reserves that we set aside against our accounts receivable . . . [which] resulted from improper dating of accounts receivable by a former employee . . . in ways that are not consistent with our company’s accounting policies and practices.” Hendrickson indicated that an investigation was ongoing with respect to the areas in which the former employee was
involved, steps to ensure future compliance with policies and practices relating to accounts receivables reserves, and evaluations of the Company's internal control structure. Finally, he indicated that the Company intended to file restated financials with the SEC "as soon as practicable." The Company estimated an after-tax charge to earnings of between $8 million and $9 million.

15. As a result of this unexpected announcement of such a sweeping restatement, investors reacted negatively, with the price of the Company’s Class A stock dropping the following day by approximately 9.11%, from $8.34 per share, the closing price of Skilled Healthcare on June 9, 2009, to $7.58 per share the following day.

16. Less than three weeks later, the audit committee’s investigation was completed and the restatement filed. Specifically, on June 29, 2009, Skilled Healthcare filed an amended Form 10-K/A to cover fiscal years 2006-2008, and quarterly periods contained therein, and an amended Form 10-Q/A for Q1 2009. Reported earnings during the Class Period were overstated by $8.4 million over the affected periods.

17. The Company determined that a former employee had caused an understatement of the accounts receivable allowance for doubtful accounts by performing functions that should have been assigned to other employees and reviewed by him "and other senior personnel." This senior employee apparently manipulated the aging reports used to calculate ADA by transferring balances from delinquent categories to more current categories. For the periods prior to the IPO, ended with the June 30, 2007, quarter, "this was accomplished through worksheets that the former employee prepared by modifying system generated data," i.e., no changes to actual system data took place. In later periods, defendants explained, the senior employee altered aging figures by "posting transactions to fictitious patient accounts in a test facility which had been a part of the production environment."

While this explanation is less than the model of clarity, based upon other language
in the document, it appears as if false data was entered into Skilled Healthcare’s day-to-day working computer systems, as opposed to testing or training environments.

18. Skilled Healthcare indicated that its management identified a material weakness in the Company’s internal control over financial reporting and concluded that its internal control over financial reporting was ineffective by December 31, 2008. Eight steps were taken to remediate the weakness, including moving the ADA calculations from the Operations Department to the Accounting Department and appointing a successor Senior Vice President who now reports to the CFO. The Senior Vice President and the Chief Accounting Officer are to review the calculations for quality control purposes.

19. Due to the swift completion of the audit and investigation, the accuracy of the impact on earnings, and the lack of change to stated guidance, there was no significant price impact. However, one analyst, from Jefferies & Co., reported on June 30, 2009, that it was premature to recommend investors purchase shares in Skilled Healthcare because, in part, of the fact that “it will likely take time for management to regain investors’ confidence.” In fact one month earlier, at the Q1 2009 earnings conference call, the following exchange took place:

Q: Robert Main: “... Dev [CFO Ghose], last couple of quarters there have been some insurance adjustments or bad debt adjustments that have been flowing through the income statement. I gather there were none of them this quarter?

A: Dev Ghose: That’s correct.

Defendants having prided themselves on taking correct and prudent ADA reserves, the news of restated figures from four different years, due to the actions of a single rogue employee, likely did not sit well with investors. The share price has only returned to its pre-June 10th value on fewer than ten days in the past six months.
20. The impact on the various quarter and year-end figures are set forth in the following summary charts:

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<td>Net income</td>
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<td>(1,553)</td>
<td>6,864</td>
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<td>8,924</td>
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<tr>
<td>Net income</td>
<td>(757)</td>
<td>(330)</td>
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<td>(522)</td>
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<tr>
<td>Accounts receivable, net</td>
<td>6.54%</td>
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<td>6.78%</td>
<td>6.71%</td>
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<td>7.84%</td>
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Initially Reported Data for Quarter Ended

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Restatement Adjustments for Quarter Ended

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Percent Over- or Understated for Quarter Ended

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<tr>
<td>Net income</td>
<td>19.43%</td>
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<td>7.84%</td>
<td>5.76%</td>
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<td>Accounts receivable, net</td>
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Restatement Adjustments Data for Year Ended

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<td>Allowance for doubtful accounts</td>
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### Restated Data for Year Ended

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<td>Earnings per common share, basic</td>
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### Percent Over- or Understated for Year Ended

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<tr>
<td>Accounts receivable, net</td>
<td>6.78%</td>
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<td>Allowance for doubtful accounts</td>
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<td>85.50%</td>
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<td>Cost of Services</td>
<td>0.99%</td>
<td>0.60%</td>
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<td>Earnings per common share, basic</td>
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### Initially Reported Data for Year Ended

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### Restatement Adjustments Data for Year Ended

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<tr>
<td>Net income</td>
<td>17.21%</td>
<td>12.22%</td>
</tr>
</tbody>
</table>

AMENDED CLASS ACTION COMPLAINT FOR VIOLATION OF FEDERAL SECURITIES LAWS
21. Skilled Healthcare has now disclosed that the Company has been contacted by the SEC’s Division of Enforcement, which has initiated an informal inquiry relating to the Company’s restatement.

JURISDICTION AND VENUE

22. The claims asserted herein arise under and pursuant to Sections 11 and 15 of the Securities Act (15 U.S.C. §§ 77k and 77(o)) and Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. §78j(b) and 78t(a)), and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

23. This Court has jurisdiction over the subject matter of this action pursuant to Section 22(a) of the Securities Act, 15 U.S.C. §77v(a), Section 27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. § 1331.


25. In connection with the acts, conduct and other wrongs alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

26. Lead Plaintiff City of Livonia Employees’ Retirement System as set forth in the certification on file with this Court in connection with its motion to be appointed lead plaintiff (Dk. 29, Exh. B), incorporated by reference herein, purchased Skilled Healthcare stock pursuant to or traceable to the Company’s IPO and was economically damaged thereby.

27. Lead Plaintiff Jerry Pehlke, Jr., as set forth in the certification on file with this Court in connection with his motion to be appointed lead plaintiff (Dk. 31,
Exh. 2), incorporated by reference herein, purchased Skilled Healthcare stock pursuant to or traceable to the Company's IPO and was economically damaged thereby.

28. Plaintiff Anna Feuerbach as set forth in the accompanying certification, incorporated by reference herein, purchased Skilled Healthcare stock pursuant to or traceable to the Company's IPO and was economically damaged thereby.

29. Ann Feuerbach as set forth in the accompanying certification, incorporated by reference herein, purchased Skilled Healthcare stock pursuant to or traceable to the Company's IPO and was economically damaged thereby.

30. Defendant Skilled Healthcare is a Delaware corporation with its principal place of business located in Foothill Ranch, CA 92610. Skilled Healthcare provides integrated long-term healthcare services in the United States through certain facilities it manages and/or owns. During the Class Period the Company's Class A common stock was listed on the New York Stock Exchange under ticker "Skilled Healthcare."

31. Defendant Onex Corporation through itself and through Defendant Onex US Principals LP, and Defendant Onex Partners LP (collectively, "Onex") was at all relevant times a majority and controlling shareholder of Skilled Healthcare. Defendant Onex is a private equity firm headquartered in Toronto, Canada, with operations in the United States. According to the Registration Statement, Onex immediately prior to the IPO, Onex' Affiliates owned 88.7% of the Company's Class A common stock. In the IPO Onex sold over 8.1 million shares reaping over $125 million in gross proceeds. The Registration Statement states that following the IPO, it would continue to be controlled by Onex. Onex was also directly involved in the preparation, drafting, review and approval of the Registration Statement/Prospectus.

32. Defendant Boyd Hendrickson ("Hendrickson") was and is at all relevant times the Chairman and CEO of the Company. Hendrickson signed the Registration Statement and was directly involved in the preparation, drafting, review and approval
of the Registration Statement/Prospectus. During the Class Period, Hendrickson prepared and signed the Company’s Form 10-Qs and 10-Ks, and various accompanying certifications required by the Sarbanes-Oxley Act, attesting that he had (i) reviewed the contents of the filings to confirm that they did not contain untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading and (ii) that there were no material weaknesses in internal controls and no material misstatements or omissions in the financial statements pertaining to the adequacy of internal control over financial reporting. At no time during the Class Period did Hendrickson or any other defendant assert that they were unaware of material aspects of Skilled Healthcare’s business or finances. Moreover, Hendrickson issued statements in press releases and led the Company’s conference calls with analysts and investors, representing himself as a primary person with knowledge about the Company’s business, outlook, financial reports and business practices. Hendrickson was previously named as a defendant in another federal securities class against Beverly Enterprises, Inc., a company that owns and operates a number of health care facilities throughout the United States. Therein, it was unsuccessfully alleged that senior management should have been aware of $170 million accounting fraud for which a California subsidiary of Beverly pled guilty. The Court of Appeals for the Eighth Circuit refused to hold executives in the corporate office liable for the Medicare reimbursement fraud of a subsidiary without evidence that fraud “was so obvious the defendants must have been aware of it or acted in such a reckless way as to not discover it.” Kushner v. Beverly Enterprises, Inc., 317 F.3d 820, 829 (8th Cir. 2003).

Defendant John E. King ("King") served as the Company’s CFO and Treasurer from the beginning of the Class Period until his departure from the Company on or about March 2008. King signed the Registration Statement and was directly involved in the preparation, drafting, review and approval of the Registration
Statement/Prospectus. During his tenure as Class Period CFO, King prepared and signed the Company’s Form 10-Qs and 2007 10-K, and various accompanying certifications required by the Sarbanes-Oxley Act, attesting that he had (i) reviewed the contents of the filings to confirm that they did not contain untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading and (ii) that there were no material weaknesses in internal controls and no material misstatements or omissions in the financial statements pertaining to the adequacy of internal control over financial reporting. At no time during the Class Period did King or any other defendant assert that they were unaware of material aspects of Skilled Healthcare’s business or finances. Moreover, King issued statements in press releases and participated in the Company’s conference calls with analysts and investors, representing himself as a primary person with knowledge about the Company’s business, outlook, financial reports and business practices.

34. Defendant Jose Lynch (“Lynch”) was and is the Company’s President, COO, and Director. He signed the Registration Statement (through the grant of attorney-in-fact powers to King) and was directly involved in the preparation, drafting, review and approval of the Registration Statement/Prospectus. Lynch issued statements in press releases and participated in the Company’s conference calls with analysts and investors, representing himself as a primary person with knowledge about the Company’s business, outlook, financial reports and business practices.

35. Defendant Devasis Ghose (“Ghose”) was and is the Company’s CFO from March 2008 to present. During his tenure as Class Period CFO, Ghose prepared and signed the Company’s Form 10-Qs and the 2008 10-K, and various accompanying certifications required by the Sarbanes-Oxley Act, attesting that he had (i) reviewed the contents of the filings to confirm that they did not contain untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading and (ii) that there were no material weaknesses in internal controls and no material misstatements or omissions in the financial statements pertaining to the adequacy of internal control over financial reporting. At no time during the Class Period did King or any other defendant assert that they were unaware of material aspects of Skilled Healthcare’s business or finances. Moreover, Ghose issued statements in press releases and participated in the Company’s conference calls with analysts and investors, representing himself as a primary person with knowledge about the Company’s business, outlook, financial reports and business practices.
made, not misleading and (ii) that there were no material weaknesses in internal
controls and no material misstatements or omissions in the financial statements
pertaining to the adequacy of internal control over financial reporting. At no time
during the Class Period did Ghose or any other defendant assert that they were
unaware of material aspects of Skilled Healthcare’s business or finances. Moreover,
Ghose issued statements in press releases and participated in the Company’s
conference calls with analysts and investors, representing himself as a primary person
with knowledge about the Company’s business, outlook, financial reports and
business practices.

36. Defendant Robert Le Blanc ("Le Blanc") was the Company’s Lead
Director and member of the Company’s Audit, Compensation, and Nominating and
Corporate Governance Committees. Le Blanc signed the Registration Statement
(through the grant of attorney-in-fact powers to King), and was directly involved in
the preparation, drafting, review, and approval of the Registration
Statement/Prospectus. In the Registration Statement the Company listed Le Blanc as
a beneficial owner of 88.7% of the Company’s Class A common stock because he
was also the Managing Director of an Onex Affiliate at the time of the IPO. Le Blanc
was Onex’s designate to Skilled Healthcare’s Board.

CONFIDENTIAL WITNESSES

37. CW#1 has been identified by several witnesses, including CW#1, as
being the senior executive blamed for Skilled Healthcare’s restated financials. CW#1
was a Senior Vice-President in the Operations Finance department at Skilled
Healthcare. CW#1 was subject to the SEC’s insider reporting requirements and was
listed as an employee with whom Skilled Healthcare executed an Indemnification
Agreement. See 2007 Form 10-K at 79. CW#1 was employed by Skilled Healthcare
from approximately January, 2002 until approximately May, 2009. CW#1 primarily
worked at Skilled Healthcare’s headquarters in Foothill Ranch, California. CW#1 is
currently employed at a major company in the healthcare industry.
38. CW#1 indicated that there was a lot more information as to why Skilled Healthcare needed to restate its financials than was contained in Skilled Healthcare’s public statements. CW#1 indicated that senior management was not only aware that a different aging method [for reserves] was being put into place (said method Skilled Healthcare attributed solely to CW#1 in its public statements), but that a document existed outlining the changes and that senior management had signed this document approving those changes. After departing the Company, CW#1 dialed into a Company shareholder conference call and in monitoring such call ascertained that senior Company officials had lied to shareholders during such call.

39. CW#2 was a senior level officer at Skilled Healthcare in charge of reimbursements. CW#2 was employed by Skilled Healthcare during approximately October 2003 through approximately January 2009. During this period, CW#2 primarily worked at Skilled Healthcare’s headquarters in Foothill Ranch, California. CW#2 reported to defendants Lynch and Ghose. CW#2’s responsibilities included:

a. Creating the “Cost Reports”, which are periodic financial reports prepared for each Skilled Healthcare nursing facility and filed with both state and federal regulators. One key metric of the Cost Reports is the allowance for bad debt which is specifically defined by Skilled Healthcare as what a patient is billed but does not pay. At Skilled Healthcare bad debt reports are supplied by each facility and related to specific patients and included a series of documents required for Medicare reimbursement.

b. CW#2 typically attended meetings with defendants CEO Hendrickson, COO Lynch, the current CFO at the time (defendants Ghose or King) and CW#1, prior to each SEC filing to discuss the financial data that would be included in those filings. Information contained in the Cost Reports would be incorporated in Skilled Healthcare’s quarterly SEC filings.
CW#2 indicated that CW#1 was directly responsible for drafting the accounts receivable reporting that would be incorporated directly into the Company’s periodic SEC filings. CW#2 indicated that by the time these meetings were held, CW#1 had already completed the accounts receivable reporting for the particular SEC filing which was presented during the meetings on a spreadsheet and reviewed by the participants in those meetings. CW#2 does not recall anything substantial ever being changed to CW#1's accounts receivable reporting prior to the Company’s 10Ks and 10Qs being filed with the SEC. In addition, according to CW#2, CW#1's accounts receivable reporting would be given to management to establish the reserve for uncollectible receivables.

c. CW#2 indicated that there was a definitive separation between Skilled Healthcare’s operations and accounting functions. Both divisions were treated as two distinct and separate groups. Accordingly, although CW#1 was in charge of the “Operations Finance” department which prepared the accounts receivable reports, it was not part of the Company’s accounting department and consequently CW#1 reported directly to defendant COO Lynch rather than the CFO.

d. During the course of the employment, CW#2 came to understand—something known throughout the Company—that about half of Skilled Healthcare’s facilities had problems forwarding required documents for establishing Medicare reimbursement, and consequently Skilled Healthcare had problems submitting bad debt reports to Medicare for reimbursement. CW#2 and Skilled Healthcare’s COO and CEO, among others, would typically meet...
monthly to discuss the bad debt reports.

40. CW#3 assisted Kelly Atkins, the Senior Vice President of Operations for Nevada, California, and New Mexico, who in turn reported to defendant Lynch, until approximately November, 2009. Every month, Atkins and Lynch would spend 8-10 hours per day calling the manager of each of the Company’s individual facilities to review these financial results. According to CW#3, CW#1 is the former Skilled Healthcare employee referenced by the Company as being responsible for the Company restating its financials. CW#3 confirms that the Company’s reserves were handled by CW#1. CW#3 observed that CW#1 would frequently work up to sixteen hours a day. CW#3 indicated that CW#1 knew a lot about the nursing care business having grown up in the business with a family-owned nursing care facility. After CW#1’s departure, Skilled Healthcare employees received an e-mail warning them not to discuss the matter with anyone.

41. CW#4 held the title of Accounts Receivable Support while at Skilled Healthcare. CW#4 was employed at the Company from approximately May 2008 through approximately November 2009. CW#4 was hired by, and reported to, CW#1. Part of CW#4’s job was writing off bad debt. CW#4 would view the Company’s aging report which was produced by the AHT system as a landscape spreadsheet containing different buckets: 0-30 days, 30-60 days, and so forth up to one year. The Company’s reserves increased as the buckets aged. CW#4 indicated that a primary reason the Company would write off bad debt was because the facilities personnel would not obtain the necessary information required for the various payer types. Also, because the Company experienced high staff turnover rates at the various facilities, the collection process would often be restarted each time a person was replaced.

42. CW#5 held the title of Financial Reporting Manager while at Skilled Healthcare. CW#5 was employed at the Company from approximately October 2006 through approximately September 2007. CW#5 was originally hired to assist with the
Company’s IPO paperwork and reported directly to Chris Felfi, the Company’s Controller. CW#5 indicated that the Company originally planned to go public in 2006 but that it was delayed until 2007. CW#5 recalls two separate audits by Ernst & Young in connection therewith. CW#5 confirms the fact that CW#1 was the person responsible for the Company’s receivables.

43. CW#6 was a Regional Financial Consultant for Skilled Healthcare from approximately August, 2000 through approximately October, 2008. CW#6 worked out of New Mexico and reported to Patty Roels who, in turn, reported directly to CW#1. CW#6’s responsibilities included writing off bad debt for five facilities; however, if the write off was too large it would go directly to CW#1 or defendant Lynch for approval. Defendant Lynch had the authority to write off receivable bad debt in excess of CW#1’s limits. CW#6 indicated that she would meet CW#1 every two months to discuss accounts receivables. CW#6 further indicated that around July, 2008, the Company started moving billing from the five facilities into the central office and that those facilities had millions of dollars in bad debt. At the time of the move, CW#6 indicated that receivables at the five facilities were “out of control,” but when CW#6 suggested taking over billing for New Mexico, she was reprimanded. After CW#1 flew down to New Mexico to discuss the matter with CW#6, the job of overseeing New Mexico’s billing was given to someone else.

44. CW#7 held the title of Reimbursement Administrator while at Skilled Healthcare from approximately January, 2003 to approximately March, 2006. CW#7 reported to CW#2. CW#7 confirms that aging of receivables and writing off bad debt was the responsibility of CW#1.

PLAINTIFFS’ CLASS ACTION ALLEGATIONS

45. Plaintiffs brings this action on behalf of themselves and two classes: (1) all persons other than defendants who purchased the Class A common stock of Skilled Healthcare pursuant and/or traceable to the Company’s Registration Statement and Prospectus issued in connection with the Company’s IPO on May 14, 2007,
seeking to recover damages caused by defendants’ violations of Sections 11 and 15 of the Securities Act (the “Securities Act Class”); and (2) all persons other than defendants who purchased the Class A common stock of Skilled Healthcare between May 14, 2007 and June 9, 2009, inclusive, for violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder (“Exchange Act Class”). Both Classes are referred to as the “Class.”

46. The members of the Class are so numerous that joinder of all members is impracticable. Approximately 19,166,666 shares of the Company’s Class A common stock were sold in the IPO. The precise number of the Class members is unknown to Plaintiff at this time but it is believed to be in the thousands. Members of the Class may be identified from records maintained by Skilled Healthcare or its transfer agent and may be notified of the pendency of this action by mail, using a form of notice customarily used in securities class actions.

47. Plaintiffs’ claims are typical of the claims of the members of the Class, as all members of the Class are similarly affected by defendants’ wrongful conduct in violation of federal law that is complained of herein.

48. Plaintiffs will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

49. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

a. whether the provisions of the Securities Act, and Exchange Act were violated by defendants’ acts as alleged herein;

b. whether documents, including the Registration Statement and Prospectus, press releases, and public statements issued by defendants to the investing public committed and/or misrepresented material facts about the Company and its
business; and,
c. the extent to which members of the Class have sustained
damages, and the proper measure of damages.

50. A class action is superior to all other available methods for the fair and
efficient adjudication of this controversy since joinder of all members is
impracticable. Furthermore, as the damages suffered by individual Class members
may be relatively small, the expense and burden of individual litigation make it
impossible for members of the Class to redress individually the wrongs done to them.
There will be no difficulty in the management of this action as a class action.

BACKGROUND CONCERNING SKILLED HEALTHCARE’S BUSINESS

51. Skilled Healthcare provides integrated long-term healthcare services
(“LTC”) in the United States. Skilled Healthcare owns or leases approximately 75
skilled nursing facilities and 21 assisted living facilities. Skilled Healthcare also
provides ancillary services, such as physical, occupational, and speech therapy, as
well as rehabilitation therapy service to third-party skilled nursing operators.

52. The Company’s LTC segment is the most significant portion of its
business comprising approximately 87% of Skilled Healthcare’s revenue, with the
remaining 13% derived from its ancillary services segment.

53. Financial information concerning each of Skilled Healthcare’s nursing
facilities is entered into the Company’s AHT software database at the facility level.
Among other things, AHT can produce consolidated financial statements and
comparative operating statistics among Skilled Healthcare’s various facilities.

SUBSTANTIVE ALLEGATIONS

COUNT I

Against Skilled Healthcare, Hendrickson, King, Lynch,
and Le Blanc For Violation of Section 11 of the Securities Act
on Behalf of the Securities Act Class

54. This Count is asserted against defendants Skilled Healthcare,
Hendrickson, King, Lynch and Le Blanc. ("Count I Defendants").

55. Plaintiffs incorporate by reference each and every allegation contained in ¶¶1-53 and the following paragraphs 185-190, for this Count.

56. This Count is based on the Count I Defendants’ lack of reasonable care and strict liability for making false statements of material fact in the Registration Statement/Prospectus issued in connection with the Company’s IPO, not fraud or intentional or reckless misconduct.

SKILLED HEALTHCARE’S IPO AND FALSE STATEMENTS OF MATERIAL FACT IN THE REGISTRATION STATEMENT/PROSPECTUS

57. At the end of 2006 and continuing through the first quarter of the 2007, the Company prepared to commence an initial public offering of its Class A common stock, by filing drafts of registration statements with the SEC.

58. On May 10, 2007, the Company filed with the SEC its sixth amended registration statement on Form S-1/A (the “Registration Statement”). The Registration Statement contained, among other things, a Prospectus.

59. On May 14, 2007 at 1:15 p.m. the SEC declared the Registration Statement effective. The Registration Statement was signed by Defendants Hendrickson and King. Defendant Lynch provided attorney-in-fact power to King to sign the Registration Statement on his behalf.

60. On May 16, 2007 the Company filed its final Prospectus with the SEC in connection with the Company’s IPO, which involved the sale of 16,666,666 shares of Class A common stock of the Company for $15.50 per share. Of that, 8,333,333 shares were offered by the Company and the balance was offered by certain other selling shareholders, including Onex which sold 8,127,254 shares in the IPO. Total proceeds from the IPO were approximately $258 million. Net of fees, the Company received approximately $120 million. Onex received gross proceeds of
approximately $125 million.

61. The Registration Statement and Prospectus contained the Company's financial statements and results for, among others:
   a. fiscal year ended December 31, 2006; and
   b. first quarter ended March 31, 2007.

62. On June 9, 2009, after market close, the Company issued a press release stating that the Company's previously issued financial statements and related public announcements for the quarterly and annual periods from January 1, 2006 through March 31, 2009 would be "restated" because the Company identified "errors" concerning the underatement of reserves for the Company's accounts receivable which would negatively impact the Company's net income. Accordingly, the Company warned investors not to rely on any of the financial statements issued by the Company during the previous three years, essentially admitting that its financial reports for those periods were worthless. The June 9, 2009 announcement states in relevant part:

Skilled Healthcare Group Announces Expected Financial Restatement Related to Accounts Receivable Reserves

FOOTHILL RANCH, Calif.—(BUSINESS WIRE)—June 9, 2009—Skilled Healthcare Group, Inc. (NYSE: Skilled Healthcare) today announced that, based on a preliminary review by management, the Company expects to restate its consolidated financial statements for the quarterly and annual periods from January 1, 2006 through March 31, 2009. As a result, the Audit Committee of the Board of Directors today has concluded that investors should no longer rely on the Company's historical financial statements nor the reports of Ernst & Young LLP, the Company's independent registered public accounting firm, for those affected periods.

The expected restatement relates to understated reserves for accounts receivables in each of the affected quarters. Based on the Company's preliminary analysis, the Company expects that the correction of the understatement is likely to require cumulative charges against after-tax earnings in the aggregate amount of between $8 million and $9 million over the affected periods. The actual amounts of the adjustments to be made in each of the affected periods are being determined by management. The adjustments will be audited by year and reviewed by quarter by Ernst & Young LLP.

Management identified the errors through an internal review of its reserves for accounts receivable. The errors appear to have resulted from
improper dating of accounts receivables by a former employee who appears to have acted in ways that were inconsistent with the Company's accounting policies and practices. With the oversight of the Audit Committee, the Company has initiated a special investigation with respect to the areas in which the former employee was involved, as well as a review of what steps, if any, may be appropriate to ensure future compliance with the Company's accounting policies and practices relating to accounts receivable reserves.

The Company will file its restated financial statements with the Securities and Exchange Commission as soon as practicable following completion of the Audit Committee's investigation. (Emphasis added).

63. The announcement caused the Company's stock to fall on June 10, 2009 from a prior closing price of $8.34 to $7.58, or 9.11%. The Company's stock fell an additional $.80 per share or 10.6% the next three trading days.

64. On June 29, 2009 the Company filed an amended Form 10-K/A and an amended Form 10-Q with the SEC. The amended Form 10-K/A contained restatements of the Company's previously announced financial results for the fiscal years ended December 31, 2006, 2007, and 2008 and the interim quarterly reports within those three fiscal years. The amended Form 10-Q contained the Company's restatements for the first quarter ended March 31, 2008 and 2009.

Skilled Healthcare's Materially Inaccurate Results for the Fiscal Year Ended December 31, 2006 as Reported in the Registration Statement/Prospectus

65. The following line items for the year ended December 31, 2006, were reported, among others, in the Consolidated Financial Statements section in the Registration Statement/Prospectus:

   a. "Net Income" was reported at $17,337,000;
   b. "Net (Loss) income attributable to common stock holders" was reported at ($1,069,000);
   c. "Net (Loss) income per common share, basic" was reported at ($0.09);
   d. "Net (Loss) income per common share, diluted" was reported at ($0.09);
e. "Provision for doubtful accounts" was reported at $5,439,000; and

f. "Deferred income taxes" was reported at ($6,363,000).

66. The June 29, 2009 amended 10-K materially restated the above consolidated statements of operating data and cash flows for the year ended December 31, 2006, as follows:

   a. "Net Income" of $14,791,000, was misrepresented as $17,337,000, which constituted an overstatement of $2,546,000, or 17.2%;

   b. "Net (Loss) income attributable to common stock holders" of ($3,615,000), was misrepresented as ($1,069,000), which constituted an understatement of $2,546,000, or 238.1%;

   c. "Net (Loss) income per common share, basic" of ($0.31), was misrepresented as ($0.09), which constituted an understatement of the Company's loss by $0.22, or 71%;

   d. "Net (Loss) income per common share, diluted" of ($0.31), was misrepresented as ($0.09), which constituted an understatement of the Company's loss by $0.22, or 71%;

   e. "Provision for doubtful accounts" of $9,595,000, was misrepresented as $5,439,000, which constituted an understatement of the expense $4,156,000, or 130.87%; and

   f. "Deferred income taxes" of ($7,972,000), was misrepresented as ($6,363,000), which constituted an understatement of the liability by $1,609,000, or 25.3%.

Skilled Healthcare's Materially Inaccurate Results for the First Quarter Ended March 31, 2006 as Reported in the Registration Statement/Prospectus

67. The following line items for the first quarter ended March 31, 2007, were
reported, among others, in the Consolidated Financial Statements section in the registration statement/prospectus:

a. "Net income" was reported as $4,654,000,
b. "Net (Loss) income attributable to common stock holders" was reported as ($118,000);
c. "Net (Loss) income per common share, basic" was reported as ($0.01) per share;
d. "Net (Loss) income per common share, diluted" was reported as ($0.01) per share;

68. The June 29, 2009, amended 10-K materially restated the above consolidated statements of operating data and cash flows for the first quarter ended March 31, 2007, as follows:

a. "Net income" of $3,897,000 for the quarter ended March 31st, 2007, was misrepresented as $4,654,000, which constituted an overstatement of net income by $757,000, or 19.4%;
b. "Net (Loss) income attributable to common stock holders" of ($875,000) for the quarter ended March 31st, 2007, was misrepresented as ($118,000), which constituted an understatement the Company's loss by $757,000, or 541.5%;
c. "Net (Loss) income per common share, basic" of ($0.07) for the quarter ended March 31st, 2007, was misrepresented as ($0.01), which constituted a severe understatement of the Company's loss by $0.06 per share, or 85.7%;
d. "Net (Loss) income per common share, diluted" of ($0.07) for the quarter ended March 31st, 2007, was misrepresented as ($0.01), which constituted a severe understatement of the Company's loss by $0.06 per share, or 85.7%;
Skilled Healthcare’s Consolidated Financial Statements for the Fiscal Year Ended December 31, 2006 and First Quarter Ended March 31, 2007 Reported in the Registration Statement/Prospectus Were False When Made and Material

69. In the Company’s June 9, 2009, announcement (and affirmed in the Company’s June 29, 2009 amended 10-K), the Company admitted, inter alia, that its financial statements for the fiscal year ended 2006 and the first quarter for 2007 had to be “restated” because of accounting “errors.” Because the Company admitted that a restatement was required because of accounting errors, the foregoing financial statements contained in the Registration Statement/Prospectus were false when made and material because:

a. A restatement is the process of revising previously issued financial statements to reflect the correction of an error in those financial statements. SFAS 154;

b. An accounting “error” is a term of art and results from, among other things, an error in recognition or measurement, or a mistake in the application of GAAP. SFAS 154; and

c. The SEC Staff Accounting Bulletin No. 99—Materiality (“SAB No. 99”) specifically states:

[Registrants] must make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the registrant and must maintain internal accounting controls that are sufficient to provide reasonable assurances that, among other things, transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP. ... Accordingly, failure to record accurately immaterial items, in some instances, may result in violations of the securities laws. (Emphasis added).

70. The materiality of the misstatements of earnings in the Registration Statement/Prospectus is heightened because the Company’s most recent financial statements immediately prior to the IPO—its first quarter 2007 earnings—were overstated by nearly 20.5% for net income, and its net loss per share for common
stockholders was underreported by 87.5%.

71. Count I Defendants are strictly liable for the misstatements alleged herein and for the damages Plaintiffs and other members of the Class have sustained thereby. All Count I Defendants are responsible for the contents and dissemination of the Registration Statement/Prospectus. The Count I Defendants did not conduct a reasonable investigation and did not have grounds for the belief that the statements in the Registration Statement/Prospectus were true, without omissions of any material facts, and not false when the Registration Statement became effective. Count I Defendants issued, caused to be issued and participated in the issuance of the false written statements to the investing public that were contained in the Registration Statement/Prospectus. For the conduct alleged herein, each Count I Defendant violated, and/or controlled a person who violated, Section 11 of the Securities Act.

72. None of the Count I Defendants made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement and Prospectus were true or that there was no omission of material facts necessary to make the statements made therein not misleading.

73. When the false statements of material fact outlined above were made, Plaintiffs and other members of the Class were unaware of their falsity and reasonably believed that they were true. Had Plaintiffs and other members of the Class and the marketplace known the truth regarding Skilled Healthcare’s actual financial situation, which was not disclosed by any Defendant, Plaintiffs and other members of the Class would not have invested in Skilled Healthcare common stock, or, if they had invested in such common stock during the Securities Act Class Period, would not have made such investments at the prevailing artificially inflated prices which were paid.

74. This action is brought within one year after discovery of the untrue statements and omissions in and from the Registration Statement/Prospectus that should have been made and/or corrected through the exercise of reasonable diligence,
and within three years of the effective date of the Registration Statement and Prospectus.

75. By virtue of the foregoing, Defendants have acted in violation of Section 11 of the Securities Act and Plaintiffs and other members of the Class who purchased or otherwise acquired the Company's stock pursuant to and/or traceable to the IPO are entitled to damages pursuant to Section 11.

COUNT II

Against Hendrickson, King, Lynch, Le Blanc, and Onex For Violation of Section 15 of the Securities Act on Behalf of the Securities Act Class

76. Plaintiff incorporates by reference each and every allegation contained in Count I above, as if fully set forth herein.

77. This Count is asserted against defendants Hendrickson, Lynch, King, Le Blanc and Onex for control person liability under Section 15 of the Securities Act for Skilled Healthcare's primary violation of Section 11. ("Count II Defendants").

78. The Company is liable under Section 11 of the Securities Act as set forth in Count I with respect to the Registration Statement/Prospectus.

79. Each of the Count II Defendants were control persons of Skilled Healthcare with respect to the IPO by virtue of their positions as senior executive officers and/or directors of the Company and/or their controlling shareholdings of the Company. At the time of the IPO:

a. Defendant Hendrickson was the Company's CEO, Chairman, and member of the Company's Nominating and Corporate Governance Committee. He signed the Registration Statement and was directly involved in the preparation, drafting, review and approval of the Registration Statement/Prospectus;

b. Defendant King was the Company's CFO and Treasurer. He signed the Registration Statement and was directly involved in the preparation, drafting, review and approval of the Registration Statement.
Statement/Prospectus;

c. Defendant Lynch was the Company’s COO and a Director. He signed the Registration Statement (through the grant of attorney-in-fact powers to King) and was directly involved in the preparation, drafting, review and approval of the Registration Statement/Prospectus;

d. Defendant Onex was at all relevant times a majority and controlling shareholder of Skilled Healthcare. According to the Registration Statement, immediately prior to the IPO, Onex’s Affiliates owned 88.7% of the Company’s Class A common stock. In the IPO Onex sold over 8.1 million shares reaping over $125 million in gross proceeds. The Registration Statement states that following the IPO, it would continue to be controlled by Onex. Onex was also directly involved in the preparation, drafting, review and approval of the Registration Statement/Prospectus.

e. Defendant Le Blanc was the Company’s Lead Director and member of the Company’s Audit, Compensation, and Nominating and Corporate Governance Committees. Le Blanc signed the Registration Statement (through the grant of attorney-in-fact powers to King), and was directly involved in the preparation, drafting, review, and approval of the Registration Statement/Prospectus. In the Registration Statement the Company listed Le Blanc as a beneficial owner of 88.7% of the Company’s Class A common stock because he was also the Managing Director of an Onex Affiliate at the time of the IPO. Le Blanc was Onex’s designate to Skilled Healthcare’s Board.

80. The Count II Defendants controlled the Company and/or the contents of
the Registration Statement/Prospectus at the time of the Company’s IPO. The
preparation, drafting, and review of the Registration Statement/Prospectus and the
IPO itself could not have been conducted without the participation and approval of
the Count II Defendants. Each of the Count II Defendants was provided with or had
unlimited access to copies of the Registration Statement and Prospectus and had the
ability to either prevent their issuance or to cause them to be corrected. Indeed, Onex
sold over 8.1 million shares of Skilled Healthcare common stock in the IPO via the
Registration Statement/Prospectus.

81. This claim was brought within one year after the discovery of the
inaccurate statements of material fact in the Registration Statement/Prospectus and
within three years after Skilled Healthcare’s common stock was sold to the Securities
Act Class in connection with the IPO.

82. As a result, the Count II Defendants are liable under Section 15 of the
Securities Act for the Company’s primary violations of Section 11 of the Securities
Act.

83. By virtue of the foregoing, Plaintiffs and other members of the Class
who purchased or otherwise acquired the Company’s stock pursuant and/or traceable
to the IPO are entitled damages against the Count II Defendants.

SKILLED HEALTHCARE’S GAAP VIOLATIONS

84. GAAP consists of those principles recognized by the accounting
profession as the conventions, rules, and procedures necessary to define accepted
accounting practice at the particular time. Regulation S-X, § 17 C.F.R. §
210.401(a)(1), provides that financial statements that are not prepared in compliance
with GAAP are presumed to be misleading and inaccurate.

85. GAAP “recognize[s] the importance of reporting transactions and events
in accordance with their substance.” AU § 411.06. GAAP should be applied
consistently. AU § 420.01 (“The report shall identify those circumstances in which
such principles have not been consistently observed in the current period in relation
to the preceding period.

86. SEC Rule 13a-13 requires issuers to file quarterly reports. SEC Rule 12b-20 requires that periodic reports contain such further information as is necessary to make the required statements, in light of the circumstances under which they are made, not misleading.

87. The SEC has stated, in Securities Act Release No. 6349 (September 8, 1981), that:

... it is the responsibility of management to identify and address those key variables and other qualitative and quantitative factors which are peculiar to and necessary for an understanding and evaluation of the individual company.

88. In addition, as noted by the SEC in Accounting Series Release 173:

... it is important that the overall impression created by the financial statements be consistent with the business realities of the company's financial position and operations.

89. The Company's materially false and misleading statements during the Exchange Act Class Period concerning its accounts receivable allowance and provision and related statement of earnings were made in violation of SFAS No. 5.

a. Under SFAS No. 5, a loss contingency\(^1\), such as the collectability of receivables, shall be accrued by a charge to income if both of the following conditions are met:

- Information available prior to the issuance of the financial statements

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\(^1\)[A] contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (hereinafter "gain contingency") or loss (hereinafter "loss contingency") to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability.\(^1\) SFAS No. 5, ¶1.
indicate that it is probable\(^2\) that an asset
had been impaired or a liability had
been incurred at the date of the
financial statement...; and

- The amount of loss can reasonably be
  estimated.

SFAS No. 5, ¶ 8.

b. The Company violated SFAS No. 5 because there was a
probability of loss and the loss was reasonably estimated with
respect to the collectibility of the Company’s long term care
receivables. Instead, according to the Company’s June 29, 2009
amended Form 10-K/A, the Company’s accounting information
was manipulated so that the contingency would not be charged to
the Company’s earnings. The June 29, 2009 amended 10-K states
in relevant part:

In May 2009, the former employee left the
employment of the Company after a disciplinary
meeting on unrelated matters. During a review of the
former employee’s work, we discovered that there
had been understatements of the LTC segment
accounts receivable allowance for doubtful accounts
for the quarterly periods ended March 31, 2006
through March 31, 2009. The former employee
performed functions that should have been assigned
to other employees, and thereafter reviewed by him
and other senior personnel. The former employee
improperly manipulated consolidated LTC accounts
receivable aging reports used in the allowance for
doubtful accounts calculation by transferring
balances from delinquent aging categories to more
current categories. For the quarters ended March 31,
2006 to June 30, 2007, this was accomplished
through worksheets that the former employee
prepared by modifying system generated data. For
the quarters ended September 30, 2007 to March 31,
2009, the former employee altered the accounts

\(^2\)SFAS No. 5, 3 defines "probable" as "[t]he future event or events are likely
to occur."
receivable aging by posting transactions to fictitious patient accounts in a test facility which had been a part of the production environment. Our policy is to apply a higher reserve percentage to the more delinquent accounts. Thus, the Company understated the LTC segment accounts receivable allowance for doubtful accounts because we relied on the aging reports produced by the former employee, which made the accounts receivable appear more current.

90. The Company’s financial statements issued during the Class Period also violated the following fundamental GAAP, including among others:

a. The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions (FASB Statement of Concepts No.1, ¶ 34);

b. The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to these resources, and the effects of transactions, events and circumstances that change resources and claims to these resources (FASB Statement of Concepts No.1, ¶ 40);

c. The principle that financial reporting should provide information about an enterprise’s financial performance during a period; investors and creditors often use information about the past to help in assessing the prospects of an enterprise; thus, although investment and credit decisions reflect investors’ expectations about the future enterprise performance, those expectations are commonly based, at least partly, on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, ¶ 42);

d. The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it; to the extent that management
offers securities of the enterprise to the public, it voluntarily
accepts wider responsibilities for accountability to prospective
investors and to the public in general (FASB Statement of
Concepts No. 1, ¶ 50);

e. The principle that financial reporting should be reliable in that it
represents what it purports to represent; that information should
be reliable as well as relevant is a notion that is central to
accounting (FASB Statement of Concepts No. 2, ¶¶ 58-59);

f. The principle of completeness, which means that nothing is left
out of the information that may be necessary to insure that it
validly represents underlying events and conditions (FASB
Statement of Concepts No. 2 ¶ 79);

g. The principle that conservatism be used as a prudent reaction to
uncertainty to try to ensure that uncertainties and risks inherent in
business situations are adequately considered; the best way to
avoid injury to investors is to try to ensure that what is reported
represents what it purports to represent (FASB Statement of
Concepts No. 2, ¶¶ 95, 97);

h. The principle that disclosure of accounting policies should
identify and describe the accounting principles followed by the
reporting entity and the methods of applying those principles that
materially affect the determination of financial position (APB
Opinion No. 22, ¶ 12);

i. The principle that contingencies and other uncertainties that affect
the fairness of presentation of financial data at an interim date
shall be disclosed in interim reports in the same manner required
for annual reports (APB Opinion No. 28, ¶ 22);

j. The principle that disclosures of contingencies shall be repeated
in interim and annual reports until the contingencies have been removed, resolved, or have become immaterial (APB Opinion No. 28, ¶ 22);

k. The principle that management should provide commentary relating to the effects of significant events upon the interim financial results (APB Opinion No. 28, ¶ 32).

91. In addition, Regulation S-X (17 C.F.R. § 210), which "sets forth the form and content of and requirements for financial statements required to be filed [with the SEC]" applies to interim financial statements. 17 C.F.R. §§ 210.1-01 (a), 210.10.

92. "The term 'financial statements' as used in [Regulation S-X ] shall be deemed to include all notes to the statements and all related schedules." 17 C.F.R. § 210.1-01(b). Thus, "the interim financial information shall include disclosures either on the face of the financial statements or in accompanying footnotes sufficient so as to make the interim financial information presented not misleading." 17 C.F.R. § 210.10(a)(5).

93. "[D]isclosure shall be provided where events subsequent to the end of the most recent fiscal year have occurred which have a material impact on the registrant.... Notwithstanding the [foregoing], where material contingencies exist, disclosure of such matters shall be provided even though a significant change since year end may not have occurred." 17 C.F.R. § 210.10(a)(5). "Any unaudited interim financial statements furnished shall reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented." 17 C.F.R. § 210.10(b)(8).

94. As the Company has now admitted, Skilled Healthcare's financial statements issued during the Class Period violated the principles and regulations set forth in this section. For example, among other reasons, the Company's results: (i) were not useful to present and potential investors in making rational investment decisions; (ii) were not reliable; and (iii) were not complete.
COUNT III

For Violation of
Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder
On Behalf of the Exchange Act Class

95. Plaintiffs incorporate by reference each and every allegation contained above, as if fully set forth herein.

96. This Count is asserted against Defendants Skilled Healthcare, Hendrickson, Ghose, and King (as used in this Count, collectively "Defendants" or "Exchange Act Defendants").

DEFENDANTS' FALSE AND/OR MISLEADING STATEMENTS

97. The Exchange Act Defendants artificially inflated the price of Skilled Healthcare’s Class A common stock by issuing materially false and misleading statements during the Class Period, including press releases Form 10-Q quarterly reports and Form 10-K annual reports filed with the SEC, statements of compliance with SOX filed with the SEC and conference calls with investors, securities analysts, and other market participants, as set forth below.

A. Defendants' False and/or Misleading Statements In Connection With Skilled Healthcare's Financial Results For The 2007 Fiscal Second Quarter

98. On August 7, 2007, Skilled Healthcare issued a press release entitled, "Skilled Healthcare Group Reports Second Quarter 2007 Results." In relevant part, defendants announced the following results for Q2 2007:

a. "Net (loss) income" was reported at $(1,553,000);

b. "Net loss per common share, basic" was reported at $(0.18);

c. "Cost of services" was reported at $119,522,000;

99. The statements referenced in ¶98 were each materially false and/or

3The "Cost of services" number reflects the most recently reported figure provided by the Company (prior to the restatement) and not the originally reported figure which was subsequently changed by the Company as a result of the reclassification of certain expenses. The initial figure was $113,494,000.
misleading when made because:

   a. The Company later admitted the falsity of its financial reporting and the statements when it disclosed on June 9, 2009, that it would have to restate its financial results for the quarterly and annual periods from January 1, 2006 through March 31, 2009, due to the understatement of reserves for accounts receivables resulting from the improper dating of accounts receivables by CW#1. The Company further admitted on June 29, 2009, in its Amended Annual Report for the 2008 fiscal year on Form 10-K/A that “Management determined that the errors in the previously-reported amounts of allowance for doubtful accounts related to its LTC accounts receivable and the corresponding adjustments necessary to properly state the allowance for doubtful accounts related to its LTC accounts receivable were material for the annual and quarterly periods in fiscal years 2006 through 2008 and the first quarter of 2009.”

   b. The statements concerning Skilled Healthcare’s financial results were each materially false and/or misleading when made and did not fairly present the financial condition of the Company for Q2 2007 because, according to the Company, CW#1 “improperly manipulated” consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories through worksheets that according to the Company CW#1 prepared by modifying system generated data. The improper conduct resulted in the following misstatements as reflected by the Company’s restated financial results: (i) “Net (loss) income” of $(2,100,000) for Q2 2007 was misrepresented
as a much smaller loss of $(1,553,000), which constitutes an
understatement of the Company's loss by $547,000, or 35.22%;
(ii) "Net loss per common share, basic" of $(0.20) for Q2 2007
was misrepresented as $(0.18), which constitutes an
understatement of the Company's loss by $0.02 per share, or
11.1%; and (iii) "Cost of services" of $120,400,000 for the 2007
second fiscal quarter was misrepresented as $119,522,000, which
constitutes an understatement of the Company's services expense
by $878,000, or 0.73%;

100. The materially false and misleading statements in ¶98 were made with
scienter. Defendants were deliberately reckless as to their falsity because:

a. The reporting structure at the Company was such that key
accounting metrics—accounts receivables and allowances—were
neither generated nor reviewed by the accounting department.
CW#2, as previously alleged in ¶39(b)-(c), indicated that there
was a definitive separation between the Company's operations
and accounting divisions, with both treated as distinct and
separate groups. As set forth in ¶39(b)-(c), CW#2 further
indicated that while CW#1 was in charge of the "Operations
Finance" division and prepared the accounts receivable reports,
CW#1's division was not part of the accounting division and
consequently CW#1 did not report to the CFO, but rather CW#1
reported to the Company's President and COO, defendant Lynch.
(CW#6 confirmed that CW#1 reported to defendant Lynch. ¶43).
As the Company subsequently admitted in its 10-K/A, CW#1
"performed functions that should have been assigned to other
employees, and thereafter reviewed by him and other senior
personnel" and that "accounts receivable allowance for doubtful

accounts calculation will be prepared by the Accounting Department,” and that going forward, the Company will now conduct “reviews” of “segregation of duties” for “conflicts” on “applications which have a direct impact on financial reporting.”

b. According to Defendants, CW#1's actions resulted in a material understatement of reserves for accounts receivables, which also understated cost of services and net loss and overstated net income and earnings for at least thirteen quarters spanning more than three years;

c. Defendants admittedly “relied on the aging reports produced by [CW#1], which made the accounts receivable appear more current” without reviewing the reports he produced. As admitted by the Company in its Form 10-K/A, CW#1 “performed functions that should have been assigned to other employees, and thereafter reviewed by him and other senior personnel.” Going forward, “The allowance for doubtful accounts calculation,” will be prepared by the accounting department, will be reviewed by the “SVP as well as by the Chief Accounting Officer for quality control and oversight purposes. According to the Company, “for the quarters ended March 31, 2006 to June 30, 2007,” CW#1 improperly transferred the balances from delinquent aging categories to more current categories” through “worksheets that [CW#1]prepared by modifying system generated data.” As such, since according to the Company, CW#1 took the information generated by the system and prepared different worksheets using data modified from that on the system, a simple comparison of the aging reports provided to the Company by CW#1 with the data on the system should have raised a question with the accuracy of the
aging report produced by CW#1;

d. Defendant Lynch worked closely with CW#1, was actively involved in the processes surrounding the Company's receivables, and constantly in meetings with CW#1. As previously alleged in ¶43, according to CW#6, whose responsibilities included writing off bad debt for five facilities, if the write off was too large it would go directly to CW#1 or defendant Lynch for approval and Defendant Lynch had the authority to write off receivable bad debt in excess of CW#1's limits. Additionally, as previously alleged in ¶40, CW#3 assisted Kelly Atkins who in turn reported to defendant Lynch and according to CW#3, every month Atkins and Lynch would spend 8-10 hours a day calling the manager of each of the Company's individual facilities to review these financial results;

e. Defendants nevertheless certified the effectiveness of the Company's internal controls despite having previously reported in the Registration Statement and Prospectus issued in connection with the Company's IPO, that during its fiscal 2006 audit the existence of "a significant deficiency" had been identified in the documentation of the Company's internal control design and that evidence of the functioning and effectiveness of key controls had not existed for Skilled Healthcare's significant accounts and processes for 2006. Moreover, in the Registration Statement and Prospectus the Company had indicated that it was in "the process of remediating" the significant deficiency identified "by hiring staff with the appropriate experience, upgrading [its] general ledger system to produce timely and accurate financial information and performing an evaluation of our internal controls
and remediating where necessary.”

101. On this news, the Company’s stock price rose $0.21 per share, or 1.53%, on volume of 300,100 shares, to close at $13.96 per share. This rise continued the next day, with the stock rising an additional $0.74 per share, or 5.30%, on volume of 182,900 shares, to close at $14.70 per share on August 8, 2007, for a two day increase of nearly 7% from its closing price of $13.75 on August 6, 2007.

102. On August 9, 2007, Skilled Healthcare filed its Quarterly Report with the SEC on Form 10-Q for the Company’s 2007 fiscal second quarter ending June 30, 2007. The Company’s 10-Q was signed by Defendant King and substantially incorporated the same materially false and misleading financial results, as set forth above in ¶98, which were announced on August 7, 2007. As previously alleged in ¶39(b) and 100(a), CW#1 participated in the preparation of the Company’s Form 10-Q and provided the information pertaining to the Company’s accounts receivables and allowance for doubtful accounts. Additionally, therein, in relevant part, for the 2007 fiscal second quarter:

a. “Accounts receivable (less allowance for doubtful accounts)” was reported at $89,696,000;

b. “Allowance for doubtful accounts” was reported at $8,472,000;

103. The statements referenced in ¶102 were each materially false and/or misleading when made for the reasons in ¶99, above. Additionally, the statements were each materially false and misleading because as reflected by the Company’s restatement: (i) “Accounts receivable (less allowance for doubtful accounts)” of $83,400,000 for Q2 2007 was misrepresented as $89,696,000, which overstated the asset account by $6,296,000, or 7.55%; and (ii) “Allowance for doubtful accounts” was misrepresented and understated by $6,300,000 for the 2007 second fiscal quarter.

104. The materially false and misleading statements made in the Q2 2007 Form 10-Q were made with scienter. Defendants were deliberately reckless to their falsity because:
a. CW#2, as alleged in ¶39(b), typically attended meetings with defendants Hendrickson, Lynch, the current CFO at the time (defendants Ghose or King) and CW#1, prior to each SEC filing to discuss the financial data that would be included in those filings. According to CW#2, information contained in Cost Reports he was responsible for would be incorporated in Skilled Healthcare's quarterly SEC filings. CW#2 indicated that CW#1 was likewise directly responsible for drafting the accounts receivable reporting that would be incorporated directly into the Company's quarterly SEC filings. CW#2 indicated that by the time these meetings were held, CW#1 had already completed the accounts receivable reporting for the particular SEC filing which was presented during the meetings on a spreadsheet and reviewed by the participants in those meetings. CW#2 does not recall anything substantial ever being changed to CW#1's accounts receivable spreadsheet prior to the Company's 10Ks and 10-Qs being filed with the SEC. In addition, according to CW#2, CW#1's accounts receivable reporting would be given to management to establish the reserve for uncollectible receivables.

b. Additionally, in the Company's Form 10-K/A, the Company admitted this by stating, "the Company understated the LTC segment accounts receivable allowance for doubtful accounts because we relied on the aging reports produced by the former employee, which made the accounts receivable appear more current." Moreover, Skilled Healthcare admitted that going forward "accounts receivable allowance for doubtful accounts will be prepared by the accounting department" and CW#2, as previously alleged in ¶39(b)-(c), confirmed that CW#1 was
responsible for preparing this information and not the accounting
department, and that CW#1 reported to the COO and not the
CFO. Skilled Healthcare admitted that CW#1 "performed
functions that should have been assigned to other employees, and
thereafter reviewed by him and other senior personnel," i.e.,
CW#1 should not have been preparing the accounts receivable
allowance for doubtful accounts and these reports should have
been reviewed by other personnel but were not.

c. As set forth in the Company's 10-K/A, according to the
Defendants, CW#1 acted with scienter in that he "improperly
manipulated consolidated LTC accounts receivable aging reports
used in the allowance for doubtful accounts calculation by
transferring balances from delinquent aging categories to more
current categories."

d. The Defendants' concession that CW#1 acted with scienter,
means that CW#1's scienter was imputed to Skilled Healthcare
since CW#1 was involved in the preparation of various materially
false and/or misleading statements issued by the Company
through his providing of the false and misleading information
incorporated into the quarterly and annual reports filed with the
SEC during the Class Period.

105. Along with the Company's Quarterly Report on Form 10-Q filed with
the SEC on August 14, 2007, pursuant to Section 302 of SOX, Defendants
Hendrickson and King signed Sarbanes-Oxley required certifications attesting to the
accuracy of the financial results and effectiveness of the Company's internal controls.
Defendants Hendrickson and King both "certified" that the Quarterly Report on Form
10-Q for the Q2 2007 ending June 30, 2007, did not contain "any untrue statement
of a material fact or omit to state a material fact" and that Defendants Hendrickson
and King had disclosed "[a]ll significant deficiencies and material weaknesses in the
design or operation of internal control over financial reporting," as well as "[a]ny
fraud, whether or not material, that involves management or other employees who
have a significant role in the registrant's internal control over financial reporting" as
follows:

(1) I have reviewed this quarterly report on Form 10-Q of
Skilled Healthcare Group, Inc.;

(2) Based on my knowledge, this report does not contain any
untrue statement of a material fact or omit to state a
material fact necessary to make the statements made, in
light of the circumstances under which such statements
were made, not misleading with respect to the period
covered by this report;

(3) Based on my knowledge, the financial statements, and
other financial information included in this report, fairly
present in all material respects the financial condition,
results of operations and cash flows of the registrant as
of, and for, the periods presented in this report;

(4) The registrant's other certifying officer and I are
responsible for establishing and maintaining disclosure
controls and procedures (as defined in Exchange Act Rules
13a-15(e) and 15d-15(e)) for the registrant and have:

a. Designed such disclosure controls and procedures,
or caused such disclosure controls and procedures to
be designed under our supervision, to ensure that
material information relating to the registrant,
including its consolidated subsidiaries, is made
known to us by others within those entities,
particularly during the period in which this report is being prepared;
b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

(5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves
management or other employees who have a significant role in the registrant's internal control over financial reporting.

(Emphasis added).

106. Defendants Hendrickson’s and King’s SOX Certifications referenced in ¶105 were materially false and/or misleading when made, as the Company later admitted in its Amended Annual Report for the 2008 fiscal year on Form 10-K/A filed with the SEC on June 29, 2009, in a section titled, “Additional Information Regarding the Material Weakness,” since at least the 2006 fiscal first quarter ending March 31, 2006, as well as all relevant times during the Class Period, the Company’s internal control over financial reporting was not effective as a result of the existence of a material weakness, which according to the Company, allowed CW#1 to improperly manipulate consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories through worksheets CW#1 prepared using modified system generated data. The Company’s internal control over financial reporting was not effective because of the following deficiencies:

a. As admitted by the Company in its 10-K/A and confirmed by CW#2 in ¶39(b)-(c), 100(a), and 104(a), CW#1 performed functions that should have been assigned to other employees, and thereafter reviewed by him and other senior personnel;

b. As admitted by the Company in its 10-K/A and confirmed by CW#2 in ¶39(b)-(c), 100(a), and 104(a), the receivable allowance for doubtful accounts calculation was prepared by CW#1 and was not prepared by the accounting department;

c. As admitted by the Company in its 10-K/A and confirmed by CW#2 in ¶39(b)-(c), 100(a), and 104(a), CW #1 reported directly to Defendant Lynch, the Company’s President and COO,
rather than the Company’s CFO;

d. As admitted by the Company in its 10-K/A, the segregation of
duties were not regularly reviewed for conflicts identified by
management on each of the applications which have a direct
impact on financial reporting;

e. As admitted by the Company in its 10-K/A, CW#1 had access
rights to the patient accounts receivable system that allowed
CW#1 to directly post transactions;

f. As admitted by the Company in its 10-K/A, the design of access
rights and user rights to all of the Company’s reporting systems
were insufficient and access rights and user rights;

g. As admitted by the Company in its 10-K/A, access rights and user
rights to all of the Company’s reporting system were not routinely
reviewed; and

h. As admitted by the Company in its 10-K/A, the testing and
training environments were not segregated from the production
environment in all key applications;

107. Defendants Hendrickson’s and King’s materially false and/or misleading
SOX Certifications referenced in ¶105 were made with scienter, as Defendants
Hendrickson and King were deliberately reckless because:

a. Defendants certified the effectiveness of the Company’s internal
controls despite having previously reported in the Registration
Statement and Prospectus issued in connection with the
Company’s IPO, that during its fiscal 2006 audit the existence of
“a significant deficiency” had been identified in the
documentation of the Company’s internal control design and that
evidence of the functioning and effectiveness of key controls had
not existed for Skilled Healthcare’s significant accounts and
processes for 2006. Moreover, in the Registration Statement and Prospectus the Company had indicated that it was in “the process of remediating” the significant deficiency identified “by hiring staff with the appropriate experience, upgrading [its] general ledger system to produce timely and accurate financial information and performing an evaluation of our internal controls and remediating where necessary.”

b. The reporting structure at the Company was such that key accounting metrics—accounts receivables and allowances—were neither generated nor reviewed by the accounting department. CW#2, as previously alleged in ¶39(b)-(c), indicated that there was a definitive separation between the Company’s operations and accounting divisions, with both treated as distinct and separate groups. CW#2 further indicated that while CW#1 was in charge of the “Operations Finance” division and prepared the accounts receivable reports, CW#1's division was not part of the accounting division and consequently CW#1 did not report to the CFO, but rather CW#1 reported to the President and COO. As the Company subsequently admitted in its 10-K/A, CW#1 “performed functions that should have been assigned to other employees, and thereafter reviewed by him and other senior personnel” and that “accounts receivable allowance for doubtful accounts calculation will be prepared by the Accounting Department,” and that going forward, the Company will now conduct “reviews” of “segregation of duties” for “conflicts” on “applications which have a direct impact on financial reporting.”

C. Defendants’ False and/or Misleading Statements In Connection With Skilled Healthcare’s Financial Results For The 2007 Fiscal Third Quarter

108. On November 6, 2007, Skilled Healthcare issued a press release entitled,
“Skilled Healthcare Group Reports $0.19 Diluted Earnings Per Share for Third Quarter 2007.” Therein, in relevant part, for the 2007 fiscal third quarter:

a. “Net income” was reported at $6,864,000;

b. “Net income (loss) per share, basic” was reported at $0.19;

c. “Cost of services” was reported at $119,500,000;  

The statements referenced in ¶108 were each materially false and/or misleading when made because:

a. The Company later admitted the falsity of its financial reporting and the statements when it disclosed on June 9, 2009, that it would have to restate its financial results for the quarterly and annual periods from January 1, 2006 through March 31, 2009, due to the understatement of reserves for accounts receivables resulting from the improper dating of accounts receivables by CW#1. The Company further admitted on June 29, 2009, in its Amended Annual Report for the 2008 fiscal year on Form 10-K/A that “Management determined that the errors in the previously-reported amounts of allowance for doubtful accounts related to its LTC accounts receivable and the corresponding adjustments necessary to properly state the allowance for doubtful accounts related to its LTC accounts receivable were material for the annual and quarterly periods in fiscal years 2006 through 2008 and the first quarter of 2009.”

b. The statements concerning Skilled Healthcare’s financial results were each materially false and/or misleading when made and did

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4The "Cost of services" number reflects the most recently reported figure provided by the Company (prior to the restatement) and not the originally reported figure which was subsequently changed by the Company as a result of the reclassification of certain expenses.
not fairly present the financial condition of the Company throughout the 2007 fiscal third quarter because, according the Company, CW#1 improperly manipulated consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories by altering the accounts receivable aging by posting transactions to fictitious patient accounts in a test facility which had been a part of the production environment. The improper conduct resulted in the following misstatements as reflected by the Company’s restated financial results: (i) "Net income" of $6,800,000 for the 2007 third fiscal quarter was misrepresented as $6,864,000, which constitutes an overstatement of the Company’s net income by $64,000, or 0.94%; (ii) "Net income (loss) per share, basic" was left unchanged; and (iii) "Cost of services" of $127,900,000 for 2007 third fiscal quarter was misrepresented as $127,761,000, which constitutes an understatement of the Company’s cost by $139,000, or 0.11%.

110. The materially false and misleading statements referenced in ¶108 were made with scienter. Defendants were deliberately reckless as to their falsity:

a. The reporting structure at the Company was such that key accounting metrics — accounts receivables and allowances — were neither generated nor reviewed by the accounting department. CW#2, as previously alleged in ¶39(b)-(c), indicated that there was a definitive separation between the Company’s operations and accounting divisions, with both treated as distinct and separate groups. CW#2 further indicated that while CW#1 was in charge of the "Operations Finance" division and prepared the
accounts receivable reports, CW#1's division was not part of the
accounting division and consequently CW#1 did not report to the
CFO, but rather CW#1 reported to the Company's President and
COO, defendant Lynch. (CW#6 confirmed that CW#1 reported to
defendant Lynch. ¶43). As the Company subsequently admitted
in its 10-K/A, CW#1 "performed functions that should have been
assigned to other employees, and thereafter reviewed by him and
other senior personnel" and that "accounts receivable allowance
for doubtful accounts calculation will be prepared by the
Accounting Department," and that going forward, the Company
will now conduct "reviews" of "segregation of duties" for
"conflicts" on "applications which have a direct impact on
financial reporting."

b. According to Defendants, CW#1's actions resulted in a material
understatement of reserves for accounts receivables, which also
understated cost of services and either overstated net income or
understated loss and overstated earnings per share or understated
loss per share for at least thirteen quarters spanning more than
three years;

c. Defendants admittedly "relied on the aging reports produced by
[CW#1], which made the accounts receivable appear more
current" without reviewing the reports he produced. As admitted
by the Company in its Form 10-K/A, CW#1 "performed functions
that should have been assigned to other employees, and thereafter
reviewed by him and other senior personnel." Going forward,
"The allowance for doubtful accounts calculation, prepared by the
accounting department, will be reviewed by the "SVP as well as
be the Chief Accounting Officer for quality control and oversight
purposes." As such, the failure to verify or check the accuracy or legitimacy of the aging reports provided to the Company by CW#1 with the data on its system would have raised a question with the accuracy of the aging report produced by CW#1.

d. A substantial red flag was that the Company had large receivables mysteriously appearing at so-called "test facilities". According to the Company, for the quarters ended September 30, 2007 to March 31, 2009, CW#1 "altered the accounts receivable aging by posting transactions to fictitious patient accounts in a test facility which had been a part of the production environment."

e. Defendant Lynch worked closely with CW#1, was actively involved in the processes surrounding the Company’s receivables, and constantly in meetings with CW#1. As previously alleged in ¶43, according to CW#6, whose responsibilities included writing off bad debt for five facilities, if the write off was too large it would go directly to CW#1 or defendant Lynch for approval and Defendant Lynch had the authority to write off receivable bad debt in excess of CW#1’s limits. Additionally, as previously alleged in ¶40, CW#3 assisted Kelly Atkins who in turn reported to defendant Lynch and according to CW#3, every month Atkins and Lynch would spend 8-10 hours a day calling the manager of each of the Company’s individual facilities to review these financial results.

111. That day, Skilled Healthcare’s stock edged slightly lower, declining 2.46%, or $0.39 per share, on a heavy volume of 276,900 shares, to close at $15.45 per share.

112. On November 9, 2007, Skilled Healthcare filed its Quarterly Report with the SEC on Form 10-Q for the Company’s 2007 fiscal third quarter ending
September 30, 2007. The Company’s 10-Q was signed by Defendant King and substantially incorporated the same materially false and misleading financial results, as set forth above in ¶108, which were announced on November 6, 2007. As previously alleged in ¶102, CW#1 participated in the preparation of the Company’s Form 10-Q and provided the information pertaining to the Company’s accounts receivables and allowance for doubtful accounts.” Additionally, therein, in relevant part, for the Q3 2007:

a. “Accounts receivable (less allowance for doubtful accounts)” was reported at $101,438,000;

b. “Allowance for doubtful accounts” was reported at $9,033,000;

113. The statements referenced in ¶112 were each materially false and/or misleading when made for the reasons set forth in ¶109, above. Additionally, the statements were each materially false and misleading because as reflected by the Company’s restatement: (i) "Accounts receivable (less allowance for doubtful accounts)" of $95,100,000 for the 2007 third fiscal quarter was misrepresented as $101,438,000, which constitutes an overstatement of the Company’s receivables account by $6,338,000, or 6.66%; and (ii) "Allowance for doubtful accounts" for 2007 third fiscal quarter was misrepresented and understated by $6,338,000.

114. The materially false and misleading statements made by Skilled Healthcare in ¶112 above were made with scienter for the reasons in ¶104, above.

115. Along with the Company’s Quarterly Report on Form 10-Q filed with the SEC on November 9, 2007, pursuant to Section 302 of SOX, Defendants Hendrickson and King signed Sarbanes-Oxley required certifications attesting to the accuracy of the financial results and effectiveness of the Company’s internal controls, as set forth in full in ¶105, above.

116. Defendants Hendrickson’s and King’s SOX Certifications in ¶115 were materially false and/or misleading when made as the Company later admitted in its Amended Annual Report for the 2008 fiscal year on Form 10-K/A filed with the SEC.
on June 29, 2009, in a section titled, "Additional Information Regarding the Material Weakness," since at least the 2006 fiscal first quarter ending March 31, 2006, as well as all relevant times during the Class Period, the Company’s internal control over financial reporting was not effective as a result of the existence of a material weakness, which according to the Company, allowed CW#1 to improperly manipulate consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories by altering the accounts receivable aging by posting transactions to fictitious patient accounts in a test facility which had been a part of the production environment. The Company’s internal control over financial reporting was not effective because of the following deficiencies:

a. As admitted by the Company in its 10-K/A and confirmed by CW#2 in ¶39(b)-(c), 100(a) and 104(a), CW#1 performed functions that should have been assigned to other employees, and thereafter reviewed by him and other senior personnel;

b. As admitted by the Company in its 10-K/A and confirmed by CW#2 in ¶39(b)-(c), 100(a) and 104(a), the receivable allowance for doubtful accounts calculation was prepared by CW#1 and was not prepared by the accounting department;

c. As admitted by the Company in its 10-K/A and confirmed by CW#2 in ¶39(b)-(c), 100(a) and 104(a), CW #1 reported directly to Defendant Lynch, the Company’s President and COO, rather than the Company’s CFO;

d. As admitted by the Company in its 10-K/A, the segregation of duties were not regularly reviewed for conflicts identified by management on each of the applications which have a direct impact on financial reporting;

e. As admitted by the Company in its 10-K/A, CW#1 had access
rights to the patient accounts receivable system that allowed CW#1 to directly post transactions;

f. As admitted by the Company in its 10-K/A, the design of access rights and user rights to all of the Company’s reporting systems were insufficient;

g. As admitted by the Company in its 10-K/A, access rights and user rights to all of the Company’s reporting system were not routinely reviewed; and

h. As admitted by the Company in its 10-K/A, the testing and training environments were not segregated from the production environment in all key applications;

117. For the same reasons as set forth in ¶107, above, Defendants Hendrickson’s and King’s SOX Certifications referenced in ¶115 were made with scienter.

D. Defendants’ False and/or Misleading Statements In Connection With Skilled Healthcare’s Financial Results For The 2007 Fiscal Year and Fourth Quarter Ending December 31, 2007


a. “Net income” was reported at $17,149,000 for the 2007 fiscal year and at $7,184,000 for the 2007 fourth quarter;

b. “Net income (loss) per share, basic” was reported at $0.36 for the 2007 fiscal year and at $0.20 for the 2007 fourth quarter;

c. “Cost of services” was reported at $500,999,000 for the 2007 fiscal year and at $139,767,000 for the 2007 fourth quarter5;

5The "Cost of services" number reflects the most recently reported figure provided by the Company (prior to the restatement) and not the originally reported figure which was subsequently changed by the Company as a result of the
119. The statements referenced in ¶118 were each materially false and/or misleading when made because:

a. The Company later admitted the falsity of its financial reporting and the statements when it disclosed on June 9, 2009, that it would have to restate its financial results for the quarterly and annual periods from January 1, 2006 through March 31, 2009, due to the understatement of reserves for accounts receivables resulting from the improper dating of accounts receivables by CW#1. The Company further admitted on June 29, 2009, in its Amended Annual Report for the 2008 fiscal year on Form 10-K/A that “Management determined that the errors in the previously-reported amounts of allowance for doubtful accounts related to its LTC accounts receivable and the corresponding adjustments necessary to properly state the allowance for doubtful accounts related to its LTC accounts receivable were material for the annual and quarterly periods in fiscal years 2006 through 2008 and the first quarter of 2009.”

b. The statements concerning Skilled Healthcare’s financial results were each materially false and/or misleading when made and did not fairly present the financial condition of the Company throughout the 2007 fiscal year and fourth quarter because, according the Company, CW#1 improperly manipulated consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories by altering the accounts receivable aging by posting transactions to fictitious patient accounts in a test facility which reclassification of certain expenses.
had been a part of the production environment. The improper 
conduct resulted in the following misstatements as reflected by 
the Company's restated financial results: (i) "Net income" of 
$15,300,000 for the 2007 fiscal year and $6,700,000 for the 2007 
fourth fiscal quarter were misrepresented as $17,100,000 for the 
2007 fiscal year and $7,100,000 for the 2007 fourth fiscal quarter, 
which constitute overstatements of $1,800,000, or 11.7%, and 
$400,000, or 5.9%, respectively; (ii) "Net income (loss) per share, 
basic" of $0.29 for the 2007 fiscal year and $0.18 for the 2007 
fourth fiscal quarter were misrepresented as $0.36 for the 2007 
fiscal year and as $0.20 for the 2007 fourth quarter, which 
constitute overstatements of $0.07 per share, or 45%, and $0.02, 
or 11.1%, respectively; and (iii) "Cost of services" of 
$504,000,000 for the 2007 fiscal year and $140,500,000 for the 
2007 fourth fiscal quarter were misrepresented as $501,000,000 
for the fiscal 2007 year, and $139,800,000 for the 2007 fourth 
fiscal quarter, which constitute understatements of $3,000,000, or 
0.6%, and $700,000, or 0.50%, respectively.

120. For the reason in ¶110, the materially false and/or misleading statements 
in ¶119, were made with scienter.

121. That morning, February 12, 2008, Skilled Healthcare held a conference 
call in connection with the press release announcing the Company's financial results 
for the 2007 fiscal year. Defendants Hendrickson and King were present.

122. In response to an analyst question regarding what the Company was 
doing to "chip away the DSOs," Defendant Hendrickson highlighted that the 
Company and management were monitoring the Company's aging of receivables. 
Hendrickson replied:

Defendant Hendrickson: And on the DSO side, I mean majority of our
sort of the impact from the fourth quarter where it’s going is attributed
to the New Mexico change of ownership, or the acquisition, and we’re
still looking, we’re still unable to bill Medicaid and we’re in the process
of putting that through CMS and currently we expect in the next—in the
next couple of months to relieve that and bill Medicaid Direct. So that
will cleanup, in the excess of 10 to 15 million in AR. So that getting
our new acquisitions, I’m squared away, couple of—some additional
programs on the long-term care side to monitor. Some managed care
DSO and then discontinuous [sic] focus on our ancillary segment
hospice and rehab to continue to go after that, there is, those 120 and
over balances.

123. The statements in ¶122, which were not corrected by defendant King,
demonstrate that executive management was highly focused upon the accounts
receivables, aging, and ADA, the very areas purportedly manipulated by CW#1.

124. In response to an analyst question about Sarbanes-Oxley compliance,
Defendants Hendrickson and King represented to investors that the Company was on
target with its compliance requirements and that Defendants had been carefully
analyzing the Company’s business and its controls:

<Q - James Kumpel>: Yeah, thank you. Can you just remind us, when
Dev Ghose is expected to take over the CFO position and what kind of
activities you’re undertaking now to be in compliance with
Sarbanes-Oxley?

<A - Boyd Hendrickson>: Yeah. I think that, well, first of all your first
comment. I think that Dev is on board; he is an Executive VP at the
company currently. And he will assume that responsibility after we file
our K for the year. And moving along with Sarbanes, we’re right on
target. I don’t know if John has any—anything to add to that or not, but
we’re right on target and we don’t think that there’ll be any problem in
completing it and being pretty much in compliance by the end of the
year.

<A - John King>: Yeah, I think that’s right Boyd and to add to those
comments, we’ve spent a lot of time carefully in plan relative to adjusted
-- to analyzing our business understanding what the key controls are.
And at this point in time are really ready to begin in the -- as soon as we
get down of this process into the testing phase, which will begin in the
second quarter. So, that should allow us enough time obviously to be
able to remediate anything that that we come across during the testing
phase prior to the year-end certification by ourselves, as well as Ernst &
Young, our external auditors. And so, I think also given Dev’s
experience with public companies in this regard, it’s going to be a very
smooth transition and he’ll be able to step in -- and very much hit the
ground running especially as it relates to that.

125. The statements in ¶124 were each materially false and/or misleading
when made, and made with scienter, for the reasons in ¶110 above. Additionally, the
statements were further materially false and misleading because, as stated by CW#s
4 and 6, at ¶¶41, 43, defendants were aware that poor paperwork submissions, high
turnover, and difficulties concerning facilities centralization rendered receivables “out
of control,” demonstrating that Skilled Healthcare was not “on track” to be Sarbanes-
Oxley compliant as stated.

126. On February 29, 2008, Skilled Healthcare filed its Annual Report with
the SEC on Form 10-K for the 2007 fiscal year ending December 31, 2007. The
Company’s 10-K was signed by Defendant Hendrickson and substantially
incorporated the same materially false and misleading financial results, as set forth
above in ¶118, which were announced on February 12, 2008. As previously alleged
in ¶102, CW#1 participated in the preparation of the Company’s Form 10-K and
provided the information pertaining to the Company’s accounts receivables and
allowance for doubtful accounts. Additionally, therein, in relevant part, for the 2007 fiscal year and fourth quarter:

   a. "Accounts receivable (less allowance for doubtful accounts)" was reported at $112,919,000;
   b. "Allowance for doubtful accounts" was reported at $9,717,000;
   c. "Provision for doubtful accounts" was reported at $6,116,000;

127. The statements referenced in ¶126 were each materially false and/or misleading when made for the reasons in ¶119, above. Additionally, the statements were each materially false and misleading because as reflected by the Company's restatement: (i) "Accounts receivable (less allowance for doubtful accounts)" of $105,700,000 for the 2007 fiscal year as well as 2008 fourth fiscal quarter were misrepresented as $112,900,000, which constitute overstatements of the receivable account by $7,200,000, or 6.81%; and (ii) "Allowance for doubtful accounts" of $16,900,000 for the 2007 fiscal year was misrepresented and understated by $9,700,000, which constitutes an understatement of $7,200,000, or 42.6%. The 2007 fiscal fourth quarter was misrepresented by $7,200,000.

128. The materially false and misleading statements made by Skilled Healthcare in ¶126 were made by defendants with scienter for the reasons in ¶¶100 and 110, above.

129. Along with the Company’s Annual Report on Form 10-K filed with the SEC on February 29, 2008, pursuant to Section 302 of SOX, Defendants Hendrickson and King signed Sarbanes-Oxley required certifications attesting to the accuracy of the financial results and effectiveness of the Company’s internal controls as set forth in full in ¶105, above.

130. For the same reasons as set forth in ¶¶106 and 107, above, Defendants Hendrickson’s and King’s SOX Certifications referenced in ¶129 were materially false and/or misleading when made, and made with scienter, as Defendants Hendrickson and King were deliberately reckless with respect to their falsity.
E. Defendants’ False and/or Misleading Statements In Connection With Skilled Healthcare’s Financial Results For The 2008 Fiscal First Quarter Ending March 31, 2008

131. On May 6, 2008, Skilled Healthcare issued a press release entitled, “Skilled Healthcare Group Reports Record Results for First Quarter Ended March 31, 2008.” Therein, in relevant part, for the 2008 fiscal first quarter:

   a. “Net income “ was reported at $8,444,000;
   b. “Net income (loss) per common share, basic “ was reported at $0.23;
   c. “Cost of services” was reported at $142,144,000;

132. The statements referenced in ¶131 were each materially false and/or misleading when made because:

   a. The Company later admitted the falsity of its financial reporting and the statements when it disclosed on June 9, 2009, that it would have to restate its financial results for the quarterly and annual periods from January 1, 2006 through March 31, 2009, due to the understatement of reserves for accounts receivables resulting from the improper dating of accounts receivables by CW#1. The Company further admitted on June 29, 2009, in its Amended Annual Report for the 2008 fiscal year on Form 10-K/A that “Management determined that the errors in the previously-reported amounts of allowance for doubtful accounts related to its LTC accounts receivable and the corresponding adjustments necessary to properly state the allowance for doubtful accounts related to its LTC accounts receivable were material for the annual and quarterly periods in fiscal years 2006 through 2008 and the first quarter of 2009.”

   b. The statements concerning Skilled Healthcare’s financial results were each materially false and/or misleading when made and did
not fairly present the financial condition of the Company throughout the 2008 fiscal first quarter because, according the Company, CW#1 improperly manipulated consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories by altering the accounts receivable aging by posting transactions to fictitious patient accounts in a test facility which had been a part of the production environment. The improper conduct resulted in the following misstatements as reflected by the Company’s restated financial results: (i) "Net income" of $7,900,000 for the 2008 first fiscal quarter was misrepresented as $8,444,000, which constitutes and overstatement of $544,000, or 6.89%; (ii) "Net income (loss) per common share, basic" of $0.22 for the 2008 first fiscal quarter was misrepresented as $0.23, which constitutes and overstatement of $0.1, or 4.5%; and (iii) "Cost of services" of $142,900,000 for the 2008 first fiscal quarter was misrepresented as $142,144,000, which constitutes an understatement of cost by $756,000, or 0.53%.

133. For the reason in ¶110, the materially false and/or misleading statements in ¶131 were made with scienter.

134. That day, Skilled Healthcare held a conference call in connection with the press release announcing the Company’s financial results for Q1 2008. Defendants Hendrickson and Ghose were present.

135. In his first quarterly conference call since becoming the Company’s CFO in March, defendant Ghose highlighted a new plan to focus on reducing the Company’s DSOs. Defendant Ghose stated:

Turning to our balance sheet and statement of cash flow. Cash flows
provided by operations were 2 million for the first quarter of 2008. Cash
flows from operations were negatively impacted by a lengthening of
accounts receivable of 14.7 million. A significant part of this is related
to the delay by the State of New Mexico to certify Medicaid provider
numbers for our facilities acquired in September 2007.

We have approximately 15 million tied up for these Medicaid amounts,
which represent an increase of 5.8 million during the first quarter of
2008. We expect the majority of prior period New Mexico amounts to
be resolved during the second quarter of 2008. The balance of the
increase is attributable to increased day service outstanding, which
totaled 63.5 days for the first quarter of 2008 versus 58.6 days as of
December 31st 2007.

We have put together a plan to collect accounts receivable more
rapidly and project reducing DSOs down to the 50 to 55 days area by
the end of 2008, provided there are no reimbursement freezes or
delays.

(Emphasis added).

136. The statements in ¶135, which were not corrected by defendant
Hendrickson, demonstrate that executive management was highly focused upon the
accounts receivables, aging, and ADA, the very areas that, according to the Company,
CW#1 had manipulated the Company’s aging data to achieve.

137. On May 7, 2008, Skilled Healthcare filed its Quarterly Report with the
SEC on Form 10-Q for the 2008 fiscal first quarter ending March 31, 2008. The
Company’s 10-Q was signed by Defendant Ghose and substantially incorporated the
same materially false and misleading financial results, as set forth above in ¶131,
which were announced on May 6, 2008. As previously alleged in ¶102, CW#1
participated in the preparation of the Company's Form 10-Q and provided the information pertaining to the Company's accounts receivables and allowance for doubtful accounts.” Additionally, therein, in relevant part, for the 2008 fiscal first quarter:

a. "Accounts receivable (less allowance for doubtful accounts)" was reported at $126,208,000;

b. "Allowance for doubtful accounts" was reported at $10,468,000;

138. The statements referenced in ¶137 were each materially false and/or misleading when made for the reasons in ¶132, above. Additionally, the statements were each materially false and misleading because as reflected by the Company's restatement: (i) "Accounts receivable (less allowance for doubtful accounts)" of $118,300,000 for the 2008 first fiscal quarter was misrepresented as $126,208,000, which constitutes an overstatement of $7,908,000, or 6.7%; and (ii) "Allowance for doubtful accounts" for the 2008 first fiscal quarter was misrepresented and understated by $7,908,000.

139. The materially false and misleading statements made by the defendants in ¶137 were made with scienter for the reasons in ¶110, above.

140. Along with the Company's Quarterly Report on Form 10-Q filed with the SEC on May 7, 2008, pursuant to Section 302 of SOX, Defendants Hendrickson and Ghose signed Sarbanes-Oxley required certifications attesting to the accuracy of the financial results and effectiveness of the Company's internal controls as set forth in full in ¶105, above.

141. For the same reasons as set forth in ¶106 and 107, above, Defendants Hendrickson's and Ghose's SOX Certifications referenced in ¶140 were materially false and/or misleading when made, and made with scienter, as Defendants Hendrickson and Ghose were deliberately reckless with respect to their falsity.

142. Following the announcement of Skilled Healthcare’s financial results for the 2008 fiscal first quarter, the Company’s stock price rose $0.52, or 4.08%, on
volume of 302,900 shares to close at $13.26 per share on May 6, 2008. The following
day, the stock price continued north, closing up an additional $0.47 per share, or
3.54%, on volume of 630,300 shares, and gained an additional $0.30 per share, or
2.18%, on May 8, 2008, on volume of 524,000 shares, to close at $14.03 per share.
The closing price on May 8, 2008, reflected a more than 10% gain from the May 5,
2008, closing price of $12.74 per share.

F. Defendants' False and/or Misleading Statements In Connection With Skilled Healthcare's Financial Results For The 2008 Fiscal Second Quarter Ending June 30, 2008


a. “Net income” was reported at $8,924,000;
b. “Net income (loss) per common share, basic was reported at $0.24;
c. “Cost of services” was reported at $142,252,000;

144. The statements referenced in ¶143 were each materially false and/or misleading when made because:

a. The Company later admitted the falsity of its financial reporting and the statements when it disclosed on June 9, 2009, that it would have to restate its financial results for the quarterly and annual periods from January 1, 2006 through March 31, 2009, due to the understatement of reserves for accounts receivables resulting from the improper dating of accounts receivables by CW#1. The Company further admitted on June 29, 2009, in its Amended Annual Report for the 2008 fiscal year on Form 10-K/A that “Management determined that the errors in the previously-reported amounts of allowance for doubtful accounts...
related to its LTC accounts receivable and the corresponding adjustments necessary to properly state the allowance for doubtful accounts related to its LTC accounts receivable were material for the annual and quarterly periods in fiscal years 2006 through 2008 and the first quarter of 2009."

b. The statements concerning Skilled Healthcare's financial results were each materially false and/or misleading when made and did not fairly present the financial condition of the Company throughout the 2008 fiscal second quarter because, according the Company, CW#1 improperly manipulated consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories by altering the accounts receivable aging by posting transactions to fictitious patient accounts in a test facility which had been a part of the production environment. The improper conduct resulted in the following misstatements as reflected by the Company's restated financial results: (i) "Net income" of $8,200,000 for the 2008 second fiscal quarter was misrepresented as $8,900,000, which constitutes an overstatement of $700,000, or 8.54%; (ii) "Net income (loss) per common share, basic" of $0.22 for the 2008 second fiscal quarter was misrepresented as $0.24, which constitutes and overstatement of $0.02, or 9.1%; and (iii) "Cost of services" of 143,400,000 for the 2008 second fiscal quarter was misrepresented as $142,300,000, which constitutes an understatement of $1,100,000, or 0.77%.

145. For the reason in ¶110, the materially false and/or misleading statements in ¶143, were made with scienter.
146. That day, the Company held a conference call in connection with the
press release announcing its financial results for 2Q 2008. Defendants Hendrickson
and Ghose were present.

147. During his second quarterly conference call since becoming the
Company’s CFO early that year, Defendant Ghose demonstrated a continued focus
on the Company’s DSOs. In touting the relative success of the plan he announced on
the prior call, Defendant Ghose highlighted:

Turning to our balance sheet and statement of cash flows. Cash flows
provided by operations were $26.7 million for the first six months of
2008 compared to 5.3 million for the same period last year. *Additionally
we are continuing with the plan we announced during the first quarter
call to collect accounts receivable more rapidly.*

*We have improved our overall day service outstanding, DSO down
from 63.5 days to 56.1 days and project reducing DSOs down to the 50
to 55 day range by the end of 2008 provided there are no
reimbursement freezes or delays.* To that end we’ve collected the bulk
of the backlog New Mexico Medicaid receivables that has been delayed
in our acquisition of 10 New Mexico facilities in September 2007.
(Emphasis added).

148. The statements in ¶147, which were not corrected by defendant
Hendrickson, demonstrate that executive management was highly focused upon the
accounts receivables, aging, DSOs, and ADA, the very areas purportedly manipulated
by CW#1.

149. In response to a question regarding lower reported margins in the
Company’s ancillary services segment, defendant Hendrickson appeared to be
relatively fluent in the details of the accounts receivables and reserves against
receivables at the Company's small ancillary services segment:

"A - Defendant Hendrickson": Rob, I'll comment on it briefly and then turn it over to Mark. Some of that has to do with right sizing reserves against accounts receivable. We go through an elaborate hedging process and we elected to take a little bit more in that area. Right -- so if we normalize the performance, it was up about one or two basis points quarter-over-quarter, adjusted for that bad debt reserve that Dev that just spoke about.

(Emphasis added).

150. The statements in ¶149, which were not corrected by defendant Ghose, demonstrate that management closely monitors receivables at even the Company's small ancillary services segment (accounting for a mere 10% of the business, as opposed to the LTC segment which accounted for 85%) and was highly focused upon the accounts receivables and reserves against receivables throughout the Company, the very areas of the LTC segment that Skilled Healthcare asserts that CW#1 manipulated.

151. On August 5, 2008, Skilled Healthcare filed its Quarterly Report with the SEC on Form 10-Q for the 2008 fiscal second quarter ending June 30, 2008. The Company's 10-Q was signed by Defendant Ghose and substantially incorporated the same materially false and misleading financial results, as set forth above in ¶143, which were announced on August 5, 2008. As previously alleged in ¶102, CW#1 participated in the preparation of the Company's Form 10-Q and provided the information pertaining to the Company's accounts receivables and allowance for doubtful accounts." Additionally, therein, in relevant part, for the 2008 fiscal second quarter:

a. "Accounts receivable (less allowance for doubtful accounts)" was reported at $111,215,000;

b. "Allowance for doubtful accounts " was reported at $11,552,000;
152. The statements referenced in ¶151 were each materially false and/or misleading when made for the reasons in ¶144, above. Additionally, the statements were each materially false and misleading because as reflected by the Company's restatement: (i) "Accounts receivable (less allowance for doubtful accounts)" of $102,100,000 for the 2008 second fiscal quarter was misrepresented as $111,215,000, which constitutes 8.9%; and (ii) "Allowance for doubtful accounts" for the 2008 second fiscal quarter was misrepresented and understated by $9,115,000.

153. The materially false and misleading statements made by the defendants in ¶152 were made with scienter for the reasons in ¶110, above.

154. Along with the Company's Quarterly Report on Form 10-Q filed with the SEC on August 5, 2008, pursuant to Section 302 of SOX, Defendants Hendrickson and Ghose signed Sarbanes-Oxley required certifications attesting to the accuracy of the financial results and effectiveness of the Company's internal controls as set forth in full in ¶105, above.

155. For the same reasons as set forth in ¶¶106 and 107, above, Defendants Hendrickson's and Ghose's SOX Certifications referenced in ¶154 were materially false and/or misleading when made, and made with scienter, as Defendants Hendrickson and Ghose were deliberately reckless with respect to their falsity.

156. On this news, its stock price declined modestly by $0.09 per share, or 0.58%, on volume of 390,500 shares, to close at $15.39 per share on August 5, 2008.

G. Defendants' False and/or Misleading Statements In Connection With Skilled Healthcare's Financial Results For The 2008 Fiscal Third Quarter Ending September 30, 2008

157. On November 6, 2008, Skilled Healthcare issued a press release entitled, "Skilled Healthcare Group Reports Third Quarter 2008 Results." Therein, in relevant part, for the 2008 fiscal third quarter:

a. "Net income" was reported at $9,576,000;
b. "Net income (loss) per common share, basic" was reported at $0.26;

c. "Cost of services" was reported at $145,749,000;

158. The statements referenced in ¶157 were each materially false and/or misleading when made because:

a. The Company later admitted the falsity of its financial reporting and the statements when it disclosed on June 9, 2009, that it would have to restate its financial results for the quarterly and annual periods from January 1, 2006 through March 31, 2009, due to the understatement of reserves for accounts receivables resulting from the improper dating of accounts receivables by CW#1. The Company further admitted on June 29, 2009, in its Amended Annual Report for the 2008 fiscal year on Form 10-K/A that "Management determined that the errors in the previously-reported amounts of allowance for doubtful accounts related to its LTC accounts receivable and the corresponding adjustments necessary to properly state the allowance for doubtful accounts related to its LTC accounts receivable were material for the annual and quarterly periods in fiscal years 2006 through 2008 and the first quarter of 2009."

b. The statements concerning Skilled Healthcare's financial results were each materially false and/or misleading when made and did not fairly present the financial condition of the Company throughout the 2008 fiscal third quarter because, according the Company, CW#1 improperly manipulated consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories by altering
the accounts receivable aging by posting transactions to fictitious
patient accounts in a test facility which had been a part of the
production environment. The improper conduct resulted in the
following misstatements as reflected by the Company’s restated
financial results: (i) "Net income" of $8,600,000 for the 2008
third fiscal quarter was misrepresented as $8,900,000, which
constitutes an overstatement of $300,000, or 3.5%; (ii) "Net
income (loss) per common share, basic" of $0.22 for the third
fiscal quarter was misrepresented as $0.24, which constitutes an
overstatement of $0.02, or 9.1%; (iii) "Cost of services" of
$147,400,000 for the 2008 third fiscal quarter was misrepresented
as $145,700,000, which constitutes and understatement of
$1,700,000, or 1.2%.

159. For the reason in ¶110, the materially false and/or misleading statements
in ¶157, were made with scienter.

160. That day, the Company conducted a conference call with analysts and
investors to discuss the Company’s financial results for 3Q 2008. Defendants
Hendrickson and Ghose were on the call.

161. In response to a question from an analyst whether any of the higher $1.8
million in bad debt for the quarter was recurring in nature or all one time, Defendant
Ghose responded:

Well, there are three components there and let me speak to each one.
Approximately $600,000 came from our rehab business and another
$600,000 came from our hospice business. In both of those as we do
each quarter, we took a hard look at our accounts receivable,
evaluating the collectability of it and we believed it was prudent to
increase our provisions by $600,000 for each of those two businesses.
And, then, finally, we increased it by another $600,000 that had to do
with our RAC program that I talked about in the prepared remarks.

(Emphasis added).

162. The statements in ¶161, which were not corrected by defendant Hendrickson, demonstrate that throughout each area of the organization, executive management was highly focused on all of the segments accounts receivables, aging, and ADA, the very areas the Company asserts that CW#1 manipulated.

163. On November 6, 2008, Skilled Healthcare filed its Quarterly Report with the SEC on Form 10-Q for the 2008 fiscal third quarter ending September 30, 2008. The Company’s 10-Q was signed by Defendant Ghose and substantially incorporated the same materially false and misleading financial results, as set forth above in ¶157, which were announced on November 6, 2008. As previously alleged in ¶102, CW#1 participated in the preparation of the Company’s Form 10-Q and provided the information pertaining to the Company’s accounts receivables and allowance for doubtful accounts.” Additionally, therein, in relevant part, for the 2008 fiscal third quarter:

a. “Accounts receivable (less allowance for doubtful accounts)” was reported at $113,496,000;

b. “Allowance for doubtful accounts “ was reported at $12,843,000;

164. The statements referenced in ¶163 were each materially false and/or misleading when made for the reasons in ¶159, above. Additionally, the statements were each materially false and misleading because as reflected by the Company’s restatement: (i) "Accounts receivable (less allowance for doubtful accounts)" of $102,700,000 for the 2008 third fiscal quarter was misrepresented as $113,496,000, which constitutes an egregious overstatement of $10,796,000, or 10.5%; and (ii) "Allowance for doubtful accounts " for the 2008 third fiscal quarter was misrepresented and understated by $10,796,000.

165. The materially false and misleading statements made by the defendants
in ¶163 were and made with scienter for the reasons in ¶110, above.

166. Along with the Company's Quarterly Report on Form 10-Q filed with the SEC on November 6, 2008, pursuant to Section 302 of SOX, Defendants Hendrickson and Ghose signed Sarbanes-Oxley required certifications attesting to the accuracy of the financial results and effectiveness of the Company's internal controls as set forth in full in ¶105, above.

167. For the same reasons as set forth in ¶¶106 and 107, above, Defendants Hendrickson's and Ghose's SOX Certifications referenced in ¶166 were materially false and/or misleading when made, and made with scienter, as Defendants Hendrickson and Ghose were deliberately reckless with respect to their falsity.

H. Defendants' False and/or Misleading Statements In Connection With Skilled Healthcare's Financial Results For The 2008 Fiscal Year and Fourth Quarter Ending December 31, 2008


Therein, in relevant part:

a. “Net income “ was reported at $37,209,000 for the 2008 fiscal year and at $10,265,000 for the 2008 fourth quarter;

b. “Net income (loss) per common share, basic “ was reported at $1.02 for the 2008 fiscal year and at $0.28 for the 2008 fourth quarter;

c. “Cost of services” was reported at $578,481,000 for the 2008 fiscal year and at $148,336,000 for the 2008 fourth quarter;

169. The statements referenced in ¶168 were each materially false and/or misleading when made because:

a. The Company later admitted the falsity of its financial reporting and the statements when it disclosed on June 9, 2009, that it would have to restate its financial results for the quarterly and
annual periods from January 1, 2006 through March 31, 2009, due to the understatement of reserves for accounts receivables resulting from the improper dating of accounts receivables by CW#1. The Company further admitted on June 29, 2009, in its Amended Annual Report for the 2008 fiscal year on Form 10-K/A that “Management determined that the errors in the previously-reported amounts of allowance for doubtful accounts related to its LTC accounts receivable and the corresponding adjustments necessary to properly state the allowance for doubtful accounts related to its LTC accounts receivable were material for the annual and quarterly periods in fiscal years 2006 through 2008 and the first quarter of 2009.”

b. The statements concerning Skilled Healthcare’s financial results were each materially false and/or misleading when made and did not fairly present the financial condition of the Company throughout the 2008 fiscal year and fourth quarter because, according the Company, CW#1 improperly manipulated consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories by altering the accounts receivable aging by posting transactions to fictitious patient accounts in a test facility which had been a part of the production environment. The improper conduct resulted in the following misstatements as reflected by the Company’s restated financial results: (i) "Net income" of $34,100,000 for the 2008 fiscal year and $9,400,000 for the 2008 fourth fiscal quarter were misrepresented as $37,200,000 for the 2008 fiscal year and $10,265,000 for the 2008 fourth fiscal
quarter, which constitute overstatements of $3,100,000, or 9.1%, and $865,000, or 9.2%, respectively; (ii) "Net income (loss) per common share, basic" of $0.93 the 2008 fiscal year and $0.26 for the 2008 fourth fiscal quarter were misrepresented as $1.02 for the 2008 fiscal year and $0.28 for the 2008 fourth fiscal quarter, which constitute overstatements of $0.09, or 9.7%, and $0.02, or 7.7%, respectively; and (iii) Cost of services" of $583,600,000 for the 2008 fiscal year and $148,400,000 for the 2008 fourth fiscal quarter were misrepresented as $578,500,000 for the 2008 fiscal year and $149,900,000 for the 2008 fourth fiscal quarter, which constitute understatements of $5,100,000, or 0.88%, and $1,500,000, or 1.01%, respectively.

170. On this news, the stock price rose by $0.52 per share, or 5.92%, on volume of 298,500, to close at $9.30 per share on February 10, 2009. The following day, the stock continued to climb on volume of 176,800 shares, closing at $9.99 per share, a rise of $1.21 per share, or 13.78% from its close at $8.78 on February 9, 2009.

171. On February 25, 2009, Skilled Healthcare filed its Annual Report with the SEC on Form 10-K for the 2008 fiscal year ending December 31, 2008. The Company’s 10-K was signed by Defendant Hendrickson and substantially incorporated the same materially false and misleading financial results, as set forth above in ¶168, which were previously announced on February 10, 2009. Upon information and belief, CW#1 participated in the preparation of the Company’s Form 10-K and provided the information pertaining to the Company’s accounts receivables and allowance for doubtful accounts as previously alleged in ¶102. Additionally, therein, in relevant part, for the 2008 fiscal year and fourth quarter:

   a. "Accounts receivable (less allowance for doubtful accounts)" was reported at $115,211,000;
b. "Allowance for doubtful accounts" was reported at $14,336,000;

c. "Provision for doubtful accounts" was reported at $10,087,000;

172. The statements referenced in ¶171 were each materially false and/or misleading when made for the reasons in ¶169, above. Additionally, the statements were each materially false and misleading because as reflected by the Company's restatement: (i) "Accounts receivable (less allowance for doubtful accounts)" of $103,000,000 for the 2008 fiscal year, as well as the 2008 fourth fiscal quarter, were misrepresented as $115,200,000, which constitutes an overstatement of $12,200,000, or 11.8%; and (ii) "Allowance for doubtful accounts" for the 2008 fiscal year was misrepresented and understated by $12,200,000.

173. The materially false and misleading statements made by the defendants in ¶172 were and made with scienter for the reasons in ¶110, above.

174. Along with the Company's Annual Report on Form 10-K filed with the SEC on February 25, 2009, pursuant to Section 302 of SOX, Defendants Hendrickson and Ghose signed Sarbanes-Oxley required certifications attesting to the accuracy of the financial results and effectiveness of the Company's internal controls as set forth in full in ¶105, above.

175. For the same reasons as set forth in ¶¶106 and 107, above, Defendants Hendrickson's and Ghose's SOX Certifications referenced in ¶174 were materially false and/or misleading when made, and made with scienter, as Defendants Hendrickson and Ghose were deliberately reckless with respect to their falsity.

I. Defendants' False and/or Misleading Statements In Connection With Skilled Healthcare's Financial Results For The 2009 Fiscal First Quarter Ending March 31, 2009

176. On May 5, 2009, Skilled Healthcare issued a press release entitled, "Skilled Healthcare Group Reports Record EPS of $0.29 for First Quarter 2009." Therein, in relevant part, for the 2009 fiscal first quarter:

a. "Net Income“ was reported at $10,867,000;

b. "Net income (loss) per common share, basic “ was reported at
$0.29;

c. "Cost of services" was reported at $148,804,000;

177. The statements referenced in ¶176 were each materially false and/or misleading when made because:

a. The Company later admitted the falsity of its financial reporting and the statements when it disclosed on June 9, 2009, that it would have to restate its financial results for the quarterly and annual periods from January 1, 2006 through March 31, 2009, due to the understatement of reserves for accounts receivables resulting from the improper dating of accounts receivables by CW#1. The Company further admitted on June 29, 2009, in its Amended Annual Report for the 2008 fiscal year on Form 10-K/A that "Management determined that the errors in the previously-reported amounts of allowance for doubtful accounts related to its LTC accounts receivable and the corresponding adjustments necessary to properly state the allowance for doubtful accounts related to its LTC accounts receivable were material for the annual and quarterly periods in fiscal years 2006 through 2008 and the first quarter of 2009."

b. The statements concerning Skilled Healthcare's financial results were each materially false and/or misleading when made and did not fairly present the financial condition of the Company throughout the 2009 fiscal first quarter because, according the Company, CW#1 improperly manipulated consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories by altering the accounts receivable aging by posting transactions to fictitious
patient accounts in a test facility which had been a part of the production environment. The improper conduct resulted in the following misstatements as reflected by the Company's restated financial results: (i) "Net Income" of $10,003,000 for the 2009 first fiscal quarter was misrepresented as $10,867,000, which constitutes an overstatement of $864,000, or 8.64%; (ii) "Net income (loss) per common share, basic" of $0.27 for the 2009 first fiscal quarter was misrepresented as $0.29, which constitutes an overstatement of $0.02, or 7.4%; and (iii) "Cost of services" of $150,200,000 for the 2009 first fiscal quarter was misrepresented as $148,800,000, which constituted an understatement of $1,400,000, or 0.94%.

178. For the reason in ¶110, the materially false and/or misleading statements in ¶176, were made with scienter. Additionally, defendant Ghose's response to an analyst's question, at ¶19, above, during a conference call with investors that day, concerning the Company not having to take bad debt charges as it had in earlier quarters, was false when made, for the reasons stated in ¶109 and made with scienter, for the reasons stated in ¶110.

179. On May 5, 2009, Skilled Healthcare filed its Quarterly Report with the SEC on Form 10-Q for the 2008 fiscal first quarter ending March 31, 2008. The Company's 10-Q was signed by Defendant Ghose and substantially incorporated the same materially false and misleading financial results, as set forth above in ¶176, which were previously announced on May 5, 2009. Upon information and belief, CW#1 participated in the preparation of the Company's Form 10-Q and provided the information pertaining to the Company's accounts receivables and allowance for doubtful accounts as previously alleged in ¶102. Additionally, therein, in relevant part, for the 2009 fiscal first quarter:

a. "Accounts receivable (less allowance for doubtful accounts)" was
reported at $119,423,000;
b. "Allowance for doubtful accounts" was reported at $14,166,000;

180. The statements referenced in ¶179 were each materially false and/or misleading when made for the reasons in ¶177, above. Additionally, the statements were each materially false and misleading because as reflected by the Company's restatement: (i) "Accounts receivable (less allowance for doubtful accounts)" of $105,755,000 was misrepresented as $119,423,000, which constitutes an overstatement of $13,668,000, or 12.9%; and (ii) "Allowance for doubtful accounts" misrepresented and understated by $13,668,000.

181. The materially false and misleading statements made by the defendants in ¶179 were and made with scienter for the reasons in ¶110, above.

182. Along with the Company's Quarterly Report on Form 10-Q filed with the SEC on May 5, 2009, pursuant to Section 302 of SOX, Defendants Hendrickson and Ghose signed Sarbanes-Oxley required certifications attesting to the accuracy of the financial results and effectiveness of the Company's internal controls as set forth in full in ¶105, above.

183. For the same reasons as set forth in ¶¶106-107, above, Defendants Hendrickson's and Ghose's SOX Certifications referenced in ¶182 were materially false and/or misleading when made, and made with scienter, as Defendants Hendrickson and Ghose were deliberately reckless with respect to their falsity.

184. On May 5, 2009, the price of the company's stock rose by $0.92 per share, or 9.23%, on volume of 364,100 shares, to close at $10.89 per share.

THE TRUTH EMERGES

185. On June 9, 2009, after market close, the Company issued a press release announcing that its historical financial statements for the annual and quarterly periods from January 1, 2006 through March 31, 2008 can no longer be relied upon as a result of errors identified by the Company. The announcement states in relevant part:
Skilled Healthcare Group Announces Expected Financial Restatement Related to Accounts Receivable Reserves

FOOTHILL RANCH, Calif.—(BUSINESS WIRE)—June 9, 2009—Skilled Healthcare Group, Inc. (NYSE: Skilled Healthcare) today announced that, based on a preliminary review by management, the Company expects to restate its consolidated financial statements for the quarterly and annual periods from January 1, 2006 through March 31, 2009. As a result, the Audit Committee of the Board of Directors today has concluded that investors should no longer rely on the Company’s historical financial statements nor the reports of Ernst & Young LLP, the Company’s independent registered public accounting firm, for those affected periods.

The expected restatement relates to understated reserves for accounts receivables in each of the affected quarters. Based on the Company’s preliminary analysis, the Company expects that the correction of the understatement is likely to require cumulative charges against after-tax earnings in the aggregate amount of between $8 million and $9 million over the affected periods. The actual amounts of the adjustments to be made in each of the affected periods are being determined by management. The adjustments will be audited by year and reviewed by quarter by Ernst & Young LLP.

Management identified the errors through an internal review of its reserves for accounts receivable. The errors appear to have resulted from improper dating of accounts receivables by a former employee who appears to have acted in ways that were inconsistent with the Company’s accounting policies and practices. With the oversight of the Audit Committee, the Company has initiated a special investigation with respect to the areas in which the former employee was involved, as well as a review of what steps, if any, may be appropriate to ensure future compliance with the Company’s accounting policies and practices relating to accounts receivable reserves.

The Company will file its restated financial statements with the Securities and Exchange Commission as soon as practicable following completion of the Audit Committee’s investigation.

The Company is updating its 2009 full year guidance solely to reflect the correction in its accounts receivable reserves. The Company now expects full year EBITDA to be between $121 million and $126 million and EBITDAR to be between $140 million and $145 million. Earnings per diluted share are expected to be between $1.02 and $1.08. EBITDA and EBITDAR reflect the non-GAAP adjustments to net income that are detailed in the table below, which reconciles forecasted net income to forecasted EBITDA and EBITDAR.
186. The June 9, 2009 caused the Company’s stock to fall from a prior closing price of $8.34 to $7.58, or 9.11%, on June 10, 2009.

187. On June 29, 2009 the Company filed with the SEC the Restated 10-K and the Restated 10-Q setting forth the specific line-item restatement adjustments for each of the Company’s periodic reports during the Class Period as set out in the charts in ¶21, above.

188. The Company admitted that its internal controls over financial reporting were not effective as of December 31, 2008, and that management identified “a material weakness in certain components of [the Company’s] internal control over financial reporting.” According to the Company:

*Additional Information Regarding the Material Weakness*

In May 2009, the former employee left the employment of the Company after a disciplinary meeting on unrelated matters. During a review of the former employee’s work, we discovered that there had been understatements of the LTC segment accounts receivable allowance for doubtful accounts for the quarterly periods ended March 31, 2006 through March 31, 2009. The former employee performed functions that should have been assigned to other employees, and thereafter reviewed by him and other senior personnel. The former employee improperly manipulated consolidated LTC accounts receivable aging reports used in the allowance for doubtful accounts calculation by transferring balances from delinquent aging categories to more current categories. For the quarters ended March 31, 2006 to June 30, 2007, this was accomplished through worksheets that the former employee prepared by modifying system generated data. For the quarters ended September 30, 2007 to March 31, 2009, the former employee altered the accounts receivable aging by posting transactions to fictitious patient accounts in
a test facility which had been a part of the production environment. Our policy is to apply a higher reserve percentage to the more delinquent accounts. Thus, the Company understated the LTC segment accounts receivable allowance for doubtful accounts because we relied on the aging reports produced by the former employee, which made the accounts receivable appear more current.

Additionally, in discussing the Company's plan to remediate the material weakness, the Company admitted that it previously did not have the following controls in place:

**Remediation Steps to Address Material Weakness**

To remediate the material weaknesses described above and enhance our internal control over financial reporting, management has implemented or plans to implement the following changes:

- In May 2009, concurrent with the departure of the former employee, we transferred our then Senior Vice President of Reimbursement and Financial Analysis (the "successor SVP") to fill the vacancy caused by the departure of the former employee. The successor SVP is a qualified Certified Public Accountant with many years of Operational Finance responsibility with other LTC providers and has been an employee of the Company since July 2007. We have also changed the chain of reporting for the role of the successor SVP. Instead of reporting directly to the President of the Company, the position of the successor SVP now reports directly to the Chief Financial Officer.

- Access rights to the patient accounts receivable system have been curtailed so that the successor SVP cannot directly post transactions.

- We have strengthened the design of access and user rights to all
of our reporting systems and have implemented routine reviews of such access and user rights.

- We segregated testing and training environments from the production environment in all key applications.
- We implemented regularly scheduled segregation of duties reviews for conflicts identified by management, to be performed on each of the applications which have a direct impact on financial reporting.
- The accounts receivable allowance for doubtful accounts calculation will be prepared by the Accounting Department. The allowance for doubtful accounts calculation will then be reviewed by the successor SVP as well as by the Chief Accounting Officer for quality control and oversight purposes.
- We are providing additional training on fraud risk and awareness to management and other key personnel.
- In April 2009, we hired a Vice President of Internal Audit, who is a Certified Public Accountant from a leading registered public accounting firm with an extensive background in Sarbanes-Oxley compliance, internal audit and the LTC industry.

190. Had Plaintiffs and the Exchange Act Class been aware of this adverse information they would not have purchased the Company’s securities at all or would not have purchases such securities at the artificially inflated prices at which they did.

**ADDITIONAL SCIENTER ALLEGATIONS**

191. During the Exchange Act Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (1) deceive the investing public, including Plaintiffs and other Exchange Act Class members, as alleged herein; and (2) cause Plaintiffs and other members of the Exchange Act Class to purchase Skilled Healthcare’s common stock at artificially inflated prices.
inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

192. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business that operated as a fraud and deceit upon the purchasers of the Company’s common stock in an effort to maintain artificially high market prices for Skilled Healthcare’s common stock in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

193. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of Skilled Healthcare as specified herein.

194. These Defendants employed devices, schemes and artifices to defraud while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Skilled Healthcare value and performance and continued substantial growth, which included the making of, or participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Skilled Healthcare and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaging in transactions, practices and a course of business that operated as a fraud and deceit upon the purchasers of Skilled Healthcare Class A common stock during the Exchange Act Class Period.

195.

LOSS CAUSATION/ECONOMIC LOSS
196. On June 9, 2009, after market close, the Company issued the press release (quoted above) and, the next day, issued a short statement in a conference call: 
(i) announcing that its historical financial statements for the annual and quarterly periods from January 1, 2006 through March 31, 2008 could no longer be relied upon as a result of errors identified by the Company, and, as such, were going to be restated, (ii) giving a brief explanation of what prompted the Company’s action; and (iii) announcing an investigation into the events which necessitated the restatement.

197. Immediately, several analyst reports discussed the announcement’s impact. For example, on June 10, 2009, Morgan Keegan & Co., Inc. issued a report prior to Skilled Healthcare’s 9:00 AM Eastern conference call. The report, written by Robert M. Mains, CFA, indicated that Morgan Keegan was “lowering [its earnings-per-share (“EPS”)] estimates for Skilled Healthcare Group following the company’s announcement in the middle of the night that it would restate its financial results for every quarter since the beginning of 2006.” Morgan Keegan reduced its “2009 EBITDAR and EPS estimates by $4 million and $0.08, respectively,” and made “similar adjustments in 2010.”

198. Later that same day, RBC Capital Markets issued a “Price Target Revision” prepared by Frank G. Morgan, CFA. The report implied that the “conference call” had been a disappointment, noting that it “did not allow for Q&A.” As a result of the Company’s disclosures, RBC Capital Markets reduced its 2009 EBITDAR estimate for Skilled Healthcare from $146 to $142.3, its EPS estimate from $1.12 to $1.06, and its price target from $10 to $8.50.

199. Also on June 10, 2009, Jeffries & Company, Inc. issued a report on the Company’s disclosure. The report, authored by Arthur I. Henderson among others, indicated another lowered price target, this time from $14 to $11.

200. The stock’s closing price on June 9, 2009 was $8.34. But the disclosures caused a surge in trading, with the volume of Skilled Healthcare shares trading hands more than doubling from 232,800 on June 9 to 534,400 on June 10. By the end of
trading on that day, the disclosure had caused the Company's stock to fall to a closing price of $7.58 - a one day decline of 9.11%.

201. The next day, June 11, 2009, as the market continued to digest the impact of the Company's disclosure, the stock fell further and closed at $7.47.

202. Also on June 11, 2009, Oppenheimer issued an Updating Model Following Restatement. Prepared by Matt Nirenberg, CFA and others, the report noted that, as a result of the Company's disclosure, Oppenheimer was "adjusting [its] '09 and '10 EPS estimates from $1.12 and $1.19 to $1.05 and $1.12, respectively," and that it was lowering its price target from $13 to $12.

203. The decline continued. On June 12, 2009, the stock closed at $7.09. Then, after the weekend, it closed on June 15, 2009 at $6.78, before closing at $6.58 the next day. In all, the stock had lost 21.10% of its value.

204. The trading volumes over these days showed a clear pattern, that the Company's restatement was working its way through the market. Volume tapered from 534,400 shares on June 10, to 317,500 on June 11, to 255,200 on June 12, and then to 195,900 on June 15, before rebounding on June 16 to 297,300 shares.

205. On June 29, 2009 the Company filed with the SEC the Restated 10-K and the Restated 10-Q setting forth the specific line-item restatement adjustments for each of the Company's periodic reports during the Class Period.

206. Had Plaintiffs and the Exchange Act Class been aware of this adverse information they would not have purchased the Company's securities at all or would not have purchased such securities at the artificially inflated prices at which they did.

APPLICABILITY OF PRESUMPTION OF RELIANCE:

FRAUD ON THE MARKET DOCTRINE

207. At all relevant times, the market for Skilled Healthcare's common stock was an efficient market that promptly digested current information with respect to the Company from all publicly-available sources and reflected such information in the prices of the Company's stock. Through the Class Period:
a. Skilled Healthcare’s stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

b. During the class period, on average, approximately 805,430 shares of Skilled Healthcare stock were traded on a weekly basis according to data from Bloomberg LP. Based on the Company’s Proxy Statement filed with the SEC on April 7, 2008, as of March 20, 2008 there were 19.4 million shares of Class A common stock outstanding. Of that amount, at most, approximately 13.8 million shares were available in the Company’s public float. Therefore, approximately 6% of all the Company’s public float were bought and sold on a weekly basis, demonstrating a very strong presumption of an efficient market.;

c. As a regulated issuer, Skilled Healthcare filed with the SEC periodic public reports during the Class Period;

d. Skilled Healthcare regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services, and through periodic analyst conference calls and presentations; securities analysts and the business press followed and published research reports regarding Skilled Healthcare that were publicly available to investors;

e. Skilled Healthcare was followed by several securities analysts employed by major brokerage firms who wrote reports that were distributed to the sales force and certain customers of their respective brokerage firms during the Class Period. Each of these
reports was publicly available and entered the public marketplace;

f. Numerous NASD member firms were active market-makers in Skilled Healthcare stock at all times during the Class Period; and

g. Unexpected material news about Skilled Healthcare was rapidly reflected in and incorporated into the Company’s stock price during the Class Period.

208. As a result of the foregoing, the market for Skilled Healthcare’s common stock promptly digested current information regarding Skilled Healthcare from all publicly available sources and reflected such information in Skilled Healthcare’s stock price. Under these circumstances, all purchasers of Skilled Healthcare’s common stock during the Class Period suffered similar injury through their purchase of Skilled Healthcare’s common stock at artificially inflated prices, and a presumption of reliance applies.

NO SAFE HARBOR

209. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the specific statements pleaded herein were not identified as “forward-looking statements” when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Skilled Healthcare who knew that those statements were false when made.

210. Defendants had actual knowledge of the misrepresentations and
omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such Defendants’ material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing from the investing public Skilled Healthcare’s operating condition and future business prospects and supporting the artificially inflated price of its common stock. As demonstrated by Defendants’ overstatements and misstatements of the Company’s financial condition throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

211. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Skilled Healthcare’s common stock was artificially inflated during the Class Period. In ignorance of the fact that market prices of Skilled Healthcare’s publicly-traded common stock were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the common stock trades, and/or on the absence of material adverse information that was known to or recklessly disregarded by Defendants but not disclosed in public statements by Defendants during the Class Period, Plaintiffs and the other members of the Exchange Act Class acquired Skilled Healthcare common stock during the Class Period at artificially high prices and were or will be damaged thereby.

212. By virtue of the foregoing, Defendants have violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

213. As a direct and proximate result of Defendants’ wrongful conduct, Plaintiffs and the other members of the Exchange Act Class suffered damages in connection with their respective purchases and sales of the Company’s common stock.
during the Class Period.

214. This action was filed within two years of discovery of the fraud and within five years of each plaintiffs' purchases of securities giving rise to the cause of action.

**COUNT IV**

**Against All Individual Defendants For Violation of Section 20(a) of the Exchange Act on Behalf of the Exchange Act Class**

215. Plaintiffs repeat and re-allege each and every allegation contained above as if fully set forth herein.

216. This Count is asserted against Defendants Hendrickson, King and Ghose (as used in this Count, collectively "Individual Defendants").

217. The Individual Defendants acted as controlling persons of Skilled Healthcare within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, agency, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements that Plaintiffs contend are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiffs to have been misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or to cause the statements to be corrected.

218. In particular, each of these Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise
to the securities violations as alleged herein, and exercised the same.

219. As set forth above, Skilled Healthcare and the Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint.

220. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiffs and other members of the Class suffered damages in connection with their purchases of the Company's common stock during the Class Period.

221. This action was filed within two years of discovery of the fraud and within five years of each plaintiff's purchases of securities giving rise to the cause of action.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for the relief and judgment, as follows:

(a) Determining that this action is a proper class action, and certifying Plaintiffs as a class representatives for both the Securities Act Class and Exchange Act Class under Rule 23 of the Federal Rules of Civil Procedure and Plaintiffs' counsel as Class Counsel;

(b) Awarding compensatory damages in favor of Plaintiffs and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiffs hereby demand a trial by jury.
Dated: January 12, 2010

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AMENDED CLASS ACTION COMPLAINT FOR VIOLATION OF FEDERAL SECURITIES LAWS
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Attorneys for Plaintiffs
GLANCY BINKOW & GOLDBERG LLP
SWORN CERTIFICATION OF PLAINTIFF
SKILLED HEALTHCARE GROUP, INC. SECURITIES LITIGATION

1. Anna Feuerbach, certify that:

   1. I have reviewed the Complaint and authorized its filing.

   2. I did not purchase Skilled Healthcare Group, Inc., the security that is the subject of this action, at the direction of plaintiff's counsel or in order to participate in any private action arising under this title.

   3. I am willing to serve as a representative party on behalf of a class and will testify at deposition and trial, if necessary.

   4. My transactions in Skilled Healthcare Group, Inc. during the Class Period set forth in the Complaint are as follows:

      SEE ATTACHED EXHIBIT A

   5. I have not served as a representative party on behalf of a class under this title during the last three years.

   6. I will not accept any payment for serving as a representative party, except to receive my pro rata share of any recovery or as ordered or approved by the court, including the award to a representative plaintiff of reasonable costs and expenses (including lost wages) directly relating to the representation of the class.

   □ Check here if you are a current employee or former employee of the defendant Company.

   I declare under penalty of perjury that the foregoing are true and correct statements.

Dated: 1/8/10

Anna Feuerbach
(Please Sign Your Name Above)
ANNA FEUERBACH
**EXHIBIT A**

**TRANSACTIONS OF ANNA FEUERBACH IN SKILLED HEALTHCARE GROUP, INC.**

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<th>TRANSACTION DATE</th>
<th>TYPE OF TRANSACTION (Acquisition/Sale)</th>
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*includes transaction cost.
GLANCY BINKOW & GOLDBERG LLP
SWORN CERTIFICATION OF PLAINTIFF
SKILLED HEALTHCARE GROUP, INC. SECURITIES LITIGATION

1. Ann Feuerbach, certify that:

1. I have reviewed the Complaint and authorized its filing.

2. I did not purchase Skilled Healthcare Group, Inc., the security that is the subject of this action, at the direction of plaintiff's counsel or in order to participate in any private action arising under this title.

3. I am willing to serve as a representative party on behalf of a class and will testify at deposition and trial, if necessary.

4. My transactions in Skilled Healthcare Group, Inc. during the Class Period set forth in the Complaint are as follows:

   SEE ATTACHED EXHIBIT A

5. I have not served as a representative party on behalf of a class under this title during the last three years.

6. I will not accept any payment for serving as a representative party, except to receive my pro rata share of any recovery or as ordered or approved by the court, including the award to a representative plaintiff of reasonable costs and expenses (including lost wages) directly relating to the representation of the class.

   ☐ Check here if you are a current employee or former employee of the defendant Company.

   I declare under penalty of perjury that the foregoing are true and correct statements.

Dated: 1/8/10

[Signature]

(Please Sign Your Name Above)
ANN FEUERBACH
EXHIBIT A

TRANSACTIONS OF ANN FEUERBACH IN SKILLED HEALTHCARE GROUP, INC.

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<th>TRANSACTION DATE</th>
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*Includes transaction cost.
PROOF OF SERVICE VIA ELECTRONIC AND OVERNIGHT MAIL

I am employed in the County of Los Angeles, State of California. I am over the age of eighteen (18) years and not a party to the within action. My business address is 1801 Avenue of the Stars, Suite 311, Los Angeles, California 90067.

On January 12, 2010, I served the following document described as:

SUMMONS ON AMENDED CLASS ACTION COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS

AMENDED CLASS ACTION COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS

on counsel for the parties in this action, addressed as stated below:

Paul H. Dawes
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Michele D. Johnson
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michele.johnson@lw.com

By Electronic Mail: By emailing true and correct copies, pursuant to the agreement between the attached parties.

By Overnight Mail: By placing a true and correct copies thereof in a box, which I deposited with an official Overnight Express mailing center on January 12, 2010, for delivery overnight.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. I declare that I am employed in the office of a member of the bar of this Court at whose direction the service was made.

Executed on January 12, 2010, at Los Angeles, California.

Tia Reiss