FORD GERALD J
Form 4
April 16, 2018

FORM 4

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

OMB APPROVAL
OMB Number: 3235-0287
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
FORD GERALD J

(Last) (First) (Middle)

200 CRESCENT COURT, SUITE 1350

(Street)

DALLAS, TX 75201

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Hilltop Holdings Inc. [HTH]

3. Date of Earliest Transaction (Month/Day/Year)
04/12/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
___ Form filed by One Reporting Person
_X_ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/12/2018		A		2,217 (1)	A	$ 24.24 (2)	130,083	D (3) (4) (5) (6)	
Common Stock	04/12/2018		G	V	2,217 (7)	D	$ 0	127,866	D (3) (4) (5) (6)	
Common Stock	04/12/2018		G	V	2,217 (7)	A	$ 0	39,047	I	See Footnotes (3) (4) (5) (6) (8)
Common Stock								15,544,674	I	See Footnotes

(3) (4) (5) (6)
(9)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
FORD GERALD J 200 CRESCENT COURT, SUITE 1350 DALLAS, TX 75201	X	X		
Diamond HTH Stock Company, LP 200 CRESCENT COURT, SUITE 1350 DALLAS, TX 75201		X		
Diamond HTH Stock Co GP, LLC 200 CRESCENT COURT, SUITE 1350 DALLAS, TX 75201		X		
Turtle Creek Revocable Trust 200 CRESCENT COURT, SUITE 1350 DALLAS, TX 75201		X		

Signatures

GERALD J. FORD By: /s/ Gerald J. Ford	04/16/2018
**Signature of Reporting Person	Date
DIAMOND HTH STOCK COMPANY, LP By: Diamond HTH Stock Company GP, LLC Its: General Partner By: Turtle Creek Revocable Trust Its: Sole Member By: /s/ Gerald J. Ford Title: Trustee	04/16/2018
**Signature of Reporting Person	Date
DIAMOND HTH STOCK COMPANY GP, LLC By: Turtle Creek Revocable Trust Its: Sole Member By: /s/ Gerald J. Ford Title: Trustee	04/16/2018
**Signature of Reporting Person	Date
TURTLE CREEK REVOCABLE TRUST By: /s/ Gerald J. Ford Title: Trustee	04/16/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents shares of common stock of Hilltop Holdings Inc. (the "Issuer"), par value $0.01 per share ("Shares"), granted to Gerald J. Ford under the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 EIP"), as compensation for services rendered as a director of the Issuer in the first calendar quarter of 2018.

(2) Price per Share calculated using the average closing price per Share for the period from March 16, 2018 to March 29, 2018.

(3) This statement is jointly filed by and on behalf of each of Mr. Ford, Diamond HTH Stock Company, LP ("Diamond HTH LP"), Diamond HTH Stock Company GP, LLC ("Diamond HTH LLC"), and Turtle Creek Revocable Trust (the "Trust"). Mr. Ford, Diamond A Financial, L.P. ("Diamond A") and the Trust are the direct beneficial owners of the securities covered by this statement.

(4) Diamond HTH LP is the general partner of, and may be deemed to beneficially own certain securities owned by, Diamond A. Diamond HTH LLC is the general partner of, and may be deemed to beneficially own certain securities owned by, Diamond HTH LP. The Trust is the sole member of, and may be deemed to beneficially own certain securities owned by, Diamond HTH LLC. Mr. Ford is the grantor and trustee of, and may be deemed to beneficially own certain securities owned by, the Trust.

(5) The reporting persons state that neither the filing of this statement nor anything herein shall be deemed an admission that such persons are, for purposes of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise, the beneficial owners of any securities covered by this statement. The reporting persons disclaim beneficial ownership of the securities covered by this statement, except to the extent of the pecuniary interest of such persons in such securities.

(6) The reporting persons may be deemed to be a member of a group with respect to the Issuer or securities of the Issuer for purposes of Section 13(d) or 13(g) of the Exchange Act. The reporting persons declare that neither the filing of this statement nor anything herein shall be construed as an admission that such persons are, for the purposes of Section 13(d) or 13(g) of the Exchange Act or any other purpose, a member of a group with respect to the Issuer or securities of the Issuer.

(7) In connection with Mr. Ford's receipt of Shares under the 2012 EIP as compensation for services rendered as a director of the Issuer in the first quarter of 2018, Mr. Ford subsequently gifted these Shares to the Trust, which is a revocable trust of Mr. Ford established for the benefit of the members of his family.

(8) Represents Shares directly beneficially owned by the Trust.

(9) Represents Shares directly beneficially owned by Diamond A.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ; font-weight: normal; font-style: normal;background-color: #ffffff;"> William B. Doniger 5,500
*
5,500

*
Jackie M. Clegg 20,290
*
20,290
*
Bradley E. Cooper(5)(6) 7,844,625
11.79
%
5,979,625
5.95
%
Jeffrey G. Edwards(7) 535,790
*
535,790
*
Jeffrey R. Leeds 20,790
*
20,790
*
Samuel Waxman 32,790
*
32,790
*
All directors and executive officers as a group (19 persons) 54,082,038
81.25% 70,769,267
70.44
%
5% Stockholders

Fortress Investment Holdings LLC(4)(8) 43,407,000
65.21% 61,007,867
60.73
%
Selling Stockholder

Health Partners(4)(5)(6) 7,844,625
11.79% 5,979,625
5.95
%

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*Less than 1%

(1) The address of each officer or director listed in the table below, except Mark W. Ohlendorf, Kristin A. Ferge, and W.E. Sheriff, is c/o Brookdale Senior Living Inc., 330 North Wabash Avenue, Suite 1400, Chicago, Illinois 60611. The address of Mark W. Ohlendorf and Kristin A. Ferge is c/o

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Brookdale Senior Living Inc., 6737 W. Washington St., Suite 2300, Milwaukee, Wisconsin 53214. The address of W.E. Sheriff is c/o Brookdale Senior Living Inc., 111 Westwood Place, Suite 200, Brentwood, Tennessee 37027.

(2) Consists of shares held, including restricted shares.

(3) Includes 49,200 shares held by Mr. Edens and other ownership as set forth in Footnote 8.

(4) The address of Fortress Investment Holdings LLC is 1345 Avenue of the Americas, 46th Floor, New York, New York 10105. The address of Health Partners is c/o Capital Z Management, LLC, 230 Park Avenue South, 11th Floor, New York, New York 10003.

(5) Bradley E. Cooper, who is one of our directors, is a shareholder of Capital Z Partners, Ltd., the ultimate general partner of Capital Z Financial Services Fund II, L.P., which is the managing partner of Health Partners. Mr. Cooper owns 5.7% of the voting capital stock of Capital Z Partners, Ltd. Mr. Cooper disclaims beneficial ownership of all shares of our common stock that are beneficially owned by Capital Z.

(6) Consists of 7,844,625 shares and 5,979,625 shares held by Health Partners before this offering and after this offering, respectively. Health Partners is managed by its managing partner, Capital Z Financial Services Fund II, L.P. Capital Z Partners Ltd. is the ultimate general partner of Capital Z Financial Services Fund II, L.P. Bob Spass and Bradley E. Cooper are shareholders of Capital Z Partners, Ltd. By virtue of their ownership interests in Capital Z Partners, Ltd., Messrs. Spass and Cooper, may be deemed to beneficially own the shares listed as beneficially owned by Health Partners. Health Partners is selling 1,865,000 of its shares of our common stock in this offering. In accordance with the Stockholders Agreement, so long as the HP Stockholders beneficially own more than 5% of the voting power of the Company, Health Partners is entitled to designate one director to our board. Based on the current share ownership of Health Partners, the HP Stockholders have the right to designate one director. Mr. Cooper is the designee of the HP Stockholders that currently serves on our board of directors. If the underwriters exercise their overallotment option to purchase up to 2,582,250 shares of our common stock from the selling stockholder then, following the consummation of this offering, the HP Stockholders will no longer beneficially own more than 5% of the voting power of the Company. In such case, within 10 days of the consummation of this offering, as required by the Stockholders Agreement, the HP Stockholders would be required to cause Mr. Cooper to resign. See ‘‘Certain Relationships and Related Party Transactions—Agreements With Stockholders— Stockholders Agreement’’ for a more detailed description of the Stockholders Agreement and the HP Stockholders.

(7) Includes 55,790 shares held by Mr. Edwards and 480,000 shares held by East Peak Partners, L.P. (‘‘East Peak’’). JGE Capital Management LLC (‘‘JGE Capital Management’’) is the sole general partner of East Peak. As President and the Principal of JGE Capital Management, Jeffrey G. Edwards makes investment decisions for East Peak. Mr. Edwards disclaims beneficial ownership of the shares held by East Peak.

(8) Includes 13,228,000 shares held by FIT-ALT Investor LLC, 20,000,000 shares held by FIT Holdings LLC, 7,400,000 shares held by FRIT Holdings LLC, 1,702,708 shares held by Fortress Registered Investment Trust, 826,292 shares held by Fortress Brookdale Investment Fund LLC, 18,750 shares held by Drawbridge Special Opportunities Fund Ltd., 106,250 shares held by Drawbridge Special Opportunities Fund LP, 125,000 shares held by Drawbridge Global Macro Master Fund Ltd. and, assuming the issuance of 17,600,867 shares of our common stock that we expect to issue to the Investor pursuant to the Investment Agreement in connection with the ARC Merger, 17,600,867 shares held by RIC Coinvestment Fund LP. FIT-ALT Investor LLC is a wholly-owned subsidiary of FIT Holdings LLC, which is a wholly-owned subsidiary of Fortress Investment Trust II, which is a majority-owned subsidiary of Fortress Investment Fund II LLC. Fortress Investment Fund II LLC is managed by its managing member, Fortress Fund MM II LLC, which is managed by its managing member Fortress Investment Group LLC. FRIT Holdings LLC is wholly-owned by Fortress Registered Investment Trust,

which is 100% owned by Fortress Investment Fund LLC. Fortress

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Investment Fund LLC is managed by its managing member, Fortress Fund MM LLC, which is managed by its managing member Fortress Investment Group LLC. Drawbridge Special Opportunities Advisors LLC is the investment manager of Drawbridge Special Opportunities Fund Ltd. Drawbridge Special Opportunities Advisors LLC is the investment manager of Drawbridge Special Opportunities Fund LP. Fortress Investment Group LLC is the sole managing member of Drawbridge Special Opportunities Advisors LLC. Drawbridge Global Macro Master Fund Ltd. is 100% owned by Drawbridge Global Macro Fund LP and Drawbridge Global Macro Fund Ltd. Drawbridge Global Macro Advisors LLC is the investment manager of each of Drawbridge Global Macro Fund LP and Drawbridge Global Macro Fund Ltd. Fortress Investment Group LLC is the sole managing member of Drawbridge Global Macro Advisors LLC. FIG Advisors LLC is the investment advisor of RIC Coinvestment Fund LP and Fortress Brookdale Investment Fund LLC and may be deemed to beneficially own the shares listed as beneficially owned by RIC Coinvestment Fund LP and Fortress Brookdale Investment Fund LLC. FIG Advisors LLC disclaims beneficial ownership of such shares. FIG Advisors LLC is a wholly-owned subsidiary of Fortress Investment Group LLC. Fortress Investment Group LLC is 100% owned by Fortress Investment Holdings LLC. Fortress Investment Holdings LLC is an entity that is owned by certain individuals, including Wesley R. Edens, our Chairman of the board. By virtue of his ownership interests in Fortress Investment Holdings LLC, Mr. Edens may be deemed to beneficially own the shares listed as beneficially owned by Fortress Investment Holdings LLC. Mr. Edens disclaims beneficial ownership of such shares.

(9) Includes 249,752 shares that Mr. Sheriff is expected to purchase upon consummation of the ARC Merger pursuant to his employment agreement, and an additional 249,752 shares that we expect to grant to Mr. Sheriff pursuant to his employment agreement. Mr. Sheriff is expected to become our co-Chief Executive Officer upon consummation of the ARC Merger.

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DESCRIPTION OF INDEBTEDNESS

New Credit Facility

On February 10, 2006, we entered into a $330.0 million credit agreement, as amended on May 10, 2006 and June 29, 2006, (the ‘‘New Credit Facility’’) consisting of a $250.0 million term loan, a $20.0 million revolving loan, and a $60.0 million letters of credit commitment, with the several lenders from time to time parties thereto, Lehman Brothers Inc., as lead arranger, LaSalle Bank National Association, as syndication agent, Goldman Sachs Credit Partners L.P., Citigroup Global Markets Inc., and LaSalle Bank National Association, as co-arrangers, Goldman Sachs Credit Partners L.P. and Citicorp North America, Inc., as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent. Concurrent with the New Credit Facility we terminated our existing line of credit.

In connection with the New Credit Facility, we and certain of our subsidiaries thereto (the ''Guarantors'') made a Guarantee and Pledge Agreement (the ''Guarantee and Pledge Agreement'') in favor of Lehman Commercial Paper Inc., as administrative agent for the banks and other financial institutions from time to time parties to the New Credit Facility, pursuant to which certain of the Guarantors guarantee the prompt and complete payment and performance when due by us of our obligations under the New Credit Facility and certain of the Guarantors pledge certain assets for the benefit of the secured parties as collateral security for the payment and performance of our obligations under the New Credit Facility and under the guarantee. The pledged assets include, among other things, equity interests in certain of our subsidiaries, all related books and records and, to the extent not otherwise included, all proceeds and products of any and all of the foregoing, all supporting obligations in respect of any of the foregoing and all collateral security and guarantees given by any person with respect to any of the foregoing.

The term loan and the revolving loan and the letters of credit commitment under the New Credit Facility is scheduled to expire on February 10, 2007. We have the option of requesting a six-month extension of any or all of the maturity or expiration dates.

At our option, the term loan and the revolving loan bear interest at either (i) the greater of (a) the prime lending rate as set forth on the British Banking Association Telerate Page 5 plus a margin of 0.50% and (b) the Federal Funds Effective Rate plus ½ of 1% plus a margin of 0.50%, or (ii) the Eurodollar rate plus a margin of 1.50%. In connection with the revolving loan, we will pay a commitment fee of 0.25% per annum on the average daily amount of undrawn funds. In connection with the term loan, we will pay a commitment fee of 0.125% of the average daily amount of undrawn funds so long as we draw less than $150.0 million, or 0.25% if we draw $150.0 million or more.

The proceeds of the loans under the New Credit Facility were used to finance a portion of acquisitions of fee-simple and leasehold ownership interests in senior housing real estate and to pay related fees and expenses and for general corporate purposes.

The New Credit Facility contains typical representations and covenants for loans of this type. A violation of any of these covenants could result in a default under the New Credit Facility, which would result in termination of all commitments and loans under the New Credit Facility and all other amounts owing under the New Credit Facility and the other loan documents to become immediately due and payable.

As of the date of this prospectus, we have drawn $195.0 million and $0 on the term loan and the revolving loan, respectively. In addition $59.4 million of letters of credit have been issued under the letter of credit commitment.

The GECC Mortgage Loan

General. Subsidiaries of Fortress CCRC are borrowers under a mortgage loan made on April 5, 2005 by General Electric Capital Corporation, or GECC, and Merrill Lynch Capital, which we refer to in this prospectus as the ''GECC mortgage loan'', with a current balance of $105.8 million. If certain financial covenants in the GECC mortgage loan are satisfied, the borrowers have the option to borrow up to an additional $30.0 million as a one-time advance.

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Security for the Mortgage Loan. The GECC mortgage loan is secured by (i) mortgage liens on the borrowers' fee interests in six facilities comprising the Fortress CCRC Portfolio, (ii) a security interest in substantially all of the borrowers' personal property and fixtures, (iii) a pledge of the membership interests (or equivalent equity interests) of each of the borrowers, (iv) a guaranty for typical non-recourse carveouts by us, and (v) a $10.0 million limited guaranty by us for certain capital improvements to be completed at the facilities.

Interest Rate. The GECC mortgage loan had an interest rate equal to the 30-day LIBOR plus a margin of 3.0% per annum (which margin has reduced to 2.25% per annum as of April 1, 2006).

Interest Rate Swap. In connection with the GECC mortgage loan we entered into an interest rate swap with Merrill Lynch Capital Services to hedge our interest rate risk and convert the loan from a floating rate to a fixed rate through January 22, 2008. The notional amount of the interest rate swap is $108.0 million of which $2.2 will be redesignated and we pay a fixed rate of 3.615% and receive one-month LIBOR.

Prior to closing the financing we entered into an additional $12.0 million amortizing interest rate swap where we pay a fixed rate of 3.615% and receive one-month LIBOR. We intend to redesignate this swap to the estimated debt financing to be obtained in connection with the six facilities currently leased but expected to be purchased.

Payment Terms. For the first four years of the GECC mortgage loan, we are required to make monthly payments in arrears of interest only. Commencing on April 1, 2009, we will also be required to make a monthly principal amortization payment based upon the outstanding principal balance of the GECC mortgage loan, using a 25-year period and an assumed annual interest rate equal to 6.0%.

Debt Service Coverage Ratio. Commencing on September 30, 2005, the debt service coverage ratio (defined in the GECC mortgage loan as the ratio of (i) adjusted net operating income from the properties for the 12-month period ending on the applicable measurement date to (ii) annualized payments of debt service due on the GECC mortgage loan for the same period) shall not, as of the end of any calendar quarter through June 30, 2006, fall to lower than 1.15:1.0 or, after September 30, 2006, fall to lower than 1.3:1.0.

Project Yield. Commencing on September 30, 2005 and as of the last day of each calendar quarter through December 31, 2005, the project yield (defined in the GECC mortgage loan as a percentage of (i) adjusted net operating income from the properties for the 12 month period ending on the applicable measurement date to (ii) the outstanding principal balance of the GECC mortgage loan on the applicable measurement date) shall equal or exceed 8.5%. Commencing on September 30, 2006 and as of the last day of each calendar quarter through June 30, 2007, the project yield shall equal or exceed 11%. Commencing on September 30, 2007 and commencing on the last day of each calendar quarter thereafter, the project yield shall equal or exceed 13%.

Occupancy Requirements. Commencing on September 30, 2005 and as of the last day of each calendar quarter thereafter, the average daily occupancy for the properties for any such calendar quarter must be greater than 90% of the average daily occupancy at the facilities at closing.

Failure to Meet Debt Service Ratio, Project Yield or Occupancy Requirement. If we fail to meet either the debt service coverage ratio or the project yield thresholds, then, within ten days thereafter, we must either deposit with the lender a letter of credit or pay down a portion of the principal balance of the GECC mortgage loan, in each case in an amount necessary to meet such project yield requirement or debt service coverage ratio requirement, as applicable. Failure to deposit such letter of credit or pay down the principal balance of the GECC mortgage loan if either financial covenant is not met constitutes as an event of default. Failure to maintain the occupancy rate also constitutes an event of default.

Voluntary Prepayment. The borrowers may prepay the GECC mortgage loan without penalty in whole or in part on or after April 1, 2007.

Special Purpose Entities. In connection with the GECC mortgage loan, the organizational documents of the borrowers were amended to limit their purposes and to add other provisions consistent with the provisions of the organizational documents of special purpose entities.

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Certain Covenants. The GECC mortgage loan documents include representations, warranties and covenants customary for mortgage loans. Among other things, the borrowers are prohibited from incurring additional indebtedness or further encumbering their assets. In addition, so long as the GECC mortgage loan remains outstanding, (i) Fortress Investment Trust II or its affiliates shall own, in the aggregate, directly or indirectly, not less than 35% of the ownership interests in us, or (ii) (A) Wesley R. Edens shall remain a manager of Fortress Investment Group LLC and be our chairman of the board of directors, (B) Fortress Investment Trust II or its affiliates shall own, in the aggregate, directly or indirectly, not less than ownership interests in us that they owned at the time of this offering, or (C) we must have a market capitalization equal to or greater than $500.0 million.

Merrill Lynch Mortgage Loan

General. AHC Purchaser, Inc., a subsidiary of Alterra, is the borrower under a mortgage loan made on December 31, 2004 by Merrill Lynch Capital, which we refer to in this prospectus as the ‘‘Merrill Lynch mortgage loan’’, with a current principal balance of $62.5 million and AHC Purchaser Holding II, Inc., another subsidiary of Alterra, is the borrower under a mezzanine loan made on December 31, 2004 by Merrill Lynch Capital, which we refer to as the junior loan, with a current principal balance of $10.0 million. The Merrill Lynch mortgage loan and the junior loan both mature on December 31, 2007, with an option to extend the maturity date for up to two 12-month terms, provided that both loans are extended concurrently.

Security for the Mortgage Loan. The Merrill Lynch mortgage loan is secured by (i) mortgage liens on the borrower’s fee interests in 21 properties, (ii) security liens on the borrower’s personal assets, (iii) an unconditional guaranty from AHC Purchaser Holding, Inc. and Alterra for all amounts due under the Merrill Lynch mortgage loan, and (iv) a pledge of 100% of the capital stock in the borrower. The junior loan is secured by (a) a collateral assignment of 100% of the capital stock of the borrower and (b) a guaranty from Alterra for all amounts due under the junior loan.

Interest Rate. The Merrill Lynch mortgage loan has an interest rate equal to the 30 day LIBOR plus a margin of 3.642% per annum and the junior loan has an interest rate equal to the 30 day LIBOR plus a margin of 9.5% per annum. If the combined interest rate (as defined under the applicable loan documents) falls below 6.0%, then the Merrill Lynch mortgage loan shall bear additional interest at a rate such that the combined rate equals 6.0%.

Interest Rate Swap. In connection with the Merrill Lynch mortgage loan we entered into an interest rate swap with Merrill Lynch Capital Services, Inc. to hedge our interest rate risk and convert the loan from a floating rate to a fixed rate through March 22, 2012. The notional amount of the interest rate swap is $70.0 million and we pay a fixed rate of 4.70% and receive one-month LIBOR.

Voluntary Prepayments. The borrowers may prepay the loans in whole but not in part on or after July 1, 2006, provided they pay an exit fee to the lender with respect to the Merrill Lynch mortgage loan in an amount equal to $1.875 million through the end of calendar year 2006, and thereafter $937,500, and with respect to the junior loan in an amount equal to $300,000 through the end of calendar year 2006, and thereafter $150,000.

Debt Service Coverage Ratio. The debt service coverage ratio (defined as the ratio of (i) net operating income of the properties securing the loans to (ii) total debt service) shall not as of the end of each calendar month fall below

1.30:1.0.

Payment Terms. The borrowers are required to make monthly payments in arrears of interest on the outstanding principal balance of the loans, and any additional interest, and monthly principal amortization payments as set forth in a schedule attached to the loan agreement. Commencing on January 1, 2008, if the project yield (defined as the quotient of (i) net operating income from the properties divided by (ii) the sum of the then current outstanding principal balance plus accrued and unpaid interest (on both the mortgage and junior loans)) for any calendar month is less than 14%, then in addition to any other required payments, the borrowers will be required to make monthly payments to the lender in an amount equal to approximately 64.66% of excess cash flow of the properties (defined as net cash flow for such period less current scheduled principal and interest payments due on the loans).

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Project Yield. The project yield shall not, as of the end of each calendar month, fall below 10.25% during the first year of the loans, 11.0% during the second year of the loans, 12.0% during the third year of the loans, and 13.0% for all years thereafter.

Certain Covenants. The loan documents include representations, warranties, and covenants customary for mortgage loans. Among other things, the borrowers are prohibited from incurring additional indebtedness or further encumbering their assets. Alterra may not incur any indebtedness to any of its stockholders or affiliates, and at any time an event of default is continuing under the loan documents, may not pay any dividends. The loan documents also require Alterra to maintain unrestricted cash and/or availability under lines of credit or revolving loan agreements in the aggregate amount of at least $8.0 million and, in certain circumstances, at least $10.0 million. Provided that Merrill Lynch reasonably determines that Alterra's fixed charge coverage ratio is not equal to or greater than 1:1 on a prospective basis taking into account any of the following events, Alterra may not (i) declare a dividend or make other distributions of any kind to Alterra's stockholders, (ii) make any asset acquisition of $10.0 million or more, (iii) enter into any sale-leaseback transaction where the sale price is $10.0 million or more, (iv) incur any debt for borrowed money, or (v) incur any lease obligations (other than (a) renewals or extensions of existing leases pursuant to options to do so in such leases, (b) intercompany leases among Alterra and its direct or indirect subsidiaries and (c) leases necessary for governmental compliance), whether or not such leases are capitalized).

Transfer Restrictions. Without the prior written consent of Merrill Lynch, which consent may be withheld in Merrill Lynch's sole discretion, the borrowers may not suffer or permit (i) the termination of any existing management agreement or master lease or any change in the manager or master tenant thereunder with respect to any project, or (ii) any sale, transfer, lease or pledge of (a) all or any portion of any of the Merrill Lynch projects or any portion of the properties securing the Merrill Lynch mortgage loan, (b) all or any portion of borrowers' right, title and interest in and to any of the properties securing the Merrill Lynch mortgage loan, or (c) any interest in the borrowers, any master tenant or any guarantor or any interest in any entity that holds a direct or indirect interest in, or directly or indirectly controls, any borrower, master tenant or guarantor. The Company has received Merrill Lynch's consent to the consummation of this offering, as well as the applicable formation transactions described in ‘‘Business— History.’’ In addition, if Alterra fails to continue to control (x) the day-to-day management and operation of the borrowers' business and (y) all material business decisions of the borrowers during the term of the Merrill Lynch mortgage loan, then Merrill Lynch may, at its option, declare the Merrill Lynch mortgage loan to be immediately due and payable in addition to exercising any of its other remedies permitted by the Merrill Lynch loan documents. Furthermore, without the consent of Merrill Lynch, the borrowers may not engage in a transfer of shares constituting an initial public offering of Alterra, or any direct or indirect owner of 100% of the stock of Alterra, or similar equity sale transaction, unless such shares of Alterra, or such direct or indirect owner of 100% of the stock of Alterra, are listed or approved for listing on the New York Stock Exchange, the National Association of Securities Dealers Automated Quotation System or the American Stock Exchange at the time of such transfer.

Guaranty Bank Mortgage Loan

General. Five subsidiaries of BLC are borrowers under a loan made on March 30, 2005 by Guaranty Bank, GMAC Commercial Mortgage Bank and GMAC Commercial Mortgage Corporation, or the Guaranty mortgage loan, with a current principal balance of $150.0 million. The notes evidencing the loan include notes A, which evidence the $150.0 million principal amount, and notes B, which evidenced $32.0 million of the principal amount. We used a portion of the net proceeds received from our initial public offering to repay all of the $32.0 million outstanding balance of the notes B. The loan matures on April 1, 2008, and the borrowers have an option to extend the maturity date for up to two 12-month terms, subject to (i) payment of an extension fee in an amount equal to .25% of the principal amount for each extension period, (ii) the properties securing the Guaranty mortgage loan having achieved a debt coverage ratio (the ratio of net operating income from the properties for the period in question to debt service on the Guaranty mortgage loan for the period in question) of at least 1.35 for the immediately preceding six-month period, (iii) the properties having a cumulative loan-to-value ratio (the ratio of (a) the sum of the principal amount outstanding and all accrued but unpaid interest thereon to (b) the appraised

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‘‘as is’’ value of the properties) of at least 75% as of the date the notice of extension is provided, and (iv) the prior reclassification of all of notes B into notes A, as further described below. Subsequent to the consummation of this offering, we intend to refinance this obligation. See ‘‘—Development Mortgage Loan’’ below.

Interest Rate. The Guaranty mortgage loan has an interest rate equal to the sum of LIBOR plus 2.25% effective May 1, 2006 (3.05% prior to that date) for the notes A.

Interest Rate Swap. In connection with the Guaranty mortgage loan we entered into three interest rate swaps with LaSalle Bank, N.A. to hedge our interest rate risk and convert the loan from a floating rate to a fixed rate. The swaps have notional amounts of $85.0 million, $60.0 million and $37.0 million, mature on March 22, 2012, March 22, 2012 and March 25, 2008 and have fixed rates of 4.66%, 4.775% and 4.395%, respectively. For the three swaps we pay a fixed rate and receive one-month LIBOR.

Security for the Mortgage Loan. The loan is secured by (i) mortgage liens on the borrowers’ fee interests in five properties, and (ii) an unconditional guaranty made by BLC to the lenders for 50% of the amount due under the loan (such percentage to drop to 25% if certain financial covenants are met) and for typical non-recourse carve outs. As additional collateral for the obligations of the borrowers under the Guaranty mortgage loan, borrowers maintain with the lender cash or a letter of credit in the amount of $2.5 million.

Payment Terms. For the initial term of the Guaranty mortgage loan, we are required to make monthly payments in arrears of interest only on the outstanding principal balance of the Guaranty mortgage loan. In the event that the borrowers exercise their option to extend the term of the loan, in addition to the regularly scheduled interest payments on the principal amount of the Guaranty mortgage loan, we are required to make a monthly principal installment amount (as defined in the applicable loan documents).

Required Ratios. During the first year of the Guaranty mortgage loan, the properties securing the Guaranty mortgage loan must have achieved a debt coverage ratio of at least 1.2:1.0 with respect to notes A and a debt coverage ratio of at least 1.0:1.0 with respect to notes A and notes B, in the aggregate, for each calendar quarter. During each subsequent year, the facilities must have achieved a debt coverage ratio of at least 1.25:1.0 concerning notes A, and if notes B are outstanding, a debt coverage ratio of at least 1.1:1.0 concerning notes A and notes B, in the aggregate, for each calendar quarter. We used a portion of the net proceeds received from our initial public offering to repay all of the $32.0 million outstanding balance of the notes B.

During the first year of the Guaranty mortgage loan, the facilities located on the properties securing the Guaranty mortgage loan must have achieved a minimum aggregate occupancy ratio (as defined in the applicable loan documents) of at least 75%. During each subsequent year, the facilities must have achieved a minimum aggregate occupancy ratio of at least 80%. As of March 31, 2006, the facilities' aggregate occupancy ratio was 89.9%.

If the borrowers fail to maintain the required debt service coverage ratio or the minimum aggregate occupancy ratio, we may, at our option, prevent an event of default from occurring as a result of such failure only by delivering to the lender a fee and additional collateral equal to: (i) with respect to any first failure, a fee in the amount of $100,000 and $500,000 pledged as additional collateral for the Guaranty mortgage loan, and (ii) with respect to any second failure, a fee in an amount equal to $150,000 and $1.0 million pledged as additional collateral for the Guaranty mortgage loan.

Voluntary Prepayment. After April 1, 2006, with respect to notes A, and at any time, with respect to notes B, the borrowers may prepay all or any part of the principal amount outstanding, together with the payment of an exit fee to the lender in the amount of 1% of the amount of principal being repaid.

Capital Expenditures. The borrowers are required to expend a minimum of $300 per unit per year for capital expenditures with respect to the properties securing the Guaranty mortgage loan.

Certain Covenants. The loan documents include representations, warranties and covenants customary for mortgage loans. Among other things, the borrowers are prohibited from incurring or permitting to exist any additional indebtedness. The loan documents also prohibit the sale or transfer of

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the direct or indirect ownership interests in the properties securing the Guaranty mortgage loan or the borrowers without the lenders' agent's prior written consent, provided that there are no restrictions on transfers of direct or indirect ownership interests in BLC, subject to certain notice requirements.

Development Mortgage Loan

General. Five subsidiaries of BLC have entered into a commitment to become borrowers under five separate loans by Capmark Finance Inc., or the Development mortgage loan, in the aggregate principal amount of $150.0 million. The Development mortgage loan will refinance the Guaranty mortgage loan, with a current balance of $150.0 million (original principal amount was $182.0 million of which $32.0 million was repaid from proceeds of the initial public offering in November 2005). The Development mortgage loan will have a term of eighty-four months.

Interest Rate. The Development mortgage loan will have an interest rate equal to the sum of (i) one-month LIBOR plus (ii) ..88%.

Interest Rate Swap. In connection with the Guaranty mortgage loan, we entered into three interest rate swaps with LaSalle Bank, N.A. to hedge our interest rate risk and convert the loan from a floating rate to a fixed rate. The swaps have notional amounts of $150.0 million of which $5.0 million matures March 2008 and $145.0 million matures March 2012. Pursuant to the Development mortgage loan we are required to maintain a hedge (swap or interest rate cap).

Security for the Mortgage Loan. The Development mortgage loan will be secured by (i) mortgage liens on the borrowers' fee interests in five properties, and (ii) an unconditional guaranty made by BLC to the lenders of $7.0 million of the principal amount of the Development mortgage loan, for typical non-recourse carve outs and for certain additional obligations of the borrowers. The $7.0 million guaranty by BLC will be released if the debt service coverage ratio for such loan is not less than 1.35:1.0 for the last six consecutive calendar months prior to a request for release by the borrowers, so long as no event of default exists at the time under the loan. In addition, BLC will be required to have cash availability of $3.0 million until it secures certain guarantee obligations with a $3.0 million letter of credit, no later than December 15, 2006.

Payment Terms. For the first 5 years of the term of the Development mortgage loan, we are required to make monthly payments in arrears of interest only on the outstanding principal balance of the Development mortgage loan. The loan will not amortize during this 5 year period. Thereafter, in addition to the regularly scheduled interest payments on the principal amount of the Development mortgage loan, we are required to make monthly principal installment payments (as set forth in the applicable loan documents).

Voluntary Prepayment. The borrowers may prepay all or any part of the principal amount outstanding under the Development mortgage loan at any time, subject to the required payment of a prepayment premium on the amount of the principal being repaid in accordance with the following schedule: 5% in year 1, 4% in year 2, 3% in year 3, 2% in year 4 and 1% after year 4, provided that no prepayment premium will be due if prepayment occurs any time during the three consecutive calendar months before the scheduled maturity of the Development mortgage loan. Additionally, no prepayment penalty will be due if the Development loan is repaid any time after year 5 of the term if such repayment is made in connection with a refinancing mortgage loan that is the subject of a binding commitment for purchase by Freddie Mac and a Freddie Mac-approved Program Plus Seller/Servicer.

Capital Expenditures. The borrowers will be required to expend a minimum of $300 per unit per year for capital expenditures with respect to the properties securing the Development mortgage loan.

Certain Covenants. The loan documents will include representations, warranties and covenants customary for mortgage loans.

GMAC Mortgage Loan

General. Nine subsidiaries of FIT REN, a wholly owned subsidiary of Alterra and a fund managed by an affiliate of Fortress, are borrowers under nine separate cross-collateralized and cross-defaulted

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mortgage loans in an aggregate amount of approximately $171.0 million, $151.4 million of which was funded on June 21, 2005 in connection with the purchase of eight facilities by GMAC Commercial Mortgage Corporation, or the GMAC mortgage loans. The balance was funded on July 22, 2005, upon closing of the purchase of the ninth facility.

Security for the GMAC Mortgage Loans. The GMAC mortgage loans are secured by (i) mortgage liens on the borrowers' fee interests in eight facilities and a ground lease interest in one property, collectively comprising the Prudential Portfolio, (ii) a security interest in substantially all of the borrowers' fixtures, equipment and personal property, (iii) a guaranty for typical non-recourse carveouts by Alterra, (iv) an assignment of leases, rents, lease guarantees and like profits arising from the properties and (v) an assignment of each borrower's rights under the applicable property management agreements.

Interest Rate. The GMAC mortgage loans with respect to the properties that closed on June 21, 2005 have a fixed interest rate equal to 5.37%. The GMAC mortgage loan with respect to the one property that closed on July 22, 2005 has a fixed interest rate equal to 5.51%.

Payment Terms. For the first five years of the GMAC mortgage loans, the borrowers are required to make monthly payments of interest only. During the final two years, the borrowers will also be required to make a monthly principal amortization payment based upon the outstanding principal balance of the GMAC mortgage loans, using a 25-year amortization period.

Voluntary Prepayment. The borrowers may prepay any of the GMAC mortgage loans in whole, but not in part, at any time during the first six and a half years of the GMAC mortgage loans, provided that (i) the borrowers pay a prepayment fee in an amount equal to the greater of 1% of the principal amount being prepaid and the standard yield maintenance amount of the Federal National Mortgage Association, or Fannie Mae; and (ii) in connection with the release of the lien on any individual property securing the GMAC mortgage loans, the remaining properties, in the aggregate, maintain a debt service coverage of at least 1.45:1.0. Any prepayment after the first six and a half years, but before the last three months, of the GMAC mortgage loans shall be subject to a prepayment premium equal to 1% of the amount of principal being prepaid and no prepayment fee shall be payable in connection with a prepayment during the last three months of the GMAC mortgage loans.

Special Purpose Entities. In connection with the GMAC mortgage loans, the organizational documents of the borrowers were amended to limit their purposes and to add provisions consistent with the provisions of the organizational documents of special purpose entities.

Certain Covenants. The GMAC mortgage loan documents include representations, warranties and covenants customary for mortgage loans. Among other things, the borrowers are prohibited from incurring additional indebtedness or further encumbering their assets, unless Fannie Mae otherwise provides additional financing. In addition, neither the properties securing the GMAC mortgage loans nor the ownership interests in the borrowers may be directly or indirectly transferred, provided that such restriction does not apply to a direct or indirect transfer of the ownership interests in the Company.

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DESCRIPTION OF CAPITAL STOCK

General

As of the date of this prospectus, our authorized capital stock consisted of:

- 200,000,000 shares of common stock, par value $0.01 per share; and

• 50,000,000 shares of preferred stock, par value $0.01 per share.

As of July 6, 2006, 66,560,800 shares of our common stock (including certain unvested restricted shares) were issued and outstanding. Upon completion of this offering, there will be outstanding 100,463,029 shares of common stock (assuming the issuance of 17,600,867 shares of our common stock that we expect to issue to the Investor pursuant to the Investment Agreement in connection with the consummation of the ARC Merger and assuming the sale and corresponding grant of an aggregate of 951,362 shares of our common stock to the ARC executives as described in ‘‘Management—Equity Incentive Plans—Omnibus Stock Incentive Plan—New Plan Benefits’’) and no outstanding shares of preferred stock. All of the currently outstanding shares of common stock are validly issued, fully paid and non-assessable under the Delaware General Corporation Law, or the DGCL.

Set forth below is a summary description of all the material terms of our capital stock. This description is qualified in its entirety by reference to our amended and restated certificate of incorporation and amended and restated by-laws, a copy of each of which is filed as an exhibit to the Registration Statement of which this prospectus is a part.

Common Stock

Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess the exclusive right to vote for the election of directors and for all other purposes. The amended and restated certificate of incorporation does not provide for cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors standing for election, and the holders of the remaining shares will not be able to elect any directors; provided, however, that pursuant to the Stockholders Agreement with FBA, FIT-ALT Investor, Fortress Investment Trust II and Health Partners, (i) FIG Advisors will have the right to designate up to four directors to serve on the board for so long as the Fortress Stockholders beneficially own more than 50% of the voting power of the Company and (ii) Health Partners will have the right to designate one director to serve on the board for so long as the HP Stockholders beneficially own more than 5% of the voting power of the Company. The Stockholders Agreement requires that the Fortress Stockholders and the HP Stockholders vote or cause to be voted all of its voting shares for the directors nominated as described above. Based on the current share ownership of Health Partners, the HP Stockholders have the right to designate one director. Mr. Cooper is the designee of the HP Stockholders that currently serves on our board of directors. If the underwriters exercise their overallotment option to purchase up to 2,582,250 shares of our common stock from the selling stockholder then, following the consummation of this offering, the HP Stockholders will no longer own more than 5% of the voting power of the Company. In such case, within 10 days of the consummation of this offering, as required by the Stockholders Agreement, the HP Stockholders would be required to cause Mr. Cooper to resign. See ‘‘Certain Relationships and Related Party Transactions—Agreements With Stockholders—Stockholders Agreement’’ for a more detailed description of the Stockholders Agreement and the HP Stockholders.

Subject to any preference rights of holders of our preferred stock that the Company may issue in the future, the holders of our common stock are entitled to receive dividends, if any, declared from time to time by our board of directors out of legally available funds. In the event of our liquidation, dissolution or winding up, the holders of our common stock are entitled to share ratably in all assets remaining after the payment of liabilities, subject to any rights of our holders of preferred stock to prior distribution.

The holders of common stock have no preemptive, subscription, redemption or conversion rights. Any shares of common stock sold under this prospectus will be fully paid and non-assessable upon

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issuance against full payment of the purchase price for such shares. Our common stock is listed on the New York Stock Exchange under the symbol ‘‘BKD’’.

Preferred Stock

The board of directors has the authority, without action by our stockholders, to issue preferred stock and to fix voting powers for each class or series of preferred stock, and to provide that any class or series may be subject to redemption, entitled to receive dividends, entitled to rights upon dissolution or convertible or exchangeable for shares of any other class or classes of capital stock. The rights with respect to a series or class of preferred stock may be greater than the rights attached to our common stock. It is not possible to state the actual effect of the issuance of any shares of our preferred stock on the rights of holders of our common stock until our board of directors determines the specific rights attached to that preferred stock. The effect of issuing preferred stock could include one or more of the following:

- restricting dividends in respect of our common stock;
- diluting the voting power of our common stock or providing that holders of preferred stock have the right to vote on matters as a class;
- impairing the liquidation rights of our common stock; or
- delaying or preventing a change of control of Brookdale.

Agreements with Stockholders

We have entered into agreements with certain of our stockholders regarding voting and registration rights, among other things. See ‘‘Certain Relationships and Related Party Transactions—Agreements With Stockholders.’’

Anti-Takeover Effects of Delaware Law, Our Amended and Restated Certificate of Incorporation and Our Amended and Restated By-laws

The following is a summary of certain provisions of our amended and restated certificate of incorporation and amended and restated by-laws that may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

Authorized but Unissued Shares

The authorized but unissued shares of our common stock and our preferred stock will be available for future issuance without our stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of our common stock and our preferred stock could render more difficult or discourage an attempt to obtain control over us by means of a proxy contest, tender offer, merger or otherwise.

Delaware Business Combination Statute

We are organized under Delaware law. Some provisions of Delaware law may delay or prevent a transaction that would cause a change in our control.

Our amended and restated certificate of incorporation provides that Section 203 of the DGCL, an anti-takeover law, will not apply to us. In general, this statute prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction by which that person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an interested stockholder is a person who, together with affiliates and associates, owns, or within three years prior, did own, 15% or more of voting stock.

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Other Provisions of Our Amended and Restated Certificate of Incorporation and Our Amended and Restated By-laws

Certain provisions of our amended and restated certificate of incorporation may make a change in control of Brookdale more difficult to effect. Our amended and restated certificate of incorporation provides for a staggered board of directors consisting of three classes of directors. Directors of each class are chosen for three-year terms upon the expiration of their current terms and each year one class of our directors will be elected by our stockholders. The terms of the first, second and third classes will expire in 2008, 2007 and 2006, respectively. We believe that classification of our board of directors will help to assure the continuity and stability of our business strategies and policies as determined by our board of directors. Additionally, there is no cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors then standing for election, and the holders of the remaining shares will not be able to elect any directors (except Health Partners, which is permitted to designate one director to serve on the board pursuant to the Stockholders Agreement, provided that Health Partners continues to own at least 5% of the Company — see ‘‘Certain Relationships and Related Party Transactions—Agreements With Stockholders’’). The classified board provision could have the effect of making the replacement of incumbent directors more time consuming and difficult. At least two annual meetings of stockholders, instead of one, will generally be required to effect a change in a majority of our board of directors. Thus, the classified board provision could increase the likelihood that incumbent directors will retain their positions. The staggered terms of directors may delay, defer or prevent a tender offer or an attempt to change control of us, even though a tender offer or change in control might be in the best interest of our stockholders. In addition, our amended and restated by-laws provide that directors may be removed only for cause and only with the affirmative vote of at least 80% of the voting interest of stockholders entitled to vote.

Pursuant to our amended and restated certificate of incorporation, shares or our preferred stock may be issued from time to time, and the board of directors is authorized to determine and alter all rights, preferences, privileges, qualifications, limitations and restrictions without limitation. See ‘‘—Preferred Stock.’’ Our amended and restated by-laws also provide that our stockholders (with the exception of the majority stockholder if Fortress owns at least 50% of the then outstanding shares) are specifically denied the ability to call a special meeting of the stockholders. Advance notice must be provided by our stockholders to nominate persons for election to our board of directors as well as to propose actions to be taken at an annual meeting.

Limitations on Liability and Indemnification of Directors and Officers

Our amended and restated certificate of incorporation and amended and restated by-laws provide that our directors will not be personally liable to us or our stockholders for monetary damages for breach of a fiduciary duty as a director, except for:

- any breach of the director’s duty of loyalty to us or our stockholders;
- intentional misconduct or a knowing violation of law;

- liability under Delaware corporate law for an unlawful payment of dividends or an unlawful stock purchase or redemption of stock; or
- any transaction from which the director derives an improper personal benefit.

Our amended and restated certificate of incorporation allows us to indemnify our directors and officers to the fullest extent permitted by Delaware law.

We have entered into indemnification agreements with certain of our directors and executive officers. These provisions and agreements may have the practical effect in some cases of eliminating our stockholders' ability to collect monetary damages from our directors and executive officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, we have been informed that, in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

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Corporate Opportunity

Under Article Eight of our amended and restated certificate of incorporation, FIT-ALT Investor, FBA, Fortress Investment Trust II, Fortress Registered Investment Trust, Fortress Brookdale Investment Fund LLC, and Health Partners, and their respective subsidiaries and affiliates (collectively, the ''Significant Stockholders'') have the right to, and have no duty to abstain from, exercising such right to, engage or invest in the same or similar business as us, do business with any of our clients, customers or vendors or employ or otherwise engage any of our officers, directors or employees. If the Significant Stockholders or any of their officers, directors or employees acquire knowledge of a potential transaction that could be a corporate opportunity, they have no duty to offer such corporate opportunity to us, our stockholders or affiliates. We have renounced any interest or expectancy in, or in being offered an opportunity to participate in, such corporate opportunities in accordance with Section 122(17) of the Delaware General Corporation Law.

In the event that any of our directors and officers who is also a director, officer or employee of any of our Significant Stockholders acquires knowledge of a corporate opportunity or is offered a corporate opportunity, provided that this knowledge was not acquired solely in such person's capacity as our director or officer and such person acted in good faith, then such person is deemed to have fully satisfied such person's fiduciary duty and is not liable to us if any of the Significant Stockholders pursues or acquires such corporate opportunity or if such person did not present the corporate opportunity to us.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company. The telephone number of American Stock Transfer & Trust Company is 212-936-5100.

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SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial amounts of common stock (including shares issued on the exercise of options, warrants or convertible securities, if any) or the perception that such sales could occur, could adversely affect the market price of our common stock and our ability to raise additional capital through a future sale of securities.

Upon completion of this offering, we will have 100,463,029 shares of common stock (including certain unvested restricted shares) outstanding, assuming the issuance of 17,600,867 shares of our common stock that we expect to issue to the Investor pursuant to the Investment Agreement in connection with the consummation of the ARC Merger and assuming the sale and corresponding grant of an aggregate of 951,362 shares of our common stock to the ARC executives as described in ‘‘Management—Equity Incentive Plans—Omnibus Stock Incentive Plan—New Plan Benefits’’. All the 17,215,000 shares of common stock sold in this offering (or 19,797,250 shares if the underwriters exercise their option to purchase additional shares from the selling stockholder in full) and all of the 12,732,800 shares sold in our initial public offering will be freely tradable without restriction or further registration under the Securities Act, unless such shares are purchased by ‘‘affiliates’’ as that term is defined in Rule 144 under the Securities Act. Subject to certain contractual restrictions, holders of restricted shares will be entitled to sell those shares in the public securities markets if they qualify for an exemption from registration under Rule 144 or any other applicable exemption under the Securities Act. Subject to the lock-up agreements described below and the provisions of Rules 144 and 144(k), additional shares will be available for sale as set forth below.

On August 5, 2005 and September 14, 2005, BLC granted an aggregate of 988 shares of its stock and FEBC-ALT Investors granted 3.33% of its membership interests to certain members of our management, which shares, other than those described below, and percentage interests, subject to certain exceptions, were subject to substantial risk of forfeiture until the occurrence of certain events, as specified in the applicable restricted stock or restricted securities award agreements. Of the 988 shares of BLC stock granted, 25 shares were granted to Paul Froning, a member of our management, in exchange for a cash payment to BLC by Mr. Froning of $500,000. These 25 shares are fully vested and are not subject to risk of forfeiture. In accordance with the terms of the plans, a portion of these securities will no longer be subject to a risk of forfeiture upon the consummation of this offering. In addition, the remaining securities will vest over a five-year period following the issuance if the executive remains continuously employed by the Company. Securities that are subject to a risk of forfeiture may not be sold or transferred. See ‘‘Business—Equity Incentive Plans—Employee Restricted Stock Plans.’’ In connection with the formation transactions described in ‘‘Business—History,’’ these shares were automatically converted into an aggregate of 2,575,405 shares of our common stock. These grants were exempt from the registration requirements of the Securities Act pursuant to either Section 4(2) or Rule 701.

In addition to the outstanding shares of common stock, we filed a registration statement on Form S-8 after our initial public offering to register an aggregate of 2,000,000 shares of common stock under our Omnibus Stock Incentive Plan. In accordance with the terms of the Plan, the number of shares available for issuance increased by 400,000 shares on January 1, 2006. In addition, in connection with the shares we expect to issue to certain officers and employees of ARC in connection with the ARC Merger, our board of directors and holders of a majority of the shares of our common stock, have approved the Plan Amendment pursuant to which we will, upon the consummation of the ARC Merger, add 2,500,000 shares of Company common stock to the shares reserved under the Plan. See ‘‘Management—Equity Incentive Plans—Omnibus Stock Incentive Plan—Plan Amendment.’’

The 17,600,867 shares of our common stock expected to be issued to the Investor pursuant to the Investment Agreement in connection with the ARC Merger will be restricted shares and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemptions contained in Rule 144, as described below.

The 475,681 shares of our common stock expected to be sold to the ARC executives and any shares of common stock sold to ARC employee-optionees who choose to purchase such stock as described in ‘‘Management—Equity Incentive Plans—Omnibus Stock Incentive Plan—New Plan Benefits’’, will be freely tradeable subject to the restrictions on transfer attaching to such shares and also subject to restrictions under the Securities Act, including the restrictions and limitations set forth in Rule 144, as described below. Any shares sold to the ARC executives or to the approximately 350

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employee-optionees will be subject to an 18-month holding period. Any shares granted to the ARC executives or to the approximately 350 employee-optionees will be restricted shares under our Plan.

Lock-Up Agreements

The Company and its executive officers, directors and holders of substantially all of the Company’s common stock, including the selling stockholder, have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 60 days after the date of this prospectus, except with the prior written consent of the representatives. The Company's lock-up agreement does not apply to (i) the issuance of shares pursuant to the exercise or conversion of any outstanding securities, or the issuance of any securities pursuant to the Company's employee stock option plans, (ii) the sale of shares of stock issued in connection with an acquisition (clauses (i) and (ii) subject to an aggregate cap of $100.0 million), (iii) the grant of shares to the Investor under the Investment Agreement or (iv) in connection with the sale of shares or grant of shares to ARC employees and executives in connection with the ARC Merger, provided that (x) the Company will not waive any transfer restriction or accelerate the vesting of any such shares with respect to the restricted period described in this section and (y) the Company will direct the transfer agent to not effect the transfer of any such shares through the lockup period (as that may be extended). In addition, the Company will not grant or sell shares to the ARC employees other than subject to the transfer restrictions and vesting periods described under ‘‘Management — Equity Incentive Plans — Omnibus Stock Incentive Plan — New Plan Benefits’’. The lock-up agreement of the executive officers, directors and stockholders does not apply to transfers (i) as a bona fide gift or gifts, (ii) to any trust for the direct or indirect benefit of the executive officers, director or stockholder or the immediate family of the executive officer, director or stockholder or (iii) with the prior written consent of Goldman, Sachs & Co. and Lehman Brothers Inc. on behalf of the underwriters.

The lock-up agreements with applicable affiliates of Fortress, our largest stockholder, will contain an exception to allow Deutsche Bank, as the Administrative Agent and sole lender under the credit agreements discussed under ‘‘Certain Relationships and Related Party Transactions—Fortress Credit Agreements’’, to seize and dispose of the shares pledged under the credit agreements in the event of a default under either of the credit agreements by the applicable affiliates of Fortress.

The 60-day restricted period described in the preceding paragraph will be automatically extended if (1) during the last 17 days of the 60-day restricted period the Company issues an earnings release or announces material news or a material event or (2) prior to the expiration of the 60-day restricted period, the Company announces that it will release earnings results during the 15-day period following the last day of the 60-day restricted period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release of the announcement of the material news or material event.

All participants in the directed shares program described under ''Underwriting'' have also agreed to similar restrictions on the ability to sell their common stock.

Rule 144

In general, Rule 144 of the Securities Act as currently in effect, provides that a person may sell within any three month period a number of shares of the issuer that does not exceed the greater of:

- 1% of the total number of such issuer's shares of common stock then outstanding, which, in our case, will equal approximately 100,463,029 shares immediately after this offering; or
- the average weekly trading volume of the common stock on the New York Stock Exchange during the four calendar weeks preceding the filing of notice on Form 144 with respect to the sale

subject to a requirement that any ''restricted'' shares have been beneficially owned for at least one year, including the holding period of any prior owner that was not an affiliate.

An ''affiliate'' is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with an issuer.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

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Rule 144(k)

Under Rule 144(k) of the Securities Act, a person (or persons whose shares are aggregated) who is not deemed to have been our affiliate at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years (including the holding period of any prior owner other than an affiliate), is entitled to sell these shares under Rule 144(k) without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, ''144(k)'' shares may be sold immediately upon completion of this offering.

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MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX
CONSIDERATIONS TO NON-U.S. HOLDERS

The following discussion is a summary of the material U.S. federal income tax considerations generally applicable to the purchase, ownership and disposition of our common stock by Non-U.S. Holders (as defined below). This summary deals only with our common stock held as capital assets by holders who purchase common stock in this offering. This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to the purchase, ownership or disposition of our common stock by prospective investors in light of their particular circumstances. In particular, this discussion does not address all of the tax considerations that may be relevant to certain types of investors subject to special treatment under U.S. federal income tax laws, such as:

- dealers in securities or currencies;
- financial institutions;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt entities;
- insurance companies;
- persons holding common stock as part of a hedging, integrated, conversion or constructive sale transaction or a straddle;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons liable for alternative minimum tax;
- U.S. expatriates;
- partnerships or entities or arrangements treated as a partnership or other pass-through entity for U.S. federal tax purposes (or investors therein); or
- U.S. Holders (as defined below).

Furthermore, this summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof. Such authorities may be repealed, revoked, modified or subject to differing interpretations, possibly on a retroactive basis, so as to result in U.S. federal income tax consequences different from those discussed below. We have not received a ruling from the Internal Revenue Service, or the IRS, with respect to any of the matters discussed herein. This discussion does not address any state, local or non-U.S. tax considerations.

For purposes of this summary, a ‘‘U.S. Holder’’ means a beneficial owner of our common stock that is for U.S. federal income tax purposes one of the following:

- a citizen or an individual resident of the United States;
- a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if it (i) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our common stock, the U.S. federal income tax treatment of a partner in such partnership

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will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership holding our common stock, we particularly urge you to consult your own tax advisors.

If you are considering the purchase of our common stock, we urge you to consult your own tax advisors concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of our common stock, as well as any consequences to you arising under state, local and non-U.S. tax laws.

The following discussion applies only to Non-U.S. Holders. A ‘‘Non-U.S. Holder’’ is a beneficial owner of our common stock (other than a partnership or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder. Special rules may apply to you if you are a ‘‘controlled foreign corporation’’ or a ‘‘passive foreign investment company’’, or are otherwise subject to special treatment under the Code. Any such holders should consult their own tax advisors to determine the U.S. federal, state, local and non-U.S. income and other tax consequences that may be relevant to them.

Dividends

Dividends paid to you (to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes) generally will be subject to U.S. federal withholding tax at a 30% rate, or such lower rate as may be specified by an applicable tax treaty. However, dividends that are effectively connected with a trade or business you conduct within the United States, or, if certain tax treaties apply, are attributable to a permanent establishment you maintain in the United States, are not subject to the U.S. federal withholding tax, but instead are subject to U.S. federal income tax on a net income basis at the applicable graduated individual or corporate rates. Special certification and disclosure requirements must be satisfied for effectively connected income to be exempt from withholding. If you are a corporation, any such effectively connected dividends that you receive may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

If you wish to claim the benefit of an applicable treaty rate for dividends paid on our common stock, you must provide the withholding agent with a properly executed IRS Form W-8BEN, claiming an exemption from or reduction in withholding under the applicable income tax treaty. In the case of common stock held by a foreign intermediary (other than a ‘‘qualified intermediary’’), the intermediary generally must provide an IRS Form W-8IMY and attach thereto an appropriate certification by each beneficial owner for which it is receiving the dividends.

If you are eligible for a reduced rate of U.S. federal withholding tax pursuant to an applicable income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Sale, Exchange or Other Taxable Disposition of Common Stock

You generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale, exchange or other taxable disposition of shares of our common stock unless:

- the gain is effectively connected with your conduct of a trade or business in the United States, or, if certain tax treaties apply, is attributable to a permanent establishment you maintain in the United States;
- if you are an individual and hold shares of our common stock as a capital asset, you are present in the United States for 183 or more days in the taxable year of the sale, exchange or other taxable disposition, and you have a ‘‘tax home’’ in the United States; or
- we are or have been a ‘‘United States real property holding corporation’’ for U.S. federal income tax purposes at any time during the shorter of the five-year period preceding such disposition

and your holding period in the common stock, and (i) you beneficially own, or have owned, more than 5% of the total fair market value of our common stock at any time during the five-year period preceding such disposition, or (ii) our common stock has ceased to be traded on an established securities market prior to the beginning of the calendar year in which the sale or disposition occurs.

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If you are an individual and are described in the first bullet above, you will be subject to tax on any gain derived from the sale, exchange or other taxable disposition at applicable graduated U.S. federal income tax rates. If you are an individual and are described in the second bullet above, you will generally be subject to a flat 30% tax on any gain derived from the sale, exchange or other taxable disposition that may be offset by U.S. source capital losses (even though you are not considered a resident of the United States). If you are a corporation and are described in the first bullet above, you will be subject to tax on your gain at applicable graduated U.S. federal income tax rates and, in addition, may be subject to the branch profits tax on your effectively connected earnings and profits for the taxable year, which would include such gain, at a rate of 30% or at such lower rate as may be specified by an applicable income tax treaty, subject to adjustments.

We believe that we may be a ‘‘United States real property holding corporation’’ for U.S. federal income tax purposes. Generally, a corporation is a U.S. real property holding corporation if the fair market value of its U.S. real property interests, as defined in the Code and applicable Treasury regulations, equals or exceeds 50% of the aggregate fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. If we are a United States real property holding corporation and you are a holder of greater than 5% of the total fair market value of our common stock, you should consult your tax advisor.

U.S. Federal Estate Tax

Shares of our common stock held by an individual Non-U.S. Holder at the time of his or her death will be included in such Non-U.S. Holder’s gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding

You may be subject to information reporting and backup withholding with respect to any dividends on, and the proceeds from dispositions of, our common stock paid to you, unless you comply with certain reporting procedures (usually satisfied by providing an IRS Form W-8BEN) or otherwise establish an exemption. Additional rules relating to information reporting requirements and backup withholding with respect to the payment of proceeds from the disposition of shares of our common stock will apply as follows:

- If the proceeds are paid to or through the U.S. office of a broker (U.S. or foreign), they generally will be subject to backup withholding and information reporting, unless you certify that you are not a U.S. person under penalties of perjury (usually on an IRS Form W-8BEN) or otherwise establish an exemption;
- If the proceeds are paid to or through a non-U.S. office of a broker that is not a U.S. person and is not a foreign person with certain specified U.S. connections, or a U.S. Related Person, they will not be subject to backup withholding or information reporting; and

- If the proceeds are paid to or through a non-U.S. office of a broker that is a U.S. person or a U.S. Related Person, they generally will be subject to information reporting (but not backup withholding), unless you certify that you are not a U.S. person under penalties of perjury (usually on an IRS Form W-8BEN) or otherwise establish an exemption.

In addition, the amount of any dividends paid to you and the amount of tax, if any, withheld from such payment generally must be reported annually to you and the IRS. The IRS may make such information available under the provisions of an applicable income tax treaty to the tax authorities in the country in which you reside.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished by you to the IRS. Non-U.S. Holders should consult their own tax advisors regarding the filing of a U.S. tax return for claiming a refund of such backup withholding.

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UNDERWRITING

The Company, the selling stockholder and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co. and Lehman Brothers Inc. are the representatives of the underwriters.

Underwriters	Number of Shares
Goldman, Sachs & Co.	
Lehman Brothers Inc.	
Citigroup Global Markets Inc.	
J.P. Morgan Securities Inc.	
Banc of America Securities LLC	
Cohen & Steers Capital Advisors, LLC	

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 2,582,250 shares of the Company from the selling stockholder to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following tables show the per share and total underwriting discounts and commissions to be paid to the underwriters by the Company and the selling stockholder. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 2,582,250 additional shares of the Company from the selling stockholder.

Paid by the Company	No Exercise	Full Exercise
Per Share		
Total		

Paid by the Selling Stockholder	No Exercise	Full Exercise
Per Share		
Total		

Shares sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to $ per share from the public offering price. If all the shares are not sold at the public offering price, the representatives may change the offering price and the other selling terms.

The Company and its executive officers, directors, holders of substantially all of the Company’s common stock and the selling stockholder have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 60 days after the date of this prospectus, except with the prior written consent of the representatives. The Company's lock-up agreement does not apply to (i) the issuance of shares pursuant to the exercise or conversion of any outstanding securities, or the issuance of any securities pursuant to the Company's employee stock option plans, (ii) the sale of shares of stock issued in connection with an acquisition (clauses (i) and (ii) subject to an aggregate cap of $100.0 million), (iii) the grant of shares to the Investor under the Investment Agreement or (iv) in connection with the sale of shares or grant of shares to ARC employees and executives in connection with the ARC Merger, provided that (x) the Company will not waive any transfer restriction or accelerate the vesting of any such shares with respect to the restricted period described in this section and (y) the Company will direct the transfer agent to not

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effect the transfer of any such shares through the lockup period (as that may be extended). In addition, the Company will not grant or sell shares to the ARC employees other than subject to the transfer restrictions and vesting periods described under ‘‘Management — Equity Incentive Plans — Omnibus Stock Incentive Plan — New Plan Benefits’’. The lock-agreement of the executive officers, directors and stockholders does not apply to transfers (i) as a bona fide gift or gifts, (ii) to any trust for the direct or indirect benefit of the executive officer, director or stockholder or the immediate family of the executive officer, director or stockholder or (iii) with the prior written consent of Goldman, Sachs & Co. and Lehman Brothers Inc. on behalf of the underwriters. See ‘‘Shares Eligible for Future Sale’’ for a discussion of certain transfer restrictions.

The lock-up agreements with applicable affiliates of Fortress, our largest stockholder, will contain an exception to allow Deutsche Bank, as the Administrative Agent and sole lender under the credit agreements discussed under ‘‘Certain Relationships and Related Party Transactions—Fortress Credit Agreements’’, to seize and dispose of the shares pledged under the credit agreements in the event of a default under either of the credit agreements by the applicable affiliates of Fortress.

The 60-day restricted period described in the preceding paragraph will be automatically extended if (1) during the last 17 days of the 60-day restricted period the Company issues an earnings release or announces material news or a material event or (2) prior to the expiration of the 60-day restricted period, the Company announces that it will release earnings results during the 15-day period following the last day of the 60-day restricted period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release of the announcement of the material news or material event.

At our request, the underwriters have reserved for sale at the public offering price up to 5% of the underwritten shares offered hereby for certain of our employees and certain other persons having business relationships with us, including certain of the employees of Fortress and its affiliates. The number of shares available for sale to the general public will be reduced to the extent such persons purchase such reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered hereby. The directed share program materials will include a lock-up agreement requiring each purchaser in the directed share program to agree that, for a period of 60 days from the date of this prospectus, such purchaser will not, without prior written consent of Lehman Brothers Inc., dispose of or hedge any shares of common stock purchased in the directed share program. The purchasers in the directed share program will be subject to substantially the same form of lock-up agreement as our executive officers, directors and stockholders described below.

The public offering price has been negotiated among the Company and the representatives. Among the factors to be considered in determining the public offering price of the shares, in addition to prevailing market conditions, will be the Company’s historical performance, estimates of the business potential and earnings prospects of the Company, an assessment of the Company’s management and the consideration of the above factors in relation to market valuation of companies in related businesses. The Company's common stock is listed for trading on the New York Stock Exchange under the symbol ‘‘BKD’’.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Shorts sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. ‘‘Covered’’ short sales are sales made in an amount not greater than the underwriters’ option to purchase additional shares from the selling stockholder in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. ‘‘Naked’’ short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if

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the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of the Company’s common stock, and, together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

Each of the underwriters has represented and agreed that:

(a) it has not made or will not make an offer of shares to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended) (FSMA) except to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by the company of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority (FSA);

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA would not, if the company were not an authorised person, apply to the company; and

(c) it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of Shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Shares to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an ‘‘offer of Shares to the public’’ in relation to any Shares in any Relevant Member State means the communication in any form and by any means of

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sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to ‘‘professional investors’’ within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a ‘‘prospectus’’ within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued, or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to ‘‘professional investors’’ within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the ‘‘SFA’’), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the securities are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the securities under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

A prospectus in electronic format will be made available on the websites maintained by one or more of the lead managers of this offering and may also be made available on websites maintained by other underwriters. The underwriters may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the lead managers to underwriters that may make Internet distributions on the same basis as other allocations.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

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The Company and the selling stockholder estimate that their share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $.

The Company and the selling stockholder have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Company, for which they received or will receive customary fees and expenses. For example, Lehman Brothers Inc. serves as lead arranger under the Company's New Credit Facility and Citigroup Global Markets Inc. and an affiliate of Goldman, Sachs & Co. serve as co-arrangers. They are also lenders under the Company's New Credit Facility. Each of Lehman Brothers Inc., Goldman, Sachs & Co. and Citigroup Global Markets Inc. were underwriters in the Company's initial public offering. In connection with the ARC Merger, Goldman, Sachs & Co. acted as a financial advisor to the Company and Cohen & Steers Capital Advisors, LLC acted as a financial advisor to ARC.

Because the underwriters and their respective affiliates act as lenders under the Company's New Credit Facility and a portion of the net proceeds from the offering will be used in part for the repayment of the New Credit Facility, the underwriters and their affiliates may receive over 10% of the net proceeds of the offering. Accordingly, this offering is being made in compliance with the requirements of Rule 2710(h) of the Conduct Rules of the National Association of Securities Dealers, Inc.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, and for the underwriters by Willkie Farr & Gallagher LLP. Both Skadden, Arps, Slate, Meagher & Flom LLP and Willkie Farr & Gallagher LLP also represent Fortress on a variety of past and current matters.

EXPERTS

The consolidated and combined financial statements of Brookdale Senior Living Inc. as of December 31, 2005 and 2004 and for each of the three years in the period ended December 2005 and for the periods from January 1, 2005 to September 30, 2005 and October 1, 2005 to December 31, 2005, the combined financial statements of the Fortress CCRC Portfolio and the Prudential Portfolio as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 and the consolidated financial statements of CMCP—Properties, Inc. as of December 31, 2004 and for the year then ended and for the period from January 1, 2005 through December 30, 2005 appearing is this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon appearing elsewhere in this prospectus, and are included in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated balance sheet of Alterra Healthcare Corporation as of December 31, 2002 and the consolidated statements of operations, statements of changes in stockholders' equity (deficit) and statements of cash flows for the period January 1, 2003 to November 30, 2003 and the fiscal year ended December 31, 2002 have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering the aforementioned consolidated financial statements of Alterra contains an explanatory paragraph that Alterra emerged from Chapter 11 bankruptcy on December 4, 2003. Upon emergence from bankruptcy, Alterra changed its basis of financial statement presentation to reflect the adoption of fresh start accounting in accordance with AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.

The consolidated balance sheets of American Retirement Corporation and subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2005 have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement, of which this prospectus is a part, on Form S-1 with the Securities and Exchange Commission relating to this offering. This prospectus does not contain all of the information in the registration statement and the exhibits and financial statements included with the registration statement. References in this prospectus to any of our contracts, agreements or other documents are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contracts, agreements or documents. You may read and copy the registration statement, the related exhibits and other material we file with the Commission at the Commission's public reference room in Washington, D.C. at 100 F Street, N.E., Washington, D.C. 20549. You can also request copies of those documents, upon payment of a duplicating fee, by writing to the Commission. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The Commission also maintains a website that contains reports, proxy and information statements and other information regarding issuers that file with the Commission. The website address is http://www.sec.gov. You may also request a copy of these filings, at no cost, by writing or telephoning us as follows: Brookdale Senior Living Inc., 330 North Wabash Avenue, Suite 1400, Chicago, Illinois, 60611, (312) 977-3700.

We are subject to the informational requirements of the Exchange Act, and, in accordance with the Exchange Act, will file reports, proxy and information statements and other information with the Commission. Such annual, quarterly and special reports, proxy and information statements and other information can be inspected and copied at the locations set forth above. We will report our financial statements on a year ended December 31. We intend to furnish our stockholders with annual reports containing consolidated financial statements audited by our independent an independent registered public accounting firm and with quarterly reports containing unaudited consolidated financial statements for each of the first three quarters of each fiscal year.

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BROOKDALE SENIOR LIVING INC.

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GENERAL INFORMATION

The following unaudited pro forma condensed consolidated financial information sets forth the historical financial information as of and for the three months ended March 31, 2006 and for the year ended December 31, 2005 derived from our historical consolidated and combined financial statements, as adjusted to give effect to:

Pro Forma Adjustment, including Public Offering:

- pro forma adjustment to give effect to the merger with American Retirement Corporation (the ‘‘ARC Merger’’) and debt refinancing as if this transaction closed January 1, 2005;
- our current offering of common stock and other use of proceeds;

Initial Public Offering:

- pro forma adjustment to give effect to the September 30, 2005 step-up in basis of non-controlling ownership (ownership interests not controlled or owned by affiliates of Fortress Investment Group LLC, (‘‘Minority Shareholders’’)) due to the exchanges of minority ownership for Company ownership as if the transaction was completed on January 1, 2005;
- pro forma adjustment to give effect to compensation expense in connection with the grants under the restricted stock plan;
- incremental general and administrative expenses related to operating as a public company;
- our initial public offering, repayment of indebtedness and other use of proceeds;

Significant Acquisitions:

- pro forma adjustments to give effect to the Fortress CCRC Portfolio, the Prudential Portfolio and the CMCP—Properties, Inc. (‘‘Chambrel’’) Portfolio acquisitions on the pro forma condensed consolidated statements of operations as if these transactions closed on January 1, 2005;

Other Insignificant Acquisitions:

- pro forma adjustments to give effect to completed acquisitions (all completed and probable acquisitions are considered insignificant, individually and in the aggregate, under Securities and Exchange Commission Rules and Regulations, ‘‘Rule 3-05’’) of the Omega Portfolio, Merrill Gardens Portfolio, two facilities in Orlando, FL, Wellington Portfolio, Liberty Owned Portfolio, Southern Assisted Living Portfolio, AEW Portfolio, Southland Portfolio and AEW—New Jersey Portfolio, and the probable acquisitions of the AEW Portfolio and Liberty II Portfolio, as if these transactions closed on January 1, 2005;

Other Pro Forma Adjustments:

- pro forma adjustments to give effect to the refinancing of five facilities and termination of forward interest rate swaps of the five facilities as if these transactions closed on January 1, 2005;
- pro forma adjustment to give effect to the payment of the dividend declared for the three months ended March 31, 2006, Chambrel Portfolio financing and release of cash and investment-restricted as if these transactions closed January 1, 2005;
- pro forma adjustment to give effect to new and terminated management contracts as if these transactions closed January 1, 2005; and
- pro forma adjustment to give effect to the credit agreement and subsequent repayment as if this transaction closed January 1, 2005;
- pro forma adjustment to address the tax effect of all of the transactions described above.

You should read the information below along with all other financial information and analysis presented in this prospectus, including the section captioned ‘‘Management's Discussion and Analysis

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of Financial Condition and Results of Operations'' and Brookdale Senior Living Inc.'s consolidated and combined historical financial statements and related notes included elsewhere in this prospectus. The unaudited pro forma condensed consolidated financial information is presented for informational purposes only, and we do not expect that this information will reflect our future results of operations or financial position. The unaudited pro forma adjustments are based on available information and upon assumptions that we believe are reasonable. The unaudited pro forma financial information assumes that the above described transactions and our current public offering were completed as of March 31, 2006 for purposes of the unaudited pro forma condensed consolidated balance sheet data and as of January 1, 2005 for purposes of the unaudited pro forma condensed consolidated statements of operations.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

As of March 31, 2006
(Unaudited, In thousands)

	Brookdale Senior Living (A)	American Retirement (B)	Pro Forma Adjustments, including Public Offering (C)	Subtotal	Other Insignificant Acquisitions (D)	Other Adjustments (E)	
Assets:							
Cash	$ 94,096	$ 84,245	$ 248,427	$ 426,768	$ (76,288)	$(219,852)	$
Cash and investment – Restricted	41,984	21,824	—	63,808	8,019	(3,049)	
Accounts receivables, net	12,160	27,227	—	39,387	—	—	
Deferred income taxes	—	9,378	(9,378)	—	—	—	
Other current assets	33,239	18,560	(7,800)	43,999	1,054	—	
Total current assets	181,479	161,234	231,249	573,962	(67,215)	(222,901)	
Property plant and equipment and lease intangibles, net	1,610,551	558,257	900,380	3,069,188	557,472	—	3
Cash and investments – restricted	7,565	10,746	—	18,311	—	(2,530)	
Investments in unconsolidated ventures	13,983	36,389	161	50,533	—	—	

Deferred leasehold costs	—	21,346	(21,346)	—	—	—	
Goodwill	65,646	36,463	222,185	324,294	—	—	
Lease security deposits	19,723	—	—	19,723	—	—	
Deferred taxes – non-current	—	45,231	(45,231)	—	—	—	
Other assets	26,124	75,415	316,195	417,734	—	772	
Total assets	$1,925,071	$945,081	$1,603,593	$4,473,745	$490,257	$(224,659)	$4
Liabilities and Stockholders' Equity:							
Current portion of debt	$ 10,766	$ 24,383	$ (6,962)	$ 28,187	$ —	$ 1,390	$
Line of credit	87,000	—	—	87,000	125,000	(212,000)	
Trade accounts payable	4,290	5,825	—	10,115	3,452	—	
Refundable entrance fees	31,606	85,434	—	117,040	—	—	
Accrued expenses and other liabilities	123,510	39,831	1,552	164,893	9,698	—	
Deferred entrance fees	—	37,591	—	37,591	—	—	
Dividend payable	23,167	—	—	23,167	—	(23,167)	
Total current liabilities	280,339	193,064	(5,410)	467,993	138,150	(233,777)	
Long-term debt, less current portion	820,790	117,591	147,204	1,085,585	180,294	10,610	1
Capital and financing lease obligations	66,284	156,281	(39,642)	182,923	171,813	—	
Deferred gains	59,594	86,392	(86,392)	59,594	—	—	
Deferred entrance fees	—	125,112	10,364	135,476	—	—	
Deferred tax liability	41,689	2,886	429,802	474,377	—	—	
Other	57,441	34,136	35,419	126,996	—	—	
Total liabilities	1,326,137	715,462	491,345	2,532,944	490,257	(223,167)	2
Stockholders' equity	598,934	229,619	1,112,248	1,940,801	—	(1,492)	1
Total liabilities and stockholders' equity	$1,925,071	$945,081	$1,603,593	$4,473,745	$490,257	$(224,659)	$4

See accompanying notes.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2005
(Unaudited, in thousands, except per share amounts)

	Subtotal

	Historical Brookdale Senior Living (A)	Historical American Retirement (B)	Pro Forma Adjustments, including Public Offering (C)		Initial Public Offering (D)	Significant Acquisitions (E)	Other Insignificant Acquisitions (F)	Other P Forma Adjustme (G)
Revenue:								
Resident fees	$786,715	$488,383	$ 1,037	$1,276,135	$ —	$ 41,883	$236,146	$
Management fees	3,862	3,528	—	7,390	—	—	—	(2,44
Reimbursed expenses	—	3,089	—	3,089	—	—	—	
Total revenues	790,577	495,000	1,037	1,286,614	—	41,883	236,146	(2,44
Operating Expenses:								
Facility operating	493,887	326,504	—	820,391	—	27,667	155,028	
General and administrative (including non-cash stock compensation expense)	81,696	30,327	(1,947)	110,076	—	2,618	14,047	17,69 1,85
Facility lease expense	189,339	60,936	12,438	262,713	3,557	(10,636)	9,058	
Depreciation and amortization	48,818	36,392	131,767	216,977	12,710	22,526	47,777	
Amortization of leasehold acquisition costs	—	2,567	(2,567)	—	—	—	—	
Loss on disposal or sale of assets	—	709	—	709	—	—	—	
Reimbursed expenses	—	3,089	—	3,089	—	—	—	
Total operating expenses	813,740	460,524	139,691	1,413,955	16,267	42,175	225,910	19,54
Operating income (loss)	(23,163)	34,476	(138,654)	(127,341)	(16,267)	(292)	10,236	(21,98
Interest income	3,788	4,364	—	8,152	—	—	—	
Interest expense:								
Debt	(37,049)	(9,288)	(10,840)	(57,177)	4,888	(11,194)	(21,795)	3,01
Capital and financing lease obligations	(9,199)	(5,852)	—	(15,051)	—	—	(20,044)	
Amortization of deferred financing costs and discount of capital lease obligations	(1,065)	(675)	(6,150)	(7,890)	796	(221)	(966)	35
Change in fair value of derivatives	3,992	—		3,992	—	—	—	(4,08
Gain (loss) on extinguishment of	(3,996)	—	—	(3,996)	—	—	—	(17

debt								
Equity in earnings of unconsolidated Ventures	(838)	—	—	(838)	—	—	—	
Other	—	192	(302)	(110)	—	—	—	
Income (loss) before taxes	(67,530)	23,217	(155,946)	(200,259)	(10,583)	(11,707)	(32,569)	(22,87
Benefit (provision) for income taxes	97	47,530	(47,530)	97	—	—	—	100,73
Income (loss) before minority interest	(67,433)	70,747	(203,476)	(200,162)	(10,583)	(11,707)	(32,569)	77,85
Minority interest, net	16,575	(1,049)	(2,496)	13,030	—	—	—	
Income (loss) from continuing operations	$ (50,858)	$ 69,698	$ (205,972)	$ (187,132)	$ (10,583)	$ (11,707)	$ (32,569)	$ 77,85
Weighted average shares outstanding								
Basic								
Diluted								
Loss per share – continuing operations								
Basic								
Diluted								

See accompanying notes.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the Three Months ended March 31, 2006
(Unaudited, in thousands, except per share amounts)

	Historical Brookdale Senior Living (A)	Historical American Retirement (B)	Pro Forma Adjustments, including Public Offering (C)	Subtotal	Significant Acquisitions (E)	Other Insignificant Acquisitions (F)	Other Pro Forma Adjustments (G)	I
Revenue:								
Resident fees	$221,036	$127,786	$ 259	$349,081	$ —	$60,078	$ —	$

Management fees	1,147	1,224	—	2,371	—	—	(824)	
Reimbursed expenses	—	2,083	—	2,083	—	—	—	
Total revenues	222,183	131,093	259	353,535	—	60,078	(824)	
Operating Expenses:								
Facility operating	136,945	83,454	—	220,399	—	40,836	—	
General and administrative (including non-cash stock compensation expense)	21,085	9,942	(1,495)	29,532	—	3,512	2,157	
Facility lease expense	45,734	15,333	3,239	64,306	—	2,202	—	
Depreciation and amortization	22,299	9,407	29,982	61,688	—	11,284	—	
Amortization of leasehold acquisition costs	—	592	(592)	—	—	—	—	
Loss on disposal or sale of assets	—	84	—	84	—	—	—	
Reimbursed expenses	—	2,083	—	2,083	—	—	—	
Total operating expenses	226,063	120,895	31,134	378,092	—	57,834	2,157	
Operating income (loss)	(3,880)	10,198	(30,875)	(24,557)	—	2,244	(2,981)	
Interest income	1,052	1,626	—	2,678	—	—	—	
Interest expense:								
Debt	(11,530)	(2,684)	(2,068)	(16,282)	198	(5,050)	788	
Capital and financing lease obligations	(2,160)	(1,392)	—	(3,552)	—	(5,011)	—	
Amortization of deferred financing costs and discount of capital lease obligations	(703)	(194)	(1,421)	(2,318)	—	(221)	391	
Change in fair value of derivatives	(101)	—	—	(101)	—	—	—	
Gain (loss) on extinguishment of debt	(1,334)	—	—	(1,334)	—	—	(3,986)	
Equity in earnings of unconsolidated ventures	(168)	—	—	(168)	—	—	—	
Other	—	(214)	(66)	(280)	—	—	—	
Income (loss) before taxes	(18,824)	7,340	(34,430)	(45,914)	198	(8,038)	(5,788)	
Benefit (provision) for income taxes	(386)	(2,714)	2,714	(386)	—	—	23,607	
Income (loss) before minority interest	(19,210)	4,626	(31,716)	(46,300)	198	(8,038)	17,819	
Minority interest, net	(116)	176	(706)	(646)	—	—	—	
Income (loss) from continuing operations	$ (19,326)	$ 4,802	$ (32,422)	$ (46,946)	$ 198	$ (8,038)	$ 17,819	$
Weighted average shares outstanding								
Basic	65,007							
Diluted	65,007							
Loss per share – continuing operations								
Basic	$ (0.30)							$
Diluted	$ (0.30)							$

See accompanying notes.

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BROOKDALE SENIOR LIVING INC.

NOTES AND MANAGEMENT'S ASSUMPTIONS TO UNAUDITED
PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

1. Basis of Presentation

Brookdale Senior Living Inc. (the ‘‘Company’’) was formed as a Delaware corporation on June 28, 2005 to succeed to the businesses of Brookdale Living Communities Inc., Alterra Healthcare Corporation, Fortress CCRC Portfolio and Prudential Portfolio. On September 30, 2005, ownership in the respective entities was contributed to the Company in exchange for common stock of the Company.

The accompanying unaudited pro forma condensed consolidated financial information assumes that the offering, purchase of American Retirement Corporation and other significant and insignificant acquisitions and other transactions described in the prospectus and General Information section of these pro formas occurred on March 31, 2006 for purposes of the unaudited pro forma condensed consolidated balance sheet and as of January 1, 2005 for purposes of the unaudited pro forma condensed consolidated statements of operations.

These pro forma financial statements should be read in conjunction with the historical financial statements and notes thereto of the Company, Alterra Healthcare Corporation and significant acquisitions pursuant to Rule 3-05 of S-X; American Retirement Corporation, Fortress CCRC Portfolio, Prudential Portfolio and Chambrel Portfolio included elsewhere in this prospectus. In management's opinion, all adjustments necessary to reflect the offering and the transactions described in the General Information section of these pro forma financial statements have been made.

The unaudited pro forma condensed consolidated financial statements are not necessarily indicative of the actual financial position as of March 31, 2006 or what the actual results of operations of the Company would have been assuming the offering and the transactions described in the General Information section of these pro formas had been completed as of January 1, 2005, nor are they indicative of the results of operations of future periods.

2. Adjustments to Pro Forma Condensed Consolidated Balance Sheet

(A) Historical Financial Statements

Reflects historical consolidated financial position of the Company as of March 31, 2006.

(B) American Retirement Corporation

Reflects historical consolidated financial position of American Retirement Corporation (‘‘ARC’’) as of March 31, 2006.

(C) Pro Forma Adjustments

On May 12, 2006, the Company entered into an Agreement and Plan of Merger to acquire and merge ARC into a wholly-owned subsidiary of the Company, with ARC continuing as the surviving corporation as a wholly-owned subsidiary. Pursuant to the ARC Merger Agreement, we will acquire all the outstanding stock for $33.00 per share in cash. All of the options to purchase ARC common stock, whether vested or unvested, will be cancelled and each holder will be entitled to the excess of $33.00 over the applicable option exercise price. The total purchase price, including transaction costs, is estimated to be $1,235 million. The estimated preliminary purchase price allocations as of March 31, 2006 are as follows:

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		Pro Forma Adjustments, Including Public Offering			
	American Retirement Historical	Public Offering	Purchase Adjustments	Refinancing of Facilities	Net
Assets:					
Cash	$ 84,245	$ 1,341,867	$ (1,235,269)	$ 141,829	$ 332,672
Cash and investment – restricted	21,824	—	—	—	21,824
Accounts receivables, net	27,227	—	—	—	27,227
Deferred income taxes	9,378	—	(9,378)[1]	—	—
Other current assets	18,560		(7,800)[2]		10,760
Total current assets	161,234	1,341,867	(1,252,447)	141,829	392,483
Property, plant and equipment, net	558,257	—	900,380[3],[4]	—	1,458,637
Cash and investments – restricted	10,746	—	—	—	10,746
Investments in unconsolidated ventures	36,389	—	161[5]	—	36,550
Deferred leasehold costs	21,346	—	(21,346)[6]	—	—
Goodwill	36,463	—	220,185[7]	2,000	258,648
Deferred taxes – non-current	45,231	—	(45,231)[1]	—	—
Other assets	75,415	—	312,820[8]	3,375	391,610
Total assets	$ 945,081	$ 1,341,867	$ 114,522	$ 147,204	$ 2,548,674
Liabilities and Stockholders' Equity:					
Current portion of debt	$ 24,383	—	$ (6,962)[4]	$ —	$ 17,421
Trade accounts payable	5,825	—	—	—	5,825
Refundable entrance fees	85,434	—	—	—	85,434
Deferred entrance fee income	37,591	—	—	—	37,591
Accrued expenses and other liabilities	39,831	—	1,552[9]	—	41,383
Total current liabilities	193,064	—	(5,410)	—	187,654
Long-term debt, less current portion	117,591	—	—	147,204	264,795
Capitalized lease obligations	156,281	—	(39,642)[4]	—	116,639
Deferred gains	86,392	—	(86,392)[6]	—	—
Deferred entrance fee income	125,112	—	10,364[10]	—	135,476
Deferred tax liability	2,886	—	429,802[11]	—	432,688
Minority interest and other	34,136	—	35,419[12]	—	69,555
Total liabilities	715,462	—	344,141	147,204	1,206,807
Stockholders' equity	229,619	1,341,867	(229,619)	—	1,341,867

Total liabilities and stockholders' equity	$ 945,081	$ 1,341,867	$ 114,522	$ 147,204	$ 2,548,674

(1) Represents reclassification of deferred tax assets recorded by ARC based on the consolidated tax position of the Company.

(2) Represents prepaid expenses that will have no future value following completion of the transaction and lease amounts receivable that the Company does not intend to exercise its right to borrow.

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(3) Reflects the purchase adjustment to record property, plant and equipment at fair value. Fair value was determined based on discounted cash flows for owned assets and for the initial term of each operating lease intangible assets. See note (3.c) — Depreciation and amortization expense for the allocated costs and related depreciation and amortization.

(4) Reflects adjustment to record capitalized lease obligations at fair value. Fair value of the contractual obligation was determined by discounting the future lease obligation at the estimated current market rate for the obligation.

(5) Reflects the purchase adjustment to record investment in unconsolidated ventures at fair value.

(6) Reflects the write-off of historical deferred lease acquisition and financing costs and deferred gains.

(7) Reflects the net adjustment of goodwill resulting from the acquisition.

(8) Represents the fair value of facility purchase options included in certain lease agreements and value for contracts. Fair value of the purchase options was determined based on discounting the estimated value of the option at the anticipated date of exercise and value for contracts was based on a multiple of the annual contract value.

(9) Reflects accrual for estimated additional miscellaneous costs.

(10) Reflects adjustment to record deferred entrance fee income at fair value.

(11) Reflects the adjustment to record a net deferred consolidated tax liability resulting from the aggregate differences between book and tax bases after the proforma adjustments.

(12) Represents the adjustment to record the minority interest related to one facility consolidated pursuant to FIN 46R at fair value and the write-off of historical deferred leases liability.

Refinancing of Facilities:

Estimated refinancing of certain ARC facilities anticipated concurrent with the acquisition of ARC:

	Amount
New debt	$ 225,000
Retired debt	(77,796)
Subtotal additional debt	147,204
Financing costs	(3,375)
Loss on extinguishment of debt	(2,000)(a)
Net cash proceeds	$ 141,829

(a) Capitalized as a cost of the acquisition as additional goodwill.

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Public Offering Adjustments

Following is a summary of adjustments to reflect the net proceeds received from this offering and the use of proceeds:

Gross offering proceeds from the sale of 17.2 million common shares at $45.62 per share	$	785,348
Less sale of 1.9 million common shares by minority stockholder of the Company		(85,081)
Net proceeds from offering		700,267
Gross proceeds from the sale of 17,600,867 common shares to RIC Coinvestment Fund LP at $36.93 per share		650,000
Gross proceeds from sale of 475,681 common shares to executives of ARC at $38.07 per share		18,109
Less estimated offering costs and underwriters' discount		(26,509)
Net proceeds from public offering and private placement		1,341,867
Purchase of ARC common shares:		
(i)Purchase of 37,240,789 ARC common shares at $33.00 per share net of proceeds from vested and unvested options		1,215,269
(ii)Estimated transaction costs		20,000
Total use of proceeds		1,235,269
Net excess cash from offering	$	106,598

(D) Other Insignificant Acquisitions

Subsequent to March 31, 2006 we completed the acquisition of the Southern Assisted Living Portfolio on April 7, 2006 (41 facilities with 2,887 units/beds and one management contract), AEW Portfolio on April 28, 2006 (five facilities with 813 units/beds), Southland Portfolio on May 1, 2006 (four facilities with 262 units/beds) acquisitions, and AEW facility (one facility with 84 units/beds), and AEW II facilities (2 facilities with 193 units/beds) and have under contract the remaining AEW facility (a skilled nursing facility component of one facility with 120 units/beds), and Liberty II Portfolio a skilled nursing facility component of one facility with 84 units/beds (11 facilities with 1,078 units/beds), which are deemed probable acquisitions.

	Completed Acquisitions	Probable Acquisitions	Total
Balance Sheet:			
Cash[(1)]	$ (57,282)	$ (19,006)	$ (76,288)
Cash and investments restricted	8,019	—	8,019
Other current assets	1,054	—	1,054
Total current assets	(48,209)	(19,006)	(67,215)
Property, plant and equipment, net	514,741	42,731	557,472
Total assets	$ 466,532	$ 23,725	$ 490,257
Trade accounts payable	$ 3,452	$ —	$ 3,452
Accrued expenses and other liabilities	9,698	—	9,698
Line of credit[(1)]	108,000	17,000	125,000
Total current liabilities	121,150	17,000	138,150

Long-term debt, less current portion	173,569	6,725	180,294
Capital and financing obligations	171,813	—	171,813
Total liabilities	$ 466,532	$ 23,725	$ 490,257

(1) Assumes purchase price completed by borrowings on Company's line of credit and available working capital.

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(E) Other Adjustments

On March 13, 2006, the Company declared and paid on April 14, 2006, a dividend of $23,167. For pro forma purposes, we have assumed payment as of March 31, 2006.

On April 7, 2006, the Company obtained $12,000 of additional financing secured by the Chambrel Portfolio bearing interest at 6.56%, payable in monthly installments of principal and interest until maturity in 2013. Of the proceeds $1,390 is current and $10,610 is long-term.

During May 2006, the Company issued letters of credit to secure its obligations under a lease and received $3,049 of cash and investments-restricted held by the lessor.

Upon completion of the offering, the Company will repay its estimated outstanding line of credit balance of $212,000.

The Company obtained a financing commitment of $150,000 to repay $150,000 of existing financing secured by five facilities, payable in monthly installments of interest only until August 2011, and monthly installments of principal only until maturity in August, 2013. In addition, $2,530 of cash and investments — restricted will be released upon completion of the refinancing.

Reflects payments of deferred financing costs related to the refinancing of five facilities and the Chambrel Portfolio of $2,264, net of the write-off of unamortized deferred financing costs of $1,492.

3. Adjustments to Pro Forma Condensed Consolidated Statements of Operations

(A) Historical Financial Statements

Reflects the results of operations of the Company for the three months ended March 31, 2006 and for the year ended December 31, 2005.

(B) American Retirement Corporation

Reflects the American Retirement Corporation historical operations for the three months ended March 31, 2006 and for the year ended December 31, 2005, derived from the historical financial statements presented elsewhere in this prospectus.

(C) Pro Forma Adjustments

	Total

	American Retirement Historical Balances	Pro Forma Adjustments	
Year ended December 31, 2005			
Revenue:			
Resident fees	$ 488,383	$ 1,037 (1)	$ 489,420
Management fees	3,528	—	3,528
Reimbursed expenses	3,089	—	3,089
Total revenues	495,000	1,037	496,037
Operating Expenses:			
Facility operating	326,504	—	326,504
General and administrative	30,327	(1,947)(2)	28,380
Facility lease expenses	60,936	12,438 (3)	73,374
Depreciation and amortization	36,392	131,767 (4)	168,159
Amortization of leasehold acquisition costs	2,567	(2,567)(5)	—
Loss on disposal or sale of assets	709	—	709
Reimbursed expenses	3,089	—	3,089
Total operating expenses	460,524	139,691	600,215
Income (loss) from operations	34,476	(138,654)	(104,178)

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	American Retirement Historical Balances	Pro Forma Adjustments	Total
Interest income	4,364	—	4,364
Interest expense:			
Debt	(9,288)	(10,840)(6)	(20,128)
Capitalized lease obligations	(5,852)	—	(5,852)
Amortization of deferred financing costs	(675)	(6,150(6)	(6,825)
Other	192	(302(7)	(110)
Income (loss) before taxes	23,217	(155,946)	(132,729)
Provision (benefit) for income taxes	47,530	(47,530)(8)	—
Income (loss) before minority interest	70,747	(203,476)	(132,729)
Minority interest, net	(1,049)	(2,496)(9)	(3,545)
Income (loss) from continuing operations	$ 69,698	$ (205,972)	$ (136,274)
Three Months Ended March 31, 2006:			
Revenue:			
Resident fees	$ 127,786	$ 259(1)	$ 128,045
Management fees	1,224	—	1,224
Reimbursed expenses	2,083	—	2,083
Total revenues	131,093	259	131,352
Operating Expenses:			
Facility operating	83,454	—	83,454
General and administrative	9,942	(1,495)(2)	8,447

Facility lease expenses	15,333	3,239 (3)	18,572
Depreciation and amortization	9,407	29,982 (4)	39,389
Amortization of leasehold acquisition costs	592	(592)(5)	—
Loss on disposal or sale of assets	84	—	84
Reimbursed expenses	2,083	—	2,083
Total operating expenses	120,895	31,134	152,029
Income (loss) from operations	10,198	(30,875)	(20,677)
Interest income	1,626	—	1,626
Interest expense			
Debt	(2,684)	(2,068)(6)	(4,752)
Capital lease	(1,392)	—	(1,392)
Amortization of deferred financing costs	(194)	(1,421)(6)	(1,615)
Other	(214)	(66(7)	(280)
Income (loss) before taxes	7,340	(34,430)	(27,090)
Provision (benefit) for income taxes	(2,714)	2,714(8)	—
Income (loss) before minority interest	4,626	(31,716)	(27,090)
Minority interest, net	176	(706)(9)	(530)
Income (loss) from continuing operations	$ 4,802	$ (32,422)	$ (27,620)

(1)Reflects estimated additional revenue related to the increased amortization as a result of the step up in deferred entrance fee income to fair value.

(2)Reflects the adjustment to eliminate ARC's stock compensation expense.

(3)Reflects the adjustment to record facility lease expense on a straight-line basis net of the elimination of historical deferred gains.

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(4)Reflects the adjustment to record incremental depreciation on the purchase adjustment to record the ARC assets at fair value using the straight line method over our estimated useful lives.

	American Retirement Adjustment(4)	Estimated Life	Year Ended December 31, 2005	Three Months Ended March 31, 2006
Depreciation:				
Land	$5.5 million	N/A	$ —	$ —
Buildings and improvements	522.9 million	40 years	19,695	4,687
Furniture, fixtures and equipment	16.3 million	5 years	1,375	302
Lease intangibles(a)	70.5 million	1-2 years	39,126	7,100
Operating lease costs(b)	285.2 million	(b)	34,452	8,613
Other long-term intangibles(c)	185.3 million	(c)	37,119	9,280
			$ 131,767	$ 29,982

(a)Reflects costs allocated to in-place tenant leases of each facility based upon a vacancy component. Costs allocated represent the fair value assigned to the in-place leases at the date of acquisition. We typically do not pay commissions or provide incentives in leasing our units. The individual leases were considered to be at market due to their short-term nature.

(b)Reflects costs allocated to the facilities we operate under long-term operating leases. Fair value was determined based on discounted future cash flows for the initial term of each lease. Costs are amortized over the term of the lease.

(c)Reflects costs allocated to other contracts and other intangible assets of the Company included in other assets. These costs are amortized over three to five years.

(5)Reflects adjustment to eliminate amortization expense related to the write-off of leasehold acquisition costs which have no future value.

(6)Reflects adjustment to record interest expense related to the capitalized lease obligations at fair value and additional debt as a result of refinancing certain ARC facilities as described in Note 2 — Refinancing of Facilities.

	Amount	Effective Rate	Year Ended December 31, 2005	Three Months Ended March 31, 2006
New debt	$225.0 million	6.05%[(a)]	$ 13,613	$ 3,403
Retired debt	$77.8 million	[(b)]	(2,773)[(b)]	(1,335)[(b)]
			$ 10,840	$ 2,068
Amortization of deferred financing costs and discount of capital lease obligations			$ (6,150)	$ (1,421)

(a)(a)Reflects swap rate.Reflects swap rate.

(b)Actual expense, net of amount capitalized.

(7)Reflects adjustment to equity in earnings (loss) of unconsolidated ventures facilities.

(8)Reversal of historical tax provision (benefit) for ARC. See consolidated tax provision (benefit) adjusted — Note(G) Other Pro Forma Adjustments — Statement of Operations.

(9)Reflects adjustment to minority interest.

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(D) Initial Public Offering Adjustments

The following represents adjustments to reflect the effect of proceeds from our initial public offering in November 2005 on our historical operations:

	Year Ended December 31, 2005	Three Months Ended March 31, 2006
Facility lease expense:		
Reflects net reduction in actual historical lease expense from our offering related transactions:		
	$ 645	$ —

Adjustment for redesignation of interest rate swap to hedge floating rate lease payment		
Reduction in amortization of deferred gain related to minority interest step-up	2,912	—
	$ 3,557	$ —

Depreciation and amortization expense:

Common stock issued to controlling shareholders and affiliates of Fortress Investment Group (‘‘FIG’’) was recorded based on historical cost. All other common stock issued to Minority Shareholders was recorded at fair value based upon the share price of our initial public offering. Depreciation and amortization expense reflects depreciation and amortization expense on the minority interest fair value adjustment using the straight line method over our estimated useful lives.

	Minority Shareholders Interest Adjustment[4]	Estimated Life	Year Ended December 31, 2005	Three Months Ended March 31, 2006
Depreciation:				
Land	$ 6,440	N/A	$ —	$ —
Buildings and improvements	60,959	40 years	1,348	—
Furniture, fixtures and equipment	1,687	5 years	287	—
Lease intangibles[1]	6,660	1-2 years	4,421	—
Operating lease costs[2]	100,267	(2)	4,825	—
Alterra Minority Adjustment[3]	—	—	1,829	—
	$ 176,013		$ 12,710	$ —
Amortization			$ 796	$ —

(1)Reflects costs allocated to in-place tenant leases of each facility based upon a vacancy component. Costs allocated represent the fair value assigned to the in-place leases at the date of acquisition. We typically do not pay commissions or provide incentives in leasing our units. The individual leases were considered to be at market due to their short-term nature (one year or less in duration).

(2)Reflects costs allocated to the facilities we operate under long-term operating leases. Fair value was determined based on discounted future cash flows for the initial term of each lease. Costs are amortized over the term of the lease.

(3)In June 2005, Fortress purchased 50% of a Minority Shareholder's ownership in Alterra. The purchase adjustment has been reflected in the historical financial statements from the date of purchase. The adjustment represents depreciation expense for periods prior to the purchase based upon building and improvements of $8,075, furniture and equipment of $1,258, lease intangibles of $1,675 and operating leases of $30,055 over the estimated lives described above.

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(4)Reflects the amounts recorded in the Company's historical consolidated balance sheet as of September 30, 2005, related to the value of common stock issued to the Minority Shareholders for their contributed interest. See note 1 to the historical financial statements of Brookdale Senior Living Inc.

Interest Expense:

Reflects a net reduction in interest expense (debt) from our initial public offering-related transactions:

	Amount	Effective Rate	Year Ended December 31, 2005	Three Months Ended March 31, 2006
Retirement of existing debt	$ 59,822	9.09%	$ 4,888	$ —

(E) Significant Acquisition Adjustments

The Fortress CCRC Portfolio, Prudential Portfolio and Chambrel Portfolio acquisitions were completed in April 2005, June/July 2005 and December 30, 2005, respectively. These significant acquisitions and related purchase price allocations of these acquisitions are reflected in the historical balance sheet of the Company as of and for the three months ended March 31, 2006. The pro forma adjustments below reflect the historical operations of the Fortress CCRC Portfolio, Prudential Portfolio and Chambrel Portfolio prior to their acquisition for the year ended December 31, 2005:

	Fortress CCRC Portfolio(4)			Prudential Portfolio(4)			Chambrel Portfolio(4)		
	Historical(1)	Pro Forma Adjustments	Net	Historical(1)	Pro Forma Adjustments	Net	Historical(1)	Pro Forma Adjustments	Net
Year ended December 31, 2005									
Revenue:									
Resident fees/rent	$20,266	$(1,908)(2)	$18,358	$ 23,525	$ —	$23,525	$11,277	$(11,277)	$
Total revenues	20,266	(1,908)	18,358	23,525	—	23,525	11,277	(11,277)	
Operating Expenses:									
Facility operating	16,574	(1,986)(2)	14,588	14,210	(1,150)(3)	13,060	19	—	1
Management fees – affiliate	868	—	868	1,690	—	1,690	60	—	6
Facility lease expenses	—	—	—	500	83	583	—	(11,219)(6)	(11,21
Depreciation and amortization	1,990	2,250	4,240	2,396	4,606	7,002	3,698	7,586	11,28
Total operating expenses	19,432	264	19,696	18,796	3,539	22,335	3,777	(3,633)	14
Income (loss) from operations	834	(2,172)	(1,338)	4,729	(3,539)	1,190	7,500	(7,644)	(14
Contributions and deferred gifts	71	(71)(5)	—	—	—	—	—	—	

Interest income	455	(455)[5]	—	—	—	—	68	(68)[5]	
Net unrealized and realized gains (losses) on investments	(158)	158[5]	—	—	—	—	—	—	
Interest expense	(1,013)	(25)[6]	(1,038)	(2,715)	(1,615)[6]	(4,330)	(5,778)	(48)[6]	(5,82
Interest expense – affiliate	(675)	675[5]	—	—	—	—	(1,460)	1,460[5]	
Gain on sale of real estate	—	—	—	123,678	(123,678)[5]	—	—	—	
Amortization of deferred financing costs	(72)	(30)[5]	(102)	—	(119)	(119)	—	—	
Net income (loss)	$ (558)	$(1,920)	$ (2,478)	$125,692	$(128,951)	$ (3,259)	$ 330	$ (6,300)	$ (5,97

(1)Represents the historical operations at all eight Fortress CCRC Portfolio facilities purchased in April and May 2005, eight Prudential Portfolio facilities purchased in June and one facility in July 2005, and the six Chambrel Portfolio facilities previously leased by us and purchased in December 2005 for the period presented. See the historical financial statements included elsewhere in this Prospectus.

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(2)Represents the historical property revenue and facility operating expenses for the two Fortress CCRC Portfolio facilities (Heritage Crossings and Heatherwood Village) that were sold in the third quarter of 2005 by the Brookdale Facility Group.

(3)Represents the non-recurring operating expenses such as incentive bonus payments and professional fees that were incurred in the first and second quarter of 2005 as results of the sale of the facilities:

	Year Ended December 31, 2005
As reported	$ 14,210
Less, non-recurring	(1,150)
Net recurring operating expenses	$ 13,060

(4)See the historical financial statements of Fortress CCRC Portfolio, Prudential Portfolio and Chambrel Portfolio included elsewhere in the prospectus. Revenue and operating expenses for these facilities subsequent to their purchase are included in the financial statements of the Company. The Chambrel Portfolio was leased by the Company prior to its acquisition.

(5)Reflects historical operations that would not be consistent for our ownership for the year ended December 31, 2005, including the permanent impairment charge recognized by the prior owner of the Fortress CCRC Portfolio (impairment was recognized based upon FIG's offer to purchase the facilities and the related purchase price); contributions and deferred gifts since we are not a non-profit entity, investment income and net unrealized and realized gains (losses) on investments since we did not purchase the investments and gain on sale of real estate recognized by the prior owner of the Prudential Portfolio related to FIG's purchase of the facilities.

(6)Reflects interest expense for debt incurred in connection with the acquisition of the facilities, net of historical interest incurred and included in the historical financial statements:

	Amount	Effective Rate	Year Ended December 31, 2005	Three Months Ended March 31, 2006
Fortress CCRC Portfolio	$105.8 million	5.865%[(a)]	$ (1,038)	$ (198)
Prudential Portfolio	$171.0 million	5.38%	(4,330)	—
Chambrel Portfolio	$130.8 million	4.45%	(5,826)	—
			$ (11,194)	$ (198)
Reflects reduction in lease expense for the Chambrel Portfolio previously leased			$ (11,219)	—

(a)Effective rate reflects interest rate under terms of a swap agreement.

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	Year Ended December 31, 2005	Three Months Ended March 31, 2006
(7)General and Administrative Expense: The pro forma statements of operations reflect actual general and administrative expense (management fees) under prior owner. We did not hire any management or any corporate employees from the prior owner. We hired new employees for both the Fortress CCRC Portfolio and Prudential Portfolio subsequent to their purchase. As a result, general and administrative expenses are expected to be reduced significantly for the Fortress CCRC Portfolio and Prudential Portfolio under our ownership and management. Our estimated expenses will primarily consist of additional salaries and wages for new emplyees as follows:		
Fortress CCRC Portfolio	$ 1,300	$ 325
Prudential Portfolio	700	350
	$ 2,000	$ 675

Although we expect to achieve significant cost savings, such amounts are not reflected in the accompanying unaudited pro forma condensed consolidated financial statements.

(8) Depreciation and Amortization Expense:

Reflects depreciation and amortization expense on the purchase of the Fortress CCRC Portfolio, Prudential Portfolio and Chambrel Portfolio based on the purchase price allocation as follows:

	Amount	Estimated Life	Year Ended December 31, 2005(b)	Three Months Ended March 31
Land	$76.1 million	n/a	$ —	$ —
Building and improvements	$536.2 million	40 years	7,621	—
Furniture, fixtures and equipment	$13.5 million	5 years	1,494	—
Lease intangible(a)	$25.1 million	1 year	13,411	—
			$ 22,526	$ —
Amortization of deferred costs			$ (221)	$ —

(a) Reflects purchase price allocated to in-place tenant leases at each of the acquired facilities based upon a vacancy component. Purchase price allocated represent the fair value assigned to the in place leases at date of acquisition. We typically do not pay commissions or provide incentive in leasing our units. The individual leases were considered to be at market rate due to the short-term nature (one year or less in duration).

(b) Depreciation expense adjustment is net of amounts recorded in the combined historical financial statements of the Company.

(F) Other Insignificant Acquisitions

During 2005 and 2006, we completed the acquisitions of the Omega Portfolio on November 22, 2005 (six facilities with 237 units/beds), Merrill Gardens Portfolio on December 22, 2005 (four facilities with 187 units/beds), two facilities in Orlando, Florida on February 28, 2006 (two facilities with 114 units/beds), Wellington Portfolio on March 28, 2006 (17 facilities with 814 units beds), Liberty Owned Portfolio on March 31, 2006 (7 facilities with 1,077 units/beds), Southern Assisted Living Portfolio on April 7, 2006 (41 facilities with 2,887 units/beds and one management contract), AEW Portfolio on April 28, 2006 (five facilities with 813 units/beds), Southland Portfolio on May 1, 2006 (four facilities with 262 units/beds), AEW—New Jersey Portfolio on June 30, 2006 (two

facilities with 193 units/beds) and an AEW facility on July 1, 2006 (one facility with 84 units/beds), and have under contract the remaining AEW facility (a skilled nursing facility component of one facility with 120 units/beds) and Liberty II Portfolio (11 facilities with 1,162 units/beds) which are deemed probable acquisitions.

	Completed Acquisitions	Probable Acquisitions	Total
Year ended December 31, 2005:			
Revenue:			
Resident fees	$ 192,410	$ 43,736	$ 236,146
Total revenues	192,410	43,736	236,146
Operating expenses:			
Facility operating	122,108	32,920	155,028

General and administrative/management fee	12,141	1,906	14,047
Facility lease expenses	1,805	7,253	9,058
Depreciation and amortization[1]	45,387	2,390	47,777
Total operating expenses	181,441	44,469	225,910
Operating income	10,969	(733)	10,236
Interest expense:			
Debt	(21,186)	(609)	(21,795)
Capitalized lease obligation	(20,044)	—	(20,044)
Amortization of deferred financing costs	(766)	(200)	(966)
Loss before taxes	$ (31,027)	$ (1,542)	$ (32,569)
Three months ended March 31, 2006:			
Revenue:			
Resident fees	$ 49,057	$ 11,021	$ 60,078
Total revenues	49,057	11,021	60,078
Operating expenses:			
Facility operating[1]	32,480	8,356	40,836
General and administrative/management fee	3,036	476	3,512
Facility lease expenses	451	1,751	2,202
Depreciation and amortization[1]	10,690	594	11,284
Total operating expenses	46,657	11,177	57,834
Operating income	2,400	(156)	2,244
Interest expense:			
Debt	(4,898)	(152)	(5,050)
Capitalized lease obligation	(5,011)	—	(5,011)
Amortization of deferred financing costs	(171)	(50)	(221)
Loss before taxes	$ (7,680)	$ (358)	$ (8,038)

(1) Depreciation and Amortization Expense:

Reflects depreciation and amortization expense on the purchase of the Omega Portfolio, Merrill Gardens Portfolio, two facilities in Orlando, FL, Wellington Portfolio, Liberty Owned Portfolio, Southland Assisted Portfolio, AEW I Portfolio, Southland Portfolio and AEW — New Jersey Portfolio completed acquisitions and the AEW Portfolio, and Liberty II Portfolio which are under contract and deemed probable acquisitions, based on the purchase price allocation as follows:

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	Amount	Estimated Life	Year Ended December 31, 2005	Three Months Ended March 31, 2006
Land	$91.6 million	n/a	$ —	$ —
Building and improvements	$640.8 million	40 years	15,890	3,772
Furniture, fixtures and equipment	$20.3 million	5 years	4,028	971
Operating lease costs	$1.9 million	(b)	24	48
Lease intangible[a]	$34.4 million	(a)	27,835	6,493

	$ 47,777	$ 11,284
Amortization of deferred costs	$ 966	$ 221

(a)Reflects purchase price allocated to in-place tenant leases at each of the acquired facilities based upon a vacancy component. Purchase price allocated represent the fair value assigned to the in place leases at date of acquisition. We typically do not pay commissions or provide incentives in leasing our units. The individual leases were considered to be at market rate due to the short-term nature.

(b)Reflects costs allocated to the facilities we operate under long term operating leases. Fair value was determined based on discounted future cash flows for the initial term of each lease. Costs are amortized over the terms of each lease.

(G) Other Pro Forma Adjustments — Statements of Operations

Reflects net interest expense in connection with the refinancing of facilities that closed March 2005, interest rate swaps that closed March 2005, Chambrel financing that closed April 2006, and line of credit that closed February 2006 and will be repaid in connection with the public offering:

	Amount	Effective Rate	Year Ended December 31, 2005	Three Months Ended March 31, 2006
Mortgage loans refinancing[1]	$150.0 million	5.58%[2]	4,050	808
Additional interest expense on refinancing and interest rate swap that closed March 2005			(325)	—
Chambrel financing (see Note 2(E) – Other Adjustments)	$12.0 million	6.56%	(787)	(197)
Line of credit			—	177
Other			73	—
			$ 3,011	$ 788
Loss on extinguishment of debt (write-off of unamortized deferred financing costs) related to the above financings			$ (172)	$ (3,986)

Net amortization of deferred costs related to the above refinancings and the line of credit, net of expenses amortized in the historical financial statements	$ 351	$ 391

(1)Reflective of 2005 and 2006 refinancings.

(2)Reflects interest rate under terms of a swap agreement.

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	Year Ended December	Three Months Ended

	31, 2005	March 31, 2006
Reflects general and administration expense expected to be incurred to operate as a public company including salaries, wages and benefits for additional staff, professional fees and other corporate level activity. Such amounts are based on estimates of staffing levels and services from third parties or quotes from our vendors. We have included a pro forma adjustment as our best estimate of these additional costs	$ 1,857	$ —
Reflects additional stock compensation expense included in general and administrative expense in connection with grants under the Restricted Stock Plan, including grants to the ARC executives which vest over a three to five-year period. Additional compensation expense assuming all grants initially vested at January 1, 2005 and will vest over three to five years, net of estimated forfeitures	$ 17,692	$ 2,157
Reflects management fees and termination fees received for terminated management contracts and contracts consolidated pursuant to EITF 04-5 effective January 1, 2006 net of new contracts	$ (2,440)	$ (824)
Reflects elimination of change in fair value of derivatives for forward interest rate swaps terminated and replaced by new interest rate swaps on March 30, 2005	$ (4,080)	$ —
The net effect of the acquisitions, and other significant and insignificant acquisitions and other transactions described in the General Information section of these pro forma financials result in additional losses for GAAP purposes. The adjustment reflects a consolidated tax benefit based upon the pro forma loss before taxes ..	$ 100,737	$ 23,607
General and Administrative Expense:		
The pro forma statements of operations reflect actual general and administrative expense (management fees) and operating expenses under the prior owner. With the exception of the ARC Merger the Company generally did not hire any management or any corporate employees from the prior owner. We hired new employees subsequent to their purchase. Operating expense savings are expected as a result of signed contracts with vendors such as food and insurance. As a result, general and administrative expenses and operating expenses are expected to be reduced significantly under our ownership and management.		
Operating expense reductions as a result of signed contracts with vendors such as food and insurance	$ 5,605	$ 1,403
General and administrative expense reductions as a result of identified corporate office positions and function to be eliminated or consolidated and signed information technology contracts	14,604	3,651
	$ 20,209	$ 5,054

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Although we expect to achieve significant cost savings through a reduction in operating and general and administrative costs and reduction in corporate employees, such amounts are not reflected in the accompanying unaudited pro forma condensed consolidated financial statements.

Pro Forma Income (Loss) Per Share

Shares used to calculate unaudited pro forma basic and diluted income (loss) from continuing operations per share include the actual shares outstanding at March 31, 2006, as adjusted for the shares issued in this offering, and excludes unvested shares of managements' restricted stock.

Weighted average number of shares of common stock outstanding at March 31, 2006	65,007
Additional shares issued in this offering and sale of shares to Investor and ARC executives	33,427
Weighted average number of shares of common stock outstanding — basic and diluted	98,433

A total of 2,027 shares related to the unvested portion at March 31, 2006 of management's restricted stock plan have been excluded since their inclusion would be antidilutive.

Historical Earnings (Loss) Per Share for 2005

We have excluded earnings (loss) per share data for the year ended December 31, 2005. We believe the calculation is not meaningful to investors due to the different ownership and legal structures (e.g., corporation and limited liability companies) of the various entities prior to the combination transaction on September 30, 2005.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Brookdale Senior Living, Inc.

We have audited the accompanying consolidated and combined balance sheets of Brookdale Senior Living, Inc. (the ‘‘Company’’) as of December 31, 2005 and 2004, as defined in Note 1, and the related combined statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2005 and the consolidated statements of operations, stockholders' equity, and cash flows for the period from October 1, 2005 to December 31, 2005, and the combined statements of operations, owners' equity, and cash flows for the period from January 1, 2005 to September 30, 2005. Our audits also included the financial statement schedule listed in the index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the

Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the combined financial statements, the Company changed its method of accounting for variable interest entities in 2003.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated and combined financial position of the Company at December 31, 2005 and 2004, respectively, the combined results of operations and cash flows for each of the three years in the period ended December 31, 2005 and the consolidated results of operations and cash flows for the period from October 1, 2005 to December 31, 2005 and the combined results of operations and cash flows for the period from January 1, 2005 to September 30, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Chicago, Illinois
March 17, 2006

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BROOKDALE SENIOR LIVING INC.
CONSOLIDATED AND COMBINED BALANCE SHEETS
(In thousands, except stock amounts)

	March 31,	December 31,	
	2006	2005	2004
Assets	(Unaudited)		
Current assets:			
Cash and cash equivalents	$ 94,096	$ 77,682	$ 86,858
Cash and investments – restricted	41,984	37,314	20,528
Accounts receivable, net	12,160	10,623	8,062
Assets held for sale	—	—	2,964
Prepaid expenses and other, net	33,239	20,258	16,891
Total current assets	181,479	145,877	135,303
Property, plant and equipment	1,715,239	1,479,587	557,293
Accumulated depreciation	(104,688)	(70,855)	(33,674)

Property, plant and equipment, net	1,610,551	1,408,732	523,619
Cash and investments – restricted	7,565	24,099	27,459
Goodwill	65,646	65,646	8,961
Lease security deposits	19,723	25,271	26,233
Other, net	40,107	28,186	25,050
Total assets	$ 1,925,071	$ 1,697,811	$ 746,625
Liabilities and Stockholders'/Owner's Equity			
Current liabilities:			
Current portion of debt	$ 10,766	$ 132	$ 3,888
Line of credit	87,000	—	—
Trade accounts payable	4,290	9,253	7,437
Accrued expenses	85,574	85,392	77,333
Refundable entrance fees	31,606	30,693	—
Tenant refundable fees and security deposits	17,087	16,333	14,756
Deferred revenue	20,849	13,093	14,588
Dividends payable	23,167	16,547	—
Total current liabilities	280,339	171,443	118,002
Long-term debt, less current portion	887,074	754,169	367,149
Deferred gains	59,594	60,681	138,402
Deferred lease liability	24,493	19,234	9,527
Deferred tax liability	41,689	41,689	—
Other	20,681	20,156	42,055
Total liabilities	1,313,870	1,067,372	675,135
Minority interests	12,267	36	31,399
Commitments and contingencies			
Stockholders'/Owner's Equity:			
Preferred stock, $.01 par value, 50,000,000 shares authorized at March 31, 2006 and December 31, 2005; no shares issued and outstanding	—	—	—
Common stock, $.01 par value, 200,000,000 shares authorized at March 31, 2006 and December 31, 2005; 65,006,833 shares issued and outstanding	650	650	—
Additional paid-in-capital	670,801	690,950	—
Accumulated deficit	(81,952)	(62,626)	—
Accumulated other comprehensive income	9,435	1,429	—
Owners' equity	—	—	40,091
Total stockholders'/owner's equity	598,934	630,403	40,091
Total liabilities and stockholders'/owner's equity	$ 1,925,071	$ 1,697,811	$ 746,625

See accompanying notes to consolidated and combined financial statements.

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BROOKDALE SENIOR LIVING INC.
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three Months Ended March 31,		For the Period from October 1, 2005 to December 31, 2005	For the Period from January 1, 2005 to September 30, 2005	For the Years Ended December 31,		
	2006	2005			2005	2004	2003
Revenue	(Unaudited)						
Resident fees	$221,036	$174,112	$211,860	$574,855	$786,715	$657,327	$217,216
Management fees	1,147	871	1,187	2,675	3,862	3,545	5,368
Total revenue	222,183	174,983	213,047	577,530	790,577	660,872	222,584
Expenses							
Facility operating (excluding depreciation and amortization of $21,410, $3,540, $17,657, $27,586, $45,243, $48,885 and $20,383, respectively)	136,945	110,349	127,105	366,782	493,887	415,169	133,119
General and administrative (including non-cash stock compensation expense of $3,018, $—, $11,534, $11,146, $22,180, $— and $—, respectively)	21,085	11,658	27,690	54,006	81,696	43,640	15,997
Facility lease expense	45,734	46,502	48,487	140,852	189,339	99,997	30,744
Depreciation and amortization	22,299	5,173	18,784	30,034	48,818	50,187	21,383
Total operating expenses	226,063	173,682	222,066	591,674	813,740	608,993	201,243
Income (loss) from operations	(3,880)	1,301	(9,019)	(14,144)	(23,163)	51,879	21,341
Interest income	1,052	696	1,588	2,200	3,788	637	14,037
Interest expense:							
Debt	(13,690)	(9,125)	(12,809)	(33,439)	(46,248)	(63,634)	(25,106)
Amortization of deferred financing costs	(703)	(423)	(238)	(827)	(1,065)	(2,120)	(1,097)
Change in fair value of derivatives	(101)	4,062	(88)	4,080	3,992	3,176	—
Loss on extinguishment of debt	(1,334)	(453)					
Loss from sale of properties			—	—	—	—	(24,513)
Gain (loss) on extinguishment of debt			(3,543)	(453)	(3,996)	1,051	12,511
Equity in earnings (loss) of unconsolidated ventures, net of minority interest $—, $—, $—, $—, $—, $(6) and $11, respectively	(168)	(187)	(197)	(641)	(838)	(931)	318
Other			—	—	—	(114)	—
Loss before income taxes	(18,824)	(4,129)	(24,306)	(43,224)	(67,530)	(10,056)	(2,509)
	(386)	(166)	(150)	247	97	(11,111)	(139)

(Provision) benefit for income taxes							
Loss before minority interest	(19,210)	(4,295)	(24,456)	(42,977)	(67,433)	(21,167)	(2,648)
Minority interest	(116)	2,532	—	16,575	16,575	11,734	1,284
Loss before discontinued operations and cumulative effect of a change in accounting principle	(19,326)	(1,763)	(24,456)	(26,402)	(50,858)	(9,433)	(1,364)
Loss on discontinued operations, net of taxes and minority interest	—	(35)	—	(128)	(128)	(361)	(322)
Cumulative effect of a change in accounting principle, net of income taxes of $4,460 and minority interest			—	—	—	—	(7,277)
Net loss	$ (19,326)	$ (1,798)	$ (24,456)	$ (26,530)	$ (50,986)	$ (9,794)	$ (8,963)
Basic and diluted (loss) per share	$ (0.30)		$ (0.41)				
Weighted average shares used in computing basic and diluted (loss) per share	65,007		59,710				

See accompanying notes to consolidated and combined financial statements.

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BROOKDALE SENIOR LIVING INC.
CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' AND OWNER'S EQUITY
For the Period from October 1, 2005 through December 31, 2005 and
For the Period From January 1, 2005 through September 30, 2005 and
Years Ended December 31, 2004 and 2003
(In thousands)

	Common Stock		Additional Paid-In	Accumulated Earnings	Accumulated Other Comprehensive		
	Shares	Amount	Capital	(Deficit)	Income (Loss)	Equity	Total
Balances at January 1, 2003		$	$	$	$	$ 183,807	$ 183,807
Combination of Alterra						62,900	62,900
Net loss						(8,963)	(8,963)
Balances at December 31, 2003						237,744	237,744

Dividends						(190,253)	(190,253)
Net loss						(9,794)	(9,794)
Tax effect of pre-fresh start accounting net operating loss carryforward						2,394	2,394
Balances at December 31, 2004						40,091	40,091
Dividends						(34,355)	(34,355)
Purchase of non controlling interest in Alterra						50,000	50,000
Combination of Fortress CCRC LLC and FIT REN LLC						199,423	199,423
Compensation expense related to restricted stock grant						6,399	6,399
Allocation of minority interest in connection with stock grant						(2,717)	(2,717)
Net loss						(26,530)	(26,530)
Unrealized loss on derivative					(666)	—	(666)
Subtotal at September 30, 2005	—	—	—	—	(666)	232,311	231,645
Reclassify equity and minority interest	—	—	316,048	(63,045)	(280)	(232,311)	20,412
Minority step-up in basis	—	—	236,663	24,875	—	—	261,538
Shares issued in connection with the formation of BSL	56,446	564	(564)	—	—	—	—
Balances at September 30, 2005	56,446	564	552,147	(38,170)	(946)	—	513,595
Dividends	—	—	(16,548)	—	—	—	(16,548)
Compensation expense related to restricted stock grant	—	—	11,534	—	—	—	11,534
Reversal of tax effect of pre-fresh start accounting net operating loss carryforward	—	—	(932)	—	—	—	(932)
Issuance of common stock from initial public offering, net	8,561	86	144,749	—	—	—	144,835
Net loss	—	—	—	(24,456)	—	—	(24,456)
Amortization of payments from settlement of forward interest rate swaps	—	—	—	—	94	—	94
Unrealized income on derivative	—	—	—	—	2,281	—	2,281
Balances at December 31, 2005	65,007	650	690,950	(62,626)	1,429	—	630,403
Dividends	—	—	(23,167)	—	—	—	(23,167)
Compensation expense related to restricted stock	—	—	3,018	—	—	—	3,018

Net loss	—	—	—	(19,326)	—	—	(19,326)
Amortization of payments from settlement of forward interest rate swaps	—	—	—	—	94	—	94
Unrealized gain on derivative	—	—	—	—	7,912	—	7,912
Balances at March 31, 2006 (unaudited)	65,007	$ 650	$ 670,801	$ (81,952)	$ 9,435	$ —	$ 598,934

See accompanying notes to consolidated and combined financial statements.

BROOKDALE SENIOR LIVING INC.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,		For the Period from October 1, 2005 to December 31, 2005	For the Period from January 1, 2005 to September 30, 2005	For the Years En[ded] December 31	
	2006	2005	2005	2005	2005	2004
	(unaudited)					
Cash Flows from Operating Activities						
Net loss	$ (19,326)	$ (1,798)	$ (24,456)	$ (26,530)	$ (50,986)	$ (9,794)
Adjustments to reconcile net loss to net cash provided by operating activities:						
Loss on sale of properties	—	—	—	—	—	—
Loss (gain) on extinguishment of debt	1,334	453	3,543	453	3,996	(1,051)
Cumulative effect of a change in accounting principle	—	—	—	—	—	—
Depreciation and amortization	23,002	5,596	19,022	30,861	49,883	52,307
Minority interest	116	(2,532)	—	(16,575)	(16,575)	(11,734)
Equity in (earnings) loss of unconsolidated ventures, net	168	187	197	641	838	931
Loss on discontinued operations	—	35	—	128	128	842
Amortization of deferred gain	(1,087)	(2,296)	(1,152)	(6,786)	(7,938)	(2,260)
Amortization of entrance fees	(83)	—	(15)	(18)	(33)	—
Proceeds from deferred entrance fee revenue	448	—	486	700	1,186	—
	—	166	150	(247)	(97)	10,630

Deferred income taxes provision (benefit)						
Change in deferred lease liability	5,259	6,094	5,895	17,857	23,752	4,588
Change in fair value of derivatives	101	(4,062)	88	(4,080)	(3,992)	(3,176)
Compensation expenses related to restricted stock grants.	3,018	—	11,534	11,146	22,680	—
Long-term debt deferred interest and subsequent fee added to principal, net of $—, $—, $—, $—, $—, $2,342 and $2,176 paid, respectively	—	—	—	—	—	1,380
Changes in operating assets and liabilities:						
Accounts receivable, net	(1,446)	999	917	(3,478)	(2,561)	1,457
Prepaid expenses and other assets, net	827	3,202	(3,825)	703	(3,122)	1,057
Accounts payable and accrued expenses	(5,104)	(10,383)	8,555	5,192	13,747	3,865
Tenant refundable fees and security deposits	602	263	108	1,715	1,823	1,938
Other	4,290	(352)	(11,954)	(3,875)	(15,829)	(852)
Net cash provided by (used in) operating activities	12,119	(4,428)	9,093	7,807	16,900	50,128

BROOKDALE SENIOR LIVING INC.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS—(Continued)
(In thousands)

	Three Months Ended March 31,		For the Period from October 1, 2005 to December 31, 2005	For the Period from January 1, 2005 to September 30, 2005	For the Yea Decembe	
	2006	2005			2005	200
	(unaudited)					
Cash Flows from Investing Activities						
Acquisition of leased facilities	$ —	$ —	$ (79,979)	$ —	$ (79,979)	$ 2
Increase in lease security deposits and lease acquisition deposits, net	5,548	(67)	491	254	745	
(Increase) decrease in cash and investments – restricted	13,069	3,292	6,729	(8,266)	(1,537)	5,4
Increase in investment certificates – restricted	—	—	—	—	—	

Net proceeds from sale of property, plant and equipment	—	677	—	15,446	15,446	24,0
Additions to property, plant and equipment, net of related payables	(6,737)	(5,660)	(25,872)	(489,206)	(515,078)	(37,9
Acquisition of assets, net of related payables	(197,863)	—	—	—	—	
Proceeds from sale leaseback, net of costs	—	—	—	—	—	520,0
Cash and cash equivalents from the combination of Alterra	—	—	—	—	—	
Increase in reimbursable development costs	—	—	—	—	—	
Purchase of venture partner's interest	—	—	—	—	—	
Distribution from unconsolidated venture	—	—	—	—	—	3,7
Proceeds from sale of partnerships, net of minority interests	—	—	—	—	—	9,2
Net cash provided by (used in) investing activities	(185,983)	(1,758)	(98,631)	(481,772)	(580,403)	524,7
Cash Flows from Financing Activities						
Proceeds from debt	127,847	192,000	54,000	468,756	522,756	79,8
Repayment of debt	(3,934)	(179,762)	(77,459)	(182,558)	(260,017)	(312,3
Payment of dividends	(16,547)	—	(14,355)	(20,000)	(34,355)	(304,5
Proceeds from unsecured lines of credit	87,000	—	—	—	—	94,2
Repayment of unsecured lines of credit	—	—	—	—	—	(99,2
Proceeds from notes payable to affiliates			—	—	—	
Payment of financing costs	(5,006)	(2,762)	—	(3,425)	(3,425)	(2,3
Refundable entrance fees:						
Proceeds from refundable entrance fees	1,621	—	1,513	2,530	4,043	
Refunds of entrance fees	(703)	—	(1,065)	(1,670)	(2,735)	
Payment of swap termination	—	(14,065)	—	(14,065)	(14,065)	
Proceeds from issuance of common stock, net of underwriters discount	—	—	151,269	500	151,769	
Costs incurred related to initial public offering	—	—	(6,434)	—	(6,434)	
Capital contributions from controlling shareholder	—	—	—	196,790	196,790	
Net cash provided by (used in) financing activities	190,278	(4,589)	107,469	446,858	554,327	(544,4
Net increase (decrease) in cash and cash equivalents	16,414	(10,775)	17,931	(27,107)	(9,176)	30,3
Cash and cash equivalents at beginning of period	77,682	86,858	59,751	86,858	86,858	56,4
Cash and cash equivalents at end of period	$ 94,096	$ 76,083	$ 77,682	$ 59,751	$ 77,682	$ 86,8

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BROOKDALE SENIOR LIVING INC.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS — (Continued)
(In thousands)

	Three Months Ended March 31,		For the Period from October 1, 2005 to December 31, 2005	For the Period from January 1, 2005 to September 30, 2005	For the	Dece
	2006	2005			2005	
	(unaudited)					
Supplemental Disclosure of Cash Flow Information:						
Interest paid	$ 13,358	$10,410	$ 12,896	$32,896	$ 45,792	$6
Income taxes paid	$ 298	1,872	$ 259	$ 2,377	$ 2,636	$
Reorganization costs paid	$ —	$ —	$ —	$ —	$ —	$
Write-off of fully amortized intangible asset	$ —	$ 4,404	$ 3,815	$ 4,403	$ 8,218	$
Write-off of deferred costs	$ —	$ 453	$ 702	$ 453	$ 1,155	$
Supplemental Schedule of Noncash Operating, Investing and Financing Activities:						
Consolidation of limited partnerships pursuant to EITF 04-5 on January 1, 2006:						
Property, plant and equipment, net	$ 31,645	$ —	$ —	$ —	$ —	$
Accounts receivable	91	—	—	—	—	
Prepaid expenses and other	1,222	—	—	—	—	
Cash and investments – restricted	1,205	—	—	—	—	
Other asset	96	—	—	—	—	
Accrued expenses	(906)	—	—	—	—	
Other current liabilities	(1,290)	—	—	—	—	
Tenant refundable fees and security deposits	(177)	—	—	—	—	
Debt	(19,723)	—	—	—	—	
Other liabilities	(49)	—	—	—	—	
Minority interest	(12,114)	—	—	—	—	
Net	$ —	$ —	$ —	$ —	$ —	$
In connection with net operating lease transactions and property acquisitions assets acquired and liabilities assumed were as follows:						
Property, plant and equipment excluding write-off of accumulated depreciation totaling $9,577 in 2003	$ —	$ —	$ 164,903	$ —	$ 164,903	$
Cash and investments – restricted, current	—	—	—	—		
Accounts receivable assumed	—	—	—	—	—	

Prepaid expenses and other assumed	—	—	5,157	—	5,157	
Other asset assumed	—	—	—	—	—	
Lease security deposits redeemed	—	—	—	—	—	
Deferred costs paid by lessor	—	—	—	—	—	
Accrued real estate taxes assumed	—	—	—	—	—	
Trade accounts payable assumed	—	—	—	—	—	
Tenant refundable entrance fees and security deposits assumed	—	—	—	—	—	
Other current liabilities assumed	—	—	—	—	—	
Debt assumed	—	—	(119,775)	—	(119,775)	
Accrued interest assumed	—	—	—	—	—	
Other liabilities	—	—	7,215	—	7,215	
Net cash paid (received)	$ —	$ —	$ 57,500	$ —	$ 57,500	$
Consolidation of the development properties pursuant to FIN 46R (note 2):						
Property, plant and equipment	$ —	$ —	$ —	$ —	$ —	$
Other assets assumed	—	—	—	—	—	
Investment certificates – restricted	—	—	—	—	—	
Development fees receivable	—	—	—	—	—	
Reimbursable development costs	—	—	—	—	—	
Debt assumed	—	—	—	—	—	
Accrued interest assumed	—	—	—	—	—	
Accrued real estate taxes	—	—	—	—	—	
Security deposits assumed	—	—	—	—	—	
Other liabilities assumed	—	—	—	—	—	
Net cash paid	$ —	$ —	$ —	$ —	$ —	$
Investment in unconsolidated ventures, net purchase of venture partner's interest in GFB-AS Investors, LLC						
Other assets acquired	$ —	$ —	$ —	$ —	$ —	$
Investment in unconsolidated ventures	—	—	—	—	—	
Minority interests	—	—	—	—	—	
Net cash paid	$ —	$ —	$ —	$ —	$ —	$
Reclassification of property, plant and equipment to investment in unconsolidated ventures in connection with formation of Brookdale Senior Housing, LLC, net.	$ —	$ —	$ —	$ —	$ —	$

See accompanying notes to consolidated and combined financial statements.

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BROOKDALE SENIOR LIVING INC.
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(In thousands)

1. Organization

Brookdale Senior Living Inc. (‘‘BSL’’) was formed as a Delaware corporation on June 28, 2005. Under the Certificate of Incorporation, the Company was initially authorized to issue up to 5,000 common shares and 5,000 of preferred shares. On September 30, 2005, our Certificate of Incorporation was amended to authorize up to 200,000 common shares and 50,000 preferred shares. We provide services to the elderly through facilities located in urban and suburban areas of major markets in the United States.

On September 30, 2005, the holders of all equity shares or membership interests in Brookdale Living Communities, Inc. (‘‘BLC’’), Alterra Healthcare Corporation (‘‘Alterra’’), FIT REN LLC (‘‘FIT REN’’) and Fortress CCRC Acquisition LLC (‘‘Fortress CCRC’’) contributed their ownership interests to BSL for common shares of BSL. Simultaneously with the formation transaction, FIT II, as defined below, contributed its membership interest in FIT REN to FEBC in exchange for common shares of BSL. A summary of the common shares issued by BSL for the respective interests is as follows:

BLC		20,000
Alterra	18,000	
FIT REN	11,750	29,750
Fortress CCRC		8,250
		58,000

On November 22, 2005, we consummated our initial public offering of 12,732,800 shares of common stock, par value $0.01 per share, consisting of 8,560,800 primary shares (including 1,660,800 shares pursuant to the option granted by us to the Underwriters to purchase up to an additional 1,660,800 shares of common stock to cover over-allotments) and 4,172,000 shares sold by the selling stockholders. We did not receive any proceeds from the shares sold by the selling stockholders. We received net proceeds of approximately $144.8 million, after deducting an aggregate of $16.9 million in underwriting discounts and commissions paid to the underwriters and an estimated $6.4 million in other direct expenses incurred in connection with the offering.

Prior to the merger transaction described above, Fortress Investment Group (‘‘FIG’’) controlled BLC, Alterra, FIT REN and Fortress CCRC through its ability to exercise voting, financial and investment control over each of the entities through contractual control relationships with and investment advisory agreements over the various entities that own the majority of BLC, Alterra, FIT REN and Fortress CCRC.

Ownership interests in BLC and Alterra representing all interests in the merger not controlled by FIG (‘‘Non-FIG Shareholders’’ owned approximately 10.1 million and 4.8 million shares of BLC and Alterra, respectively, collectively 14.9 million of the above shares of common stock representing 50.5% and 26.7% of BLC and Alterra, respectively, collectively 25.7% of the shares outstanding in BSL) were adjusted for financial reporting purposes to the fair value as if their ownership interests in BLC and Alterra were purchased by BSL as of September 30, 2005. This results in partial step-up to the fair value in the assets, liabilities and equity of BSL.

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BROOKDALE SENIOR LIVING INC.
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(In thousands)

The following table summarizes the step-up in basis to reflect the fair value adjustments relating to the ownership interests of the Non-FIG Shareholders.

	Fair Value Adjustment
Property, plant and equipment, net	$ 176,013
Deferred costs	(2,004)
Investment in unconsolidated ventures	(217)
Goodwill	56,686
Total assets	$ 230,478
Deferred gains	$ (60,262)
Deferred lease liability	(12,487)
Deferred tax liability	41,689
Total liabilities	(31,060)
Stockholders' equity	261,538
Total liabilities and stockholders' equity	$ 230,478

The fair value adjustment to stockholders' equity was calculated as the difference between the historical carrying value of Non-FIG shareholders in BLC and Alterra and their estimated fair value as of September 30, 2005. The fair value was based upon the total number of shares issued by BSL to the Non-FIG.

Shareholders and valued at the offering price of $19 per share and allocated to BLC and Alterra based upon the fair value of underlying assets and liabilities. Current assets, certain long-term assets, current liabilities, long-term debt and certain long-term liabilities were valued at their historical costs since fair value approximated their costs. Property, plant and equipment, deferred costs, goodwill, deferred gains and deferred lease liability were valued based upon our accounting policies with regards to these asset and liability categories. Fair value for property, plant and equipment was determined utilizing discounted cash flows derived from the operations of the facilities owned or leased within each company. The discount rates and cap rates used in the valuations are deemed by management to represent current market rates. Deferred costs, deferred gains and deferred lease liability were deemed to have no fair value since there is no future benefit or costs associated with these accounts.

	Total Equity
Contribution of ownership interests	$ 231,645
Reclass of minority interest to equity in connection with combination	20,412
Minority step-up in basis	261,538
Equity at September 30, 2005	$ 513,595

In June 2005, prior to the formation of BSL, FIT II purchased 50% of the membership interests held by minority members for $50.0 million. In connection with the purchase Alterra recorded a step-up in basis of assets and liabilities related to the purchase to reflect their fair values.

The combined financial statements include the accounts of Brookdale Living Communities, Inc, (‘‘BLC’’) a wholly-owned subsidiary of Fortress Brookdale Acquisition LLC, (‘‘FBA’’) and effective December 1, 2003, Alterra Healthcare Corporation (‘‘Alterra’’ or ‘‘Successor Alterra’’), a wholly-owned subsidiary of FEBC ALT Investors, LLC

(‘‘FEBC’’), effective April 5, 2005, Fortress CCRC Acquisition LLC (‘‘Fortress CCRC’’), a wholly-owned subsidiary of Fortress Investment Trust II (‘‘FIT II’’) and effective June 21, 2005, FIT REN LLC (‘‘FIT REN’’), a wholly-owned subsidiary of FIT II. All entities

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BROOKDALE SENIOR LIVING INC.
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(In thousands)

are indirectly controlled by affiliates of FIG and as such are presented on a combined basis due to their common control. Combined financial statements are presented for all dates and periods prior to September 30, 2005, the date of the merger transaction described above. Subsequent to the transaction, the financial statements are presented on a consolidated basis.

The combined statements are presented on a combined basis due to that fact that FIG controlled each of BLC, Alterra, Fortress CCRC and FIT REN through its voting, financial and investment control over Fortress Registered Investment Trust (‘‘FRIT’’) and FIT II. FRIT owned 50.51% of FBA, which owned 100% and 90.1% of BLC as of December 31, 2004 and August 2005, respectively. FIT II owned 100% of each of Fortress CCRC, FIT REN and FIT-ALT Investor LLC (‘‘FIT-ALT’’), which owned 73.49% of FEBC, the indirect parent of Alterra, as of August 2005 (as of December 31, 2004, FIT II owned 50% of FEBC and had the right to appoint a majority of the members of the FEBC board).

FIG exercises control over FRIT and FIT II through contractual control relationships with, and investment advisory control over, each of FRIT and FIT II. FRIT and FIT II are wholly-owned subsidiaries of Fortress Investment Fund (‘‘FIF’’) and Fortress Investment Fund II (‘‘FIF II’’), respectively. Pursuant to various agreements, Fortress Fund MM LLC (‘‘Fund MM’’) and Fortress Fund MM II LLC (‘‘Fund MM II’’), as managing member of FIF and FIF II, respectively, have ‘‘the full, exclusive and absolute right, power and authority to manage and control’’ each of FIF and FIF II, ‘‘and the property, assets, affairs, and business thereof.’’ In addition, ‘‘the formulation of investment policy’’ of FIF and FIF II is ‘‘vested exclusively’’ in each of Fund MM and Fund MM II, and ‘‘any and all rights, including voting rights, pertaining to any Portfolio Investments’’ (as defined in the agreements) ‘‘may be exercised only by’’ each of Fund MM and Fund MM II. In addition, pursuant to these agreements, the control vested in each of Fund MM and Fund MM II is irrevocably delegated to FIG, which serves as the managing member of each of these funds. Finally, FIG, through its wholly-owned subsidiary, FIG Advisors LLC, further exercises control over each of FRIT and FIT II in its capacity as investment advisor of each of these funds.

As set forth in the preceding paragraphs, since FIG controls more than 50 percent of the voting ownership interest of BLC, Alterra, Fortress CCRC and FIT REN, pursuant to EITF Opinion No. 02-5 Definition of ‘‘Common Control’’ inrelation to FASB Statement No. 141, the Company is presenting combined financial statements.

A summary of the changes in total equity and minority interests from December 31, 2004 to September 30, 2005 prior to the contribution to BSL is as follows:

	Total Owners'	Minority Interests	Total

	Equity		
Balance at December 31, 2004	$ 40,091	$ 31,363(1)	$ 71,454
Dividends	(34,355)	—	(34,355)
Purchase of non-controlling interest in Alterra	50,000	(2,543)	47,457
Combination of Fortress CCRC LLC and FIT REN LLC	199,423	—	199,423
Issuance of stock in BLC	—	500	500
Vesting of restricted shares	6,399	4,747	11,146
Allocation to minority interest in connection with stock grant	(2,717)	2,717	—
Loss from continuing operations	(26,402)	(16,575)	(42,977)
Discontinued operations	(128)	483	355
Unrealized loss on derivatives	(666)	(280)	(946)
Balance at September 30, 2005 prior to contribution to BSL	$ 231,645	$ 20,412	$ 252,057

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BROOKDALE SENIOR LIVING INC.
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(1)Reconciliation to December 31, 2004 combined balance sheet:

Minority interest per above	$ 31,363
Minority interest related to unconsolidated joint ventures	36
Minority interest at December 31, 2004	$ 31,399

Combined Presentation

BLC

BLC was incorporated in Delaware on September 4, 1996 and commenced operations upon completion of its initial public offering which closed on May 7, 1997. During the year ended December 2000, FBA acquired the outstanding stock of BLC in an all cash transaction and Health Partners, a Bermuda exempted partnership (‘‘Health Partners’’) agreed to contribute its convertible subordinated note originally due 2009 in exchange for stock of FBA. FBA was owned by FRIT, Health Partners, Fortress Brookdale Investment Fund LLC, and management prior to September 30, 2005. As of December 31, 2004, BLC owned or leased 49 facilities and managed or served as management consultant for 19 facilities for third party and affiliated owners.

FBA sold 100% of the common stock of the predecessor to BLC, which was also known as Brookdale Living Communities, Inc., or Old Brookdale, to Provident Senior Living Trust (‘‘Provident’’) on October 19, 2004. Prior to the sale, Old Brookdale distributed certain assets and liabilities to a newly formed subsidiary which was later renamed Brookdale Living Communities, Inc. For financial reporting purposes our operations include that of Old Brookdale prior to and BLC subsequent to the Provident transaction.

Alterra

Substantially all of the membership interests in FEBC were held by FIT-ALT, a wholly-owned subsidiary of FIT II, Emeritus Corporation (''Emeritus''), and NW Select, LLC prior to September 30, 2005. Alterra owns and operates assisted living residences. As of December 31, 2004, the Successor Alterra operated and managed 300 residences located in 21 states throughout the United States.

On November 26, 2003, a U.S. Bankruptcy Court entered an order confirming Alterra's Second Amended Plan of Reorganization. Alterra executed an Agreement and Plan of Merger (''Merger Agreement'') with FEBC, pursuant to which FEBC would acquire 100% of the common stock of the Company upon emergence from the Chapter 11 bankruptcy proceeding. Pursuant to the Merger Agreement, FEBC would pay Successor Alterra $76.0 million of merger consideration, which may be adjusted downward in certain circumstances. FEBC was capitalized with $76.0 million including (i) a $15.0 million senior loan to FEBC from an affiliate of FIT II and (ii) $61.0 million of aggregate equity contributions. FIT II provided approximately 75% of the equity investment to FEBC and is entitled to appoint a majority of the directors of Alterra. Emeritus Corporation and NW Select LLC provided the remaining equity capital to FEBC and is entitled to appoint one director.

Alterra emerged from bankruptcy on December 4, 2003 (the Effective Date).

Settlement between Alterra and the committee of unsecured creditors was finalized and approved by the Bankruptcy Court on December 29, 2004, for a total fixed distributable amount of $2.45 million. Payment of the settlement will be made when all unsecured claims are determinable and liquidated. This settlement was included in the fresh start adjustments recognized in 2004 as an increase in current liabilities and an increase in property, plant and equipment.

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On the Effective Date, Alterra adopted fresh start accounting pursuant to the guidance provided by the American Institute of Certified Public Accountant's Statement of Position (SOP) 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code. For financial reporting purposes, Alterra adopted the provisions of fresh start accounting effective December 1, 2003. In accordance with the principles of fresh start accounting, Alterra has adjusted its assets and liabilities to their fair values as of December 1, 2003. Alterra's reorganization value was determined to be equal to the cash amount paid for all of the outstanding common stock of Alterra plus the post-emergence liabilities existing at the reorganization date. To the extent the fair value of its tangible and identifiable intangible assets net of liabilities exceeded the reorganization value, the excess was recorded as a reduction of the amounts allocated to property and equipment and leasehold intangibles.

Alterra's condensed consolidated balance sheet reflecting the application of fresh start accounting as of December 1, 2003 is summarized as follows ($ in 000's):

Assets	
Current assets:	
Cash and cash equivalents	$ 57,972

Accounts receivable, net	8,014
Assets held for sale	52,537
Prepaid expenses and supply inventory	15,446
Other current assets	8,881
Total current assets	142,850
Property and equipment, net	392,298
Other assets	17,556
Total assets	$ 552,704
Current liabilities:	
Current installments of long-term obligations	$ 68,951
Current debt maturities on assets held for sale	49,214
Accounts payable	4,880
Accrued expenses	74,777
Other liabilities	12,381
Total current liabilities	210,203
Long-term obligations, less current installments	264,256
Other long-term liabilities	2,245
Total liabilities	476,704
Stockholders' equity	76,000
Total liabilities and stockholders' equity	$ 552,704

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In June 2005, FIT II purchased 50% of the membership interests held by Emeritus and NW Select, LLC for $50.0 million. In connection with the purchase Alterra recorded a step-up in the basis of assets and liabilities related to the purchase to reflect their fair values. A summary of the adjustment is as follows:

Property, plant and equipment	$ 9,964
Operating leases	31,730
Deferred costs and other, net	(645)
Total Assets	$ 41,049
Deferred gains	(5,142)
Deferred lease liability	(1,266)
Purchase of minority interest	(2,543)
Total liabilities	(8,951)
Equity	50,000
Total liabilities and equity	$ 41,049

Fortress CCRC Portfolio

On April 5, 2005, an affiliate of FIT II, Fortress CCRC, purchased eight facilities for a combined purchase price of $210.5 million, including closing costs and including the assumption of $24.4 million, of refundable entrance fee obligations, which were allocated $199.5 million, to real estate and $11.0 million, to lease intangibles.

Prudential Portfolio

On June 21, 2005, FIT REN purchased eight facilities for an aggregate of $258.0 million, including closing costs, which was allocated as follows: $251.9 million to real estate and $6.1 million to lease intangibles. In connection with the purchase, FIT REN obtained $151.4 million of first mortgage financing. Prior to the acquisition, FIT REN entered into a $170.0 million forward swap of which $151.0 million was attributed to the eight facilities. At closing FIT REN terminated $151.0 million of the forward swap and incurred a loss of $2.4 million. The loss is included in other comprehensive loss and will be amortized as an adjustment to interest expense over the term of the hedged debt.

On July 22, 2005 FIT REN acquired a ninth facility for $27.9 million located in Santa Monica, CA. At closing, FIT REN terminated the remaining $19.0 million forward swap and incurred a loss of $0.2 million which will be included in other comprehensive income and amortized as an adjustment to interest expense over the term of the hedged debt.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated and combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles (‘‘GAAP’’). All significant intercompany balances and transactions have been eliminated.

The accompanying unaudited consolidated and combined financial statements for the periods ended March 31, 2006 and 2005 have been prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal

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recurring accruals) considered necessary for a fair presentation have been included. All amounts included in the notes to the consolidated and combined financial statement referring to March 31, 2006 and 2005 and the periods then ended are unaudited.

For the year ended December 31, 2005, we have aggregated the consolidated financial statements of the Company for the three months ended December 31, 2005, and combined statements for the nine months ended September 30, 2005. The financial statements are presented on a combined basis, in accordance with GAAP for the years ended December 31, 2004 and 2003. For financial reporting purposes the non-controlling shareholders or members (ownership interests other than those controlled by FIG) have been presented as minority interest. Upon consummation of the formation transaction on September 30, 2005, the minority interests were consolidated as shareholders of BSL and their interest reflected at fair value in accordance with SFAS No. 141 Business Combinations.

Principles of Consolidation

In December 2003, the Financial Accounting Standards Board (‘‘FASB’’) issued a revised Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (‘‘FIN 46R’’). This Interpretation addresses the consolidation by business enterprises of primary beneficiaries in variable interest entities (‘‘VIE’’) as defined in the Interpretation. A company that holds variable interests in an entity will need to consolidate the entity if its interest in the VIE is such that it will absorb a majority of the VIE's losses and/or receive a majority of expected residual returns, if they occur. We elected to adopt FIN 46R as of December 31, 2003 and accordingly, consolidated the entities as of December 31, 2003 in the accompanying financial statements.

On March 1, 2005 and December 30, 2005, we obtained legal title to four VIE's (The Meadows of Glen Ellyn, The Heritage of Raleigh, Trillium Place and The Hallmark of Creve Coeur facilities) and one VIE (the Hallmark of Battery Park City), respectively. The five VIE's were previously consolidated pursuant to FIN 46R, the legal acquisition of the facilities had minimal accounting impact.

Facilities	Total Units (Unaudited)
The Meadows of Glen Ellyn	234
The Heritage of Raleigh	219
The Hallmark, Battery Park City	217
Trillium Place	216
The Hallmark of Creve Coeur	218
	1,104

Investment in Unconsolidated Ventures

The equity method of accounting has been applied in the accompanying financial statements with respect to our investment in unconsolidated ventures that are not considered VIE's as we do not possess a controlling financial interest (note 3).

New Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised), Share-Based Payment, which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R is a revision to SFAS No. 123 and supersedes Accounting Principles Board (APB) Opinion No. 25,

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Accounting for Stock Issued to Employees, and its related implementation guidance. This Statement will require measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock options. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized. This Statement will be effective for us as of January 1, 2006. We adopted SFAS 123R in connection with the granting of our predecessors' initial stock compensation grant of restricted stock effective August 2005 (note 15).

In June 2005, the FASB issued EITF Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (''EITF 04-5''). EITF 04-5 provides guidance in determining whether a general partner controls a limited partnership that is not a VIE and thus should consolidate the limited partnership. The effective date is June 29, 2005, for all new limited partnerships and existing limited partnerships for which the partnership agreements are modified and no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005 for all other limited partnerships. We adopted EITF 04-5 effective January 1, 2006, and as a result, consolidated the operations of three limited partnerships controlled by us. A summary of the impact on the financial position of the Company as of January 1, 2006 is presented in the Supplemental Schedule of Non-cash Operating, Investing and Financing Activities.

Use of Estimates

The preparation of the consolidated and combined financial statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported and disclosures of contingent assets and liabilities in the consolidated balance sheet and accompanying notes. Actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents

We consider all investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts, to represent our estimate of the amount that ultimately will be realized in cash. The allowance for doubtful accounts was $3.0 million, $3.0 million, and $2.9 million as of March 31, 2006, December 31, 2005 and 2004, respectively. The adequacy of our allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary.

Revenue Recognition

Resident Fee Revenue

Resident fee revenue is recorded when services are rendered and consists of fees for basic housing, support services and fees associated with additional services such as personalized health and assisted living care. Residency agreements are generally for a term of 30 days to one year.

Entrance Fees

Three facilities have residency agreements which require the resident to pay an upfront fee prior to occupying the facility. Generally we have no further obligation to provide healthcare or reduce the

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future monthly fee paid by the tenant. In two of our facilities a portion of the entrance fee is refundable and a portion non-refundable. In the third facility the entrance fee is refundable to the resident pro rata over a 67-month period.

The non-refundable portion of the entrance fee is recorded as deferred revenue and amortized over the estimated stay of the resident. The refundable portion is generally refundable upon the sale of the unit, or in certain agreements upon the resale of a comparable unit or 12 months after the resident vacates the unit. All refundable amounts due to residents are classified as current liabilities.

	Refundable Current Liabilities	Nonrefundable (Deferred Revenue)	Total
Balance at December 31, 2005	$ 30,693	$ 1,156	$ 31,849
Additions	1,621	448	2,069
Amortization	(5)	(78)	(83)
Refunds	(703)	—	(703)
Balance at March 31, 2006 (unaudited)	$ 31,606	$ 1,526	$ 33,132

	Refundable Current Liabilities	Nonrefundable (Deferred Revenue)	Total
Balance at October 1, 2005	$ 25,257	$ 682	$ 25,939
Additions	1,513	486	1,999
Other	4,991	—	4,991
Amortization	(3)	(12)	(15)
Refunds	(1,065)	—	(1,065)
Balance at December 31, 2005	$ 30,693	$ 1,156	$ 31,849

	Refundable Current Liabilities	Nonrefundable (Deferred Revenue)	Total
Beginning balance in April 2005 (assumed at closing)	$ 24,397	$ —	$ 24,397
Additions	2,530	700	3,230
Amortization	—	(18)	(18)
Refunds	(1,670)	—	(1,670)
Balance at September 30, 2005	$ 25,257	$ 682	$ 25,939

Management Fee Revenue

Management fee revenue is recorded as services provided to the owners of the facilities. Revenues are determined by an agreed upon percentage of gross revenues (as defined).

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Cash and Investments — Restricted

Cash and investments — restricted consist principally of deposits required by certain lenders and lessors pursuant to the applicable agreement and consist of the following:

	March 31, 2006 (unaudited)	December 31, 2005	December 31, 2004
Current:			
Real estate taxes	$ 16,682	$ 10,385	$ 8,281
Tenant security deposits	11,465	12,241	5,089
Replacement reserve and other	13,837	14,688	3,139
Construction loan collateral	—	—	4,019
Subtotal	41,984	37,314	20,528
Non-current:			
Collateral deposit for interest rate swaps	1,106	3,966	8,004
Insurance reserves	3,929	17,633	17,918
Debt service reserves	2,530	2,500	1,537
Subtotal	7,565	24,099	27,459
Total	$ 49,549	$ 61,413	$ 47,987

Eight facilities located in Illinois are required to make escrow deposits under the Illinois Life Care Facility Act. As of March 31, 2006, December 31, 2005 and 2004, required deposits were $13.5 million, $13.5 million and $8.5 million, respectively, all of which were made in the form of letters of credit.

Assets Held for Sale

We record an impairment loss on facilities held for sale whenever their carrying value cannot be fully recovered through the estimated cash flows, including net sale proceeds. The amount of the impairment loss recognized is the difference between the carrying value and the estimated fair value less costs to sell. Our policy is to consider a facility to be held for sale when we have committed to a plan to sell such facility and active marketing activity has commenced or it is expected to commence in the near term. Depreciation is suspended during the period the assets are held for sale.

Income Taxes

Income taxes are accounted for under the asset and liability approach which requires recognition of deferred tax assets and liabilities for the differences between the financial reporting and tax bases of assets and liabilities. A valuation allowance reduces deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fortress CCRC and FIT REN are limited liability companies and as such the liability for such taxes is that of the members. Accordingly, for purposes of the combined statements, no provision for Federal and state income taxes has been included for these entities.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Renovations and improvements, which improve and/or extend the useful life of the asset are capitalized and depreciated over their estimated useful life, or if the renovations or improvements are made with

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respect to facilities subject to an operating lease, over the shorter of the estimated useful life of the renovations or improvements, or the term of the operating lease. Facility operating expenses excludes depreciation and amortization directly attributable to the operation of the facility.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets and Long-Lived Assets to Be Disposed, we will record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets during the expected hold period are less than the carrying amounts of those assets. Impairment losses will be measured as the difference between carrying value and fair value of assets.

We allocate the purchase price of facilities to net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions SFAS No. 141, Business Combinations. In making estimates of the fair values of the tangible and intangible assets for purposes of allocating purchase price, we consider information obtained about each property as a result of its pre-acquisition due diligence, marketing, leasing activities and independent appraisals.

We allocate a portion of the purchase price to the value of leases acquired based on the difference between the facilities valued with existing in-place leases adjusted to market rental rates and the property valued as if vacant. Factors management considers in its analysis include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes estimates of lost rentals during the lease-up period and estimated costs to execute similar leases. The value of in-place leases is amortized to expense over the remaining initial term of the respective leases.

Depreciation is provided on a straight-line basis over the estimated useful lives of assets, which are as follows:

Asset Category	Estimated Useful Life
Buildings and improvements	40 years
Leasehold intangibles and improvements	1 – 18 years
Furniture and equipment	3 – 7 years
Resident lease intangibles	1 – 2 years

Deferred Costs

Deferred financing and lease costs are recorded in other assets and amortized on a straight-line basis, which approximates the level yield method, over the term of the related debt or lease.

Fair Value of Financial Instruments

Cash and cash equivalents, cash and investments-restricted and variable rate debt are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term fixed rate debt using a discounted cash flow analysis based upon our current borrowing rate for debt with similar maturities. As of March 31, 2006, December 31, 2005 and 2004, the fair value of fixed rate debt approximates its book value.

Derivative Financial Instruments

In the normal course of business, we use a variety of financial instruments to manage or hedge interest rate risk. We have entered into certain interest rate protection and swap agreements to effectively cap or convert floating rate debt to a fixed rate basis, as well as to hedge anticipated

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future financing transactions. All derivative instruments are recognized as either assets or liabilities in the consolidated and combined balance sheet at fair value. The change in mark-to-market of the value of the derivative is recorded as an adjustment to income or other comprehensive income (loss) depending upon whether it has been designated and qualifies as part of a hedging relationship.

We do not enter into derivative contracts for trading or speculative purposes. Furthermore, we have a policy of only entering into contracts with major financial institutions based upon their credit rating and other factors.

Goodwill

Goodwill relates to the minority step-up in basis in connection with the formation transaction and FBA's acquisition of BLC in 2000 at December 31, 2005 and 2004, respectively. This cost is not amortized and we perform an annual impairment test in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. We will record impairment losses on the goodwill acquired when events and circumstances indicate that the asset might be impaired. Impairment losses are measured as the difference between carrying value and fair value of our net assets.

As more fully described in note 11, we sold certain facilities to which we had allocated the goodwill based upon the relative fair values at the point in time that the original goodwill arose. Included in the deferred gain calculation is the write-off of $35,689 of goodwill associated with the facilities sold.

Self-Insurance Liability Accruals

We are subject to various legal proceedings and claims that arise in the ordinary course of our business. Although we maintain general liability and professional liability insurance policies for our owned, leased and managed facilities under a master insurance program, our current policy provides for deductibles of $1.0 million for each and every claim. As a result, we are self-insured for most claims. In addition, we maintain a self-insured workers compensation program and a self insured employee medical program, for amounts below excess loss coverage amounts, as defined. We review the adequacy of our accruals related to these liabilities on an ongoing basis, using historical claims, actual valuations, third party administrator estimates, consultants, advice form legal counsel and industry data, and adjust accruals periodically. Estimated costs related to these self-insurance programs are accrued based on known claims and projected claims incurred but not yet reported. Subsequent changes in actual experience are monitored and estimates are updated as information is available.

Dividends

On March 14, 2006, our Board of Directors declared a quarterly cash dividend of our common stock of $0.35 per share, or an aggregate of $23.2 million for the quarter ended March 31, 2006. The $0.35 per share dividend is payable on April 14, 2006 to holders of record of our common stock on March 31, 2006. On December 15, 2005, our Board of Directors declared a quarterly cash dividend of our common stock of $0.25 per share, or an aggregate of $16.5 million for the three months ended December 31, 2005. The $0.25 per share dividend is payable on January 16, 2006 to holders of record of our common stock on December 30, 2005.

On September 30, 2005, our board of directors declared a dividend of $0.25 per share of our common stock, or an aggregate of $14.4 million, for the three months ended September 30, 2005, which we paid on October 7, 2005.

In June 2005, prior to the formation of BSL, FIT II declared and paid a $20.0 million dividend to FIG.

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Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, establishes guidelines for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income includes net income and all other non-owner changes in shareholders' equity during a period including unrealized gains and losses on equity securities classified as available-for-sale and unrealized fair value adjustments on certain derivative instruments net of any related income tax effect. Net loss equals comprehensive loss for the years ended December 31, 2004 and 2003. Comprehensive loss for the three months ended March 31, 2006 and 2005 equals $11.4 million and $2.2 million, for the three months and year ended December 31, 2005 and nine months ended September 30, 2005 equals $22.1 million, $49.3 million and $27.2 million, respectively.

Earnings Per Share

The company computes earnings per share in accordance with SFAS No. 128, Earnings Per Share. SFAS No. 128 requires companies to compute earnings per share under two different methods, basic and diluted, and present per share data for all periods in which statements of operations are presented. Basic earnings per share is computed by dividing net income/(net loss) by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net income/(net loss) by the weighted average number of common stock and common stock equivalents outstanding. Common stock equivalents consist of restricted stock grants issued during 2005. Common stock grants are excluded from the computation of diluted earnings per share for the period from October 1, 2005 to December 31, 2005 of their effect is anti-dilutive. The weighted average restricted stock grants excluded from the calculations of diluted net loss per share were 2.1 million for the year ended December 31, 2005.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for Brookdale Senior Living Inc. for the three months ended March 31, 2006:

Numerator:		
Net loss	$	(19,326)
Denominator:		
Basic and diluted loss per share:		
Weighted average common shares outstanding		65,007
Basic and diluted loss per share	$	(0.30)

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the period from October 1, 2005 to December 31, 2005:

Numerator:		
Net loss	$	(24,456)
Denominator:		
Basic and diluted loss per share:		
Weighted average common shares outstanding		59,710
Basic and diluted loss per share	$	(0.41)

We have excluded the loss per share data for the three months ended March 31, 2005 and December 31, 2005, the nine months ended September 30, 2005 and years ended December 31,

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2004 and 2003. We believe these calculations are not meaningful to investors due to the different ownership and legal structures (e.g., corporation and limited liability companies) of the various entities prior to the combination transaction on September 30, 2005.

Advertising Costs

Advertising costs are expensed as incurred and were $1.7 million and $1.4 million for the three months ended March 31, 2006 and 2005, $1.6 million for the period from October 1, 2005 to December 31, 2005, $4.6 million for the nine months ended September 30, 2005 and $6.2 million, $6.0 million and $2.1 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Restructuring Charges

SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, addresses the accounting and reporting for costs associated with restructuring costs in the financial statements. In connection with the formation, certain home office functions are being combined and we expect to incur costs of $1.3 million from January 1, 2006 through June 30, 2006. For the three months ended March 31, 2006, $0.8 million was expensed and included in general and administrative expense.

Balance at January 1, 2006	$	—
Restructuring charges, net		766
Payments		(190)
Reversals		—
Balance at March 31, 2006 (unaudited)	$	576

Facility Leases

We, as lessee, make a determination with respect to each of the facility leases whether they should be accounted for as operating leases or capital leases. We base our classification criteria on estimates regarding the fair value of the leased facility, minimum lease payments, our effective cost of funds, the economic life of the facility and certain other terms in the lease agreements. Facilities under operating leases are accounted for in our statement of operations as lease expense for actual rent paid plus or minus a straight-line adjustment for estimated minimum lease escalators and amortization of deferred gains in situations where sale-leaseback transactions have occurred. For facilities under capital lease and lease financing obligation arrangements, a liability is established on our balance sheet and a corresponding long-term asset is recorded. In addition, we amortize leasehold improvements purchased during the term of the lease over the shorter of their economic life or the lease term. Sale lease back transactions are recorded as lease financing obligations when the transactions include a form of continuing involvement, such as purchase options.

All of our leases contain fixed or formula based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease. In addition, we recognize all rent-free or rent holiday periods in operating leases on a straight-line basis over the leased term, including the rent holiday period.

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A summary of facility lease expense and the impact of straight-line adjustment and amortization of deferred gains are as follows:

	Three Months Ended March 31,		For the Period from October 1, 2005 to December 31, 2005	For the Period from January 1, 2005 to September 30, 2005	For the Years Ended December 31,		
	2006	2005			2005	2004	2003
	(unaudited)						
Cash basis payment	$ 41,562	$ 42,704	$ 43,744	$ 129,781	$ 173,525	$ 97,669	$ 30,181
Straight-line expense	5,259	6,094	5,895	17,857	23,752	4,588	1,102
Amortization of deferred gain	(1,087)	(2,296)	(1,152)	(6,786)	(7,938)	(2,260)	(539)
Facility lease expense	$ 45,734	$ 46,502	$ 48,487	$ 140,852	$ 189,339	$ 99,997	$ 30,744

Sale Leaseback

Sale leaseback accounting is applied to transactions in which a residence is sold and leased back from the buyer. Under sale leaseback accounting, we remove the property and related liabilities from the balance sheet. Gain on the sale is deferred and recognized as a reduction of rent expense for operating leases and a reduction of amortization expense for capital leases.

Reclassifications

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

3. Investment in Unconsolidated Ventures
GFB-AS Investors, LLC

On January 30, 2001, BLC acquired a 45% interest in GFB-AS Investors, LLC (‘‘GFB’’), a Delaware limited liability company, and GFB, in turn, acquired management contract rights, loans receivable, and the equity interests in the general partners of various partnerships (the ‘‘GC Property Partnerships’’) previously owned or controlled by affiliates of Grand Court Lifestyles, Inc. Each GC Property Partnership owns a senior housing facility (the ‘‘GC Facilities’’).

The total initial investment in GFB was $12.8 million, of which our share was $5.7 million. On September 7, 2002, GFB purchased a portion of the limited partners' interests in 15 of the GC Property Partnerships. The members contributed an additional $2.6 million to fund these purchases of which the Company's share was $1.1 million. Our investment in GFB was funded from the proceeds of a loan made by our majority shareholder which bore interest at 15% per annum. We accounted for GFB's limited partner interests in the GC Property Partnerships under the equity method of accounting.

On May 29, 2003, we purchased the remaining 55% interest in GFB for $10.5 million, all of which was funded by additional loans made by the shareholders of FBA. The existing loan to the majority shareholder was amended and restated in connection with the transaction and a restatement fee (as defined) of $0.9 million incurred and included in interest expense in the accompanying consolidated statement of operations.

We incurred interest totaling $1.1 million and $3.4 million on the shareholder loans for the years ended December 31, 2004 and 2003, respectively.

For financial reporting purposes, the assets acquired and liabilities assumed, as well as the results of operations of GFB subsequent to May 29, 2003, are included in our consolidated financial

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statements. We accounted for our investment in GFB under the equity method prior to that date due to lack of control. The portion of the purchase price allocated to GFB's assets is included in other long-term assets in the accompanying combined balance sheets.

As of December 31, 2005, 2004 and 2003, we have management consulting and supervisory agreements with 3, 3 and 19 GC Facilities, respectively, providing for a fee payable in the amount of 2.8% of the gross revenues. Fees from the GC Facilities totaled $0.1 million and $0.4 million for the three months and year ended December 31, 2005, $0.3 million for the nine months ended September 30, 2005 and $0.8 million and $2.4 million for the years ended December 31, 2004 and 2003, respectively.

During the three months ended March 31, 2004, 14 GC Property Partnerships in which GFB had general and limited partnership interests, sold the facilities to Ventas, Inc. (note 9). Upon the sale of the 14 GC Facilities and one additional GC Facility, we received approximately $9.2 million from our investment in loans receivable and $4.0 million from our general and limited partnership interests. We did not recognize any gain or loss related to these transactions.

Brookdale Senior Housing, LLC

On November 27, 2002, we purchased The Heritage at Gaines Ranch, a 208-unit facility located in Austin, Texas (‘‘Austin’’), The Heritage of Southfield, a 217-unit facility located in Southfield, Michigan (‘‘Southfield’’), and The Devonshire of Mt. Lebanon, a 218-unit facility located in Mt. Lebanon (Pittsburgh), Pennsylvania (‘‘Mt. Lebanon’’) which were developed and managed for third party owners. The total purchase price included cash of $41 plus the assumption of all liabilities, including $76.1 million of first mortgage loans and $13.4 million of mezzanine financing.

The first mortgage notes payable totaling $76.1 million were originally due September 26, 2002 and March 11, 2003. The mortgage loans were cross-collateralized and partially guaranteed by BLC. Upon the non-payment of the mortgage loans due September 26, 2002, the first mortgage lender declared an event of default and accelerated the due date on the remaining loan.

We reached an agreement with the first mortgage lender on August 8, 2003 to restructure the first mortgage loans which gave us the right to payoff the first mortgage loans at an agreed upon amount on or before December 31, 2003. For the period November 1, 2002, through August 8, 2003 the lender retained all rental receipts and we paid certain of the facilities operating expenses. The agreement also provided, among other things, for the first mortgage lender to forbear with respect to the acceleration notices and interest to accrue on the loan balances at the stated rate of LIBOR plus 3%. The mezzanine loans related to the Austin and Southfield facilities also matured on September 26, 2002 and we reached an agreement with the subordinated lender to forbear on all claims until February 1, 2004.

On September 30, 2003, we formed the Brookdale Senior Housing, LLC joint venture (''Venture'') with a third party (''Venture Partner'') and effectively sold 75% of our interest in the Southfield and Mt. Lebanon facilities. The Venture owns the Southfield and Mt. Lebanon facilities and provided mezzanine financing for the Austin facility. The Venture was capitalized with $66.3 million of cash of which $144 was contributed by us and the balance of $66.2 million from the Venture Partner in the form of $35.8 million of equity and $30.3 million first mortgage financing. The first mortgage loans are secured by the Southfield and Mt. Lebanon facilities payable interest only at the rate of 6.75% through September 30, 2008 and 7.25% through maturity on October 1, 2009. The difference between the carrying amount of this investment and the value of the underlying equity is amortized as an adjustment to earnings from unconsolidated joint ventures.

The Venture made a $12.7 million mezzanine loan to the Austin facility payable interest at the rate of all available cash flow, as defined, and entitled the Venture to receive all appreciation in the

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facility. In addition, the Venture Partner made a first mortgage loan of $16.4 million secured by the Austin facility and on the same terms as the Southfield and Mt. Lebanon first mortgage loans.

The Venture agreement provides that all operating cash flow is distributed to the Venture Partner until they receive a 16% cumulative preferred return and then 60% to the Venture Partner and 40% to us. Sale or refinancing proceeds are to be distributed first to the Venture Partner until they receive their cumulative preferred return; second to the venture partner until they receive the return of their contributed equity; and then 60% to the Venture Partner and 40% to us. Additional capital contributions, if any, are to be contributed 75% by the Venture Partner and 25% by us.

In connection with the sale of its interest in the Southfield and Mt. Lebanon facilities to the Venture, we received net proceeds of $51.6 million, which resulted in a loss on the sale of $24.5 million. The Company used the proceeds to repay the existing first mortgage and mezzanine loans on the Southfield, Mt. Lebanon and Austin facilities and recognized a gain on extinguishment of debt of $12.5 million, net of closing costs.

We manage the facilities for a fee equal to 5% of gross revenues. Under certain limited circumstances the venture partner has the right to terminate the management agreement.

Combined summarized financial information of the unconsolidated joint ventures accounted for using the equity method are as follows:

	For the Three Months Ended March 31,		Years Ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
Statement of Operations Data:					
Total revenue	$ 2,923	$ 2,781	$ 11,179	$ 10,701	$ 3,977
Expenses:					
Facility operating	2,292	2,200	8,897	8,162	2,047
Depreciation and amortization	411	405	1,629	2,216	690
Interest expense	505	505	2,049	2,049	522
Interest income	(430)	(551)	(2,035)	(1,602)	(423)
Other expense	—	—	—	81	168
Total expense	2,778	2,559	10,540	10,906	3,004
Net income (loss)	$ 145	$ 222	$ 639	$ (205)	$ 973

	March 31, 2006	December 31, 2005	December 31, 2004
	(unaudited)		
Balance Sheet Data:			
Cash and cash equivalents	$ 775	$ 444	$ 1,017
Mezzanine loan receivable	12,739	12,739	12,739
Property, plant and equipment, net	48,871	49,245	50,777
Other	1,213	1,455	1,131
Total assets	$ 63,598	$ 63,883	$ 65,664
Accounts payable and accrued expenses	$ 1,746	$ 1,555	$ 1,631
Long-term debt	30,355	30,355	30,355
Members' equity	31,497	31,973	33,678
Total liabilities and members' equity	$ 63,598	$ 63,883	$ 65,664

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	March 31, 2006 (unaudited)	December 31, 2005	2004
Members' equity consists of:			
Invested capital	$ 35,973	$ 35,973	$ 35,973
Cumulative net income (loss)	545	400	(239)
Cumulative distributions	(5,021)	(4,400)	(2,056)
Members' equity	$ 31,497	$ 31,973	$ 33,678

4. Property, Plant and Equipment

Property, plant and equipment consist of the following as of:

	March 31, 2006 (unaudited)	December 31, 2005	2004
Land	$ 155,578	$ 133,280	$ 44,062
Buildings and improvements	1,298,199	1,212,986	463,490
Furniture and equipment	91,222	71,155	40,083
Resident and operating lease intangibles	170,240	62,166	9,658
	1,715,239	1,479,587	557,293
Accumulated depreciation and amortization	(104,688)	(70,855)	(33,674)
Property, plant and equipment, net	$ 1,610,551	$ 1,408,732	$ 523,619

5. Assets Sold or Held for Sale

For the nine months ended September 30, 2005 and year ending December 31, 2004, five and thirteen facilities were sold or disposed, none and two land parcels were sold and approximately $0.8 million and $6.7 million in debt was repaid, respectively. As of December 31, 2005, we have no assets held for sale. We have presented separately as discontinued operations in all periods, the results of operations for all consolidated assets disposed of or held for sale.

The following table represents operating information included in the loss on discontinued operations in the consolidated statements of operations are as follows:

	For the Period from January 1, 2005 to September 30, 2005	For the Years Ended December 31, 2005	2004	2003
Revenues	$ 4,676	$ 4,676	$ 15,265	$ 2,669
Operating expenses	5,642	5,642	16,533	3,059
Operating loss	(966)	(966)	(1,268)	(390)
Loss on debt extinguishment	—	—	—	(580)
Gain (loss) on sale or disposal of residences	1,321	1,321	65	(102)
Benefit for income taxes	—	—	481	429
	355	355	(722)	(643)

Income (loss) on discontinued operations before minority interest				
Minority interest	(483)	(483)	361	321
Loss on discontinued operations	$ (128)	$ (128)	$ (361)	$ (322)

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6. Other Assets
Other assets are comprised of deferred financing costs, net, employee loan receivable (note 13), and other.

7. Debt
Line of Credit Agreement

On February 10, 2006, we entered into a $330.0 million credit agreement, consisting of a $250.0 million term loan available for acquisitions, $20.0 million revolving loan, and a $60.0 million letters of credit commitment. Concurrent with the new credit agreement we terminated our existing line of credit. The credit agreement bears interest at either prime plus 0.50% or LIBOR plus 1.50%, at our election, and matures on February 10, 2007, subject to extension at our option for six months. In connection with the revolving loan we paid a commitment fee of 0.50% and are subject to a non-use fee on the term loan of 0.125% of the average daily amount of undrawn funds so long as we draw less than $150.0 million, 0.25% if we draw $150.0 million or more.

As of March 31, 2006, $87.0 million was drawn on the term loan to fund a portion of the purchase price for several of our acquisitions and $56.0 of letters of credit have been issued. Through May 10, 2006, we have drawn an additional $65.0 million and $15.0 million on the term loan and revolving loan, respectively.

As of December 31, 2005 and 2004, we had an available unsecured line of credit of $23.5 million and $18.6 million ($13.5 million and $8.6 million is only available for certain letters of credit), and there were no borrowings outstanding. Borrowings under the line of credit accrue interest at the prime rate plus 1.00% (prime rate 7.25% and 5.25% at December 31, 2005 and 2004). We pay a quarterly fee of 1/8% per annum on the unused amounts under the lines of credit. Pursuant to the terms of the credit agreement, we must maintain certain debt service coverage ratios. The line of credit was terminated on February 10, 2006 (note 17).

As of December 31, 2005 and 2004, we had additional outstanding letters of credit totaling $6.6 million and $3.3 million with other financial institutions to secure our obligations under self-insured retention risks and required lease deposits. The total amount of letters of credit outstanding as of December 31, 2005 and 2004 were $31.0 million and $15.7 million.

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Long-term Debt, Capital Leases and Financing Obligations

Long-term debt, capital leases and financing obligations consist of the following:

	March 31, 2006 (Unaudited)	December 31, 2005	December 31, 2004
Mortgage notes payable due 2008 through 2012 weighted average interest at rates of 6.5% (weighted average interest rate 5.55% in 2005 and 6.42% in 2004)	$ 196,935	$ 70,422	$ 24,578
Mortgages payable, due from 2005 through 2037; weighted average interest rate of 9.12% (weighted average interest rate of 9.12% in 2005 and 6.46% in 2004)	74,588	74,704	75,903
$150,000 Series A and $32,000 Series B (repaid from initial public offering proceeds in November 2005) notes payable, secured by development properties, bearing interest at LIBOR plus 3.05% and 5.60%, respectively (weighted average rate 3.50%), payable in monthly installments of interest only, with an initial maturity date of April 1, 2008 and 50% guaranteed by BLC(a)	150,000	150,000	—
Construction and mezzanine loans payable secured by development properties consolidated pursuant to FIN 46R bearing interest at rates ranging from LIBOR plus 2.30% to LIBOR plus 3.50% (floor of 5.50%) and 15.65%-19.50%, respectively, payable in monthly installments and $153,567 guaranteed by BLC (b)	—	—	179,248
Mortgages payable due 2012, weighted average interest rate of 5.38%, payable interest only through June 2010 and payable in monthly installments of principal and interest through maturity in June 2012 secured by the FIT REN portfolio	171,000	171,000	—
Mortgages payable due 2010, bearing interest of LIBOR plus 3%, payable in monthly installments of interest only until April 2009 and payable in monthly installments of principal and interest through maturity in April 2010, secured by the Fortress CCRC portfolio	105,756	105,756	—
Variable rate tax-exempt bonds credit-enhanced by Fannie Mae, due 2032 secured by the Chambrel portfolio, payable interest only until maturity plus required deposits to sinking fund	100,841	100,841	—
Capital and financing lease obligation payable through 2020; weighted average interest rate of 11.83% (weighted average interest rate of 11.83% in 2005 and 11.48% in 2004)	66,284	66,284	66,284
	12,739	12,739	12,739

Mezzanine loan payable to Brookdale Senior Housing, LLC joint venture with respect to The Heritage at Gaines Ranch facility, payable to the extent of all available cash flow (as defined)			
Serial and term revenue bonds maturing serially from 2003 through 2013; interest rate of 7.36% in 2004 (repaid January 2006)	—	2,555	2,865
Notes payable to former joint venture partners bearing interest rates at 9.0%.	—	—	9,420
Mortgage notes payable due 2006-2010, weighted average interest rates of 7.9%, secured by the limited partnerships consolidated pursuant to EITF 04-5 ($10,745 payable currently)	19,697	—	—
Total debt	897,840	754,301	371,037
Less current portion	10,766	132	3,888
Total long-term debt	$ 887,074	$ 754,169	$ 367,149

(a) The notes can be extended to two one-year terms based on meeting certain covenants.

(b) Includes first mortgage and mezzanine loan payable to an affiliate of FIG with a balance, including accrued long-term interest, of $51,238 and $14,458, respectively, at December 31, 2004 originally due December 31, 2005. The first mortgage loan was guaranteed by BLC and bore interest at LIBOR plus 2.70% payable interest only monthly and net cash flow (as defined). The mezzanine loan accrued interest at 19.5% payable at maturity. In connection with the Provident transaction BLC posted $4,000 in an interest bearing account as collateral for one construction loan maturing March 2005. Upon completion of the refinancing the collateral was released.

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(c) Certain of our debt agreements require us to maintain financial ratios, including debt service coverage and occupancy ratios and are guaranteed by us.

The annual aggregate scheduled maturities of long-term debt obligations outstanding as of December 31, 2005 are as follows:

Year Ending December 31,	Amount
2006	$ 132
2007	71,233
2008	150,025
2009	17,851
2010	129,997
Thereafter	385,063
	$ 754,301

Substantially all the property, plant and equipment has been pledged as collateral for the outstanding debt, capital lease and financing obligations.

8. Derivative Financial Instruments

We recorded $37.3 million of interest rate swaps and $97.3 million of forward-starting interest rate swaps when we consolidated the developmental facilities in accordance with FIN 46R on December 31, 2003. Upon consolidation, we recorded a cumulative effect of a change in accounting principle resulting in a loss of $13.2 million, net of income taxes, which was the fair value of the swaps on the date of consolidation. Subsequent changes in the fair market of these derivative instruments are recorded in the statement of operations.

Interest Rate Swaps

The interest rate swap agreement that converts $37.3 million of our floating-rate construction debt to a fixed-rate basis of 5.19% through maturity on April 1, 2005. The market value of the fair value hedge at December 31, 2004 was a liability of $.2 million, which is included in other current liabilities.

Forward Interest Rate Swaps

We had four 10-year forward interest rate swaps to fix $97.3 million of forward interest rate swaps at 7.03%-7.325% with a maturity date of August 2012 to March 2013. In May 2004, the Company extended the termination dates to June 2006. The terms of the forward interest rate swaps required the Company to pay a fixed-interest rate to the counterparties and to receive a variable rate from the counterparties. The fair value of the forward interest rate swaps at December 31, 2004 was a liability of $17.9 million. Included in cash and investments-restricted at December 31, 2004 is a deposit of $8.0 million to collateralize our swap obligations.

On March 30, 2005, we terminated the $97.3 million forward interest rate swaps and incurred a termination payment of $15.8 million, including accrued interest of $1.7 million, which was funded in part by a $10.0 million unsecured loan bearing interest payable monthly at prime plus 1% and principal payable in quarterly installments of $.5 million commencing July 1, 2005 and maturing March 31, 2007. The loan was repaid in November 2005 from initial public offering proceeds.

Interest Rate Swaps

In March 2005, we entered into interest rate swaps with a notional amount of $182.0 million to hedge floating rate debt where we pay an average fixed rate of 4.64% and receive 30-day LIBOR

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from the counterparty. The interest rate swaps are comprised of a $145.0 million notional amount for seven years and a $37.0 million notional amount for three years. In connection with the swaps, we posted approximately $2.3 million as cash collateral, which was released March 10, 2006, with the counterparty and are required to post additional cash collateral based on changes in the fair value of the swaps. The swaps are recorded as cash flow hedges.

On March 28, 2005, we entered into a seven-year $70.0 million interest rate swap with Merrill Lynch Capital Services, Inc., to hedge Alterra's $72.2 million floating rate debt, pursuant to which we pay a fixed rate of 4.70% and receive 30-day LIBOR. The interest rate swap is treated as a cash flow hedge.

In March 2005, in connection with the proposed acquisition of the Prudential Portfolio, we entered into a $170.0 million five-year forward interest rate swap to hedge the anticipated floating-rate debt under which we paid 4.6375% and received 30-day LIBOR from the counterparty. In connection with the acquisition of eight facilities in June 2005 and one facility in July 2005, we obtained fixed-rate debt and terminated $151.0 million and $19.0 million of the forward interest rate swap and paid $2.4 million and $0.2 million, respectively. The termination of the swap is recorded as a component of other comprehensive loss and amortized as additional interest expense over the term of the debt.

In December 2004, in connection with the acquisition of the Fortress CCRC Portfolio, we entered into a $120.0 million three-year forward interest rate swap to hedge floating-rate debt where we pay 3.615% and receive 30-day LIBOR from the counterparty. In connection with the acquisition, we obtained $105.8 million of first mortgage debt. Accordingly, $105.8 million of the interest rate swap is treated as a cash flow hedge with fair value adjustments recorded as a component of other comprehensive income in the combined balance sheet and $12.2 million is marked to market and recorded as an adjustment to earnings.

In connection with the purchase of the Chambrel Portfolio (note 16) we assumed interest rate caps with an aggregate notional amount of $100.8 million, a strike price of 6.0% and a maturity date of November/December 2007.

The fair value of the outstanding swaps are included in other current assets and other current liabilities with the corresponding fair value included as a separate component of stockholders' equity.

For the three months and year ended December 31, 2005, nine months ended September 30, 2005 and for the year ended December 31, 2004 an adjustment to interest expense was recorded for $(0.1) million, $3.9 million, $4.0 million and $3.2 million, respectively, the majority of which resulted from the change in the fair value of interest rate and forward starting interest rate swaps not previously designated as hedging instruments.

At December 31, 2005, we have interest rate swaps outstanding with an aggregate notional amount of $370.0 million and a fair value of $4.0 million.

Interest Rate Caps

We had interest rate caps with notional amounts of approximately $62.3 million and approximately $15.0 million and strike prices of 6.35% and 6.58% that expired at June 1, 2009 and December 1, 2004, respectively. The interest rate caps were assigned to Provident in October 2004. Pursuant to the terms of our lease with Provident, the floating rate adjustment we are required to pay is limited to the rate under the assumed interest rate caps.

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9. Accrued Expenses

Accrued expenses comprise of the following:

	March 31, 2006 (unaudited)	December 31, 2005	December 31, 2004
Accrued salaries and wages	$ 6,886	$ 14,350	$ 13,521
Accrued interest	4,410	4,078	3,622
Accrued insurance reserves	15,311	12,877	15,795
Accrued real estate taxes	14,969	12,088	11,877
Accrued income taxes	681	314	2,173
Accrued vacation	7,564	6,169	5,406
Accrued professional fees	2,665	3,045	2,936
Accrued lease payable	7,358	7,202	6,614
Other	25,730	25,269	15,389
Total	$ 85,574	$ 85,392	$ 77,333

10. Income Taxes

The (provision) benefit for income taxes is comprised of the following:

	For the Three Months Ended March 31, 2006	For the Three Months Ended March 31, 2005	For the Period from October 1, 2005 to December 31, 2005	For the Period from January 1, 2005 to September 30, 2005	For the Years Ended December 31, 2005	For the Years Ended December 31, 2004	For the Years Ended December 31, 2003
Federal:	(unaudited)						
Current	$ (191)	$ —	$ —	$ 540	$ 540	$ (5,032)	$ —
Deferred	—	—	—	—	—	(2,895)	340
	(191)	—	—	540	540	(7,927)	340
State:							
Current	(195)	(120)	(150)	(293)	(443)	(2,368)	(127)
Deferred	—	—	—	—	—	(335)	77
	(195)	(120)	(150)	(293)	(443)	(2,703)	(50)
Total	$ (386)	$ (120)	$ (150)	$ 247	$ 97	$ (10,630)	$ 290

A reconciliation of the (provision) benefit for income taxes to the amount computed at the U.S. Federal statutory rate of 35% is as follows:

	For the Three Months Ended March 31, 2006	For the Three Months Ended March 31, 2005	For the Period from October 1, 2005 to	For the Period from January 1, 2005 to	For the Years Ended December 31 2005	For the Years Ended December 31 2004	For the Years Ended December 31 2003

			December 31, 2005	September 30, 2005			
	(unaudited)						
Tax (provision) benefit at U.S. Statutory Rate	$ 6,588	$ 1,494	$ 8,507	$ 15,079	$ 23,586	$ 3,721	$ 1,241
Variable interest entities (VIE's)	52	(1,337)	(244)	(2,210)	(2,454)	(10,342)	—
Valuation allowance	(7,560)	(197)	(8,728)	(10,299)	(19,027)	(3,491)	—
State taxes, net of federal income tax	490	(113)	632	1,120	1,752	(1,444)	73
Other, net	44	33	(317)	(3,443)	(3,760)	926	(1,024)
Total	$ (386)	$ (120)	$ (150)	$ 247	$ 97	$ (10,630)	$ 290

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As discussed in note 2, we adopted FIN 46R as of December 31, 2003 and consolidated the VIE's for financial reporting purposes. For Federal and state income tax purposes, we were not historically the legal owner of the entities and were not entitled to receive tax benefits generated from the losses associated with these VIE's. The Company did obtain legal title to four of the facilities on March 1, 2005 and the remaining facility on December 30, 2005.

Significant components of our deferred tax assets and liabilities at December 31, are as follows:

	2005	2004
Deferred income tax assets:		
Operating loss carryforwards	$ 50,104	$ 34,106
Prepaid revenue	1,346	1,171
Accrued expenses	18,184	10,650
Property, plant and equipment	—	13,829
Fair value of swaps (a cumulative effect of a change in accounting principle in 2003, note 8)	2,288	6,833
Deferred gain on sale leaseback	18,231	41,186
Other	9,615	2,332
Total gross deferred income tax asset	99,768	110,107
Valuation allowance	(47,511)	(89,282)
Net deferred income tax assets	52,257	20,825
Deferred income tax liabilities:		
Property, plant and equipment	(86,090)	(12,352)
Investment in Brookdale Senior Housing, LLC	(5,353)	(5,402)
Other	(2,503)	(3,071)
Total gross deferred income tax liability	(93,946)	(20,825)

Net deferred income tax liability	$ (41,689)	$ —

As described in note 1, BSL was formed by the exchange of common shares or membership interests in entities controlled by FIG. In connection with the transaction the assets and liabilities of the Non-FIG Shareholders were recorded at their respective fair values for financial reporting purposes. The assets and liabilities were recorded at carryover basis for Federal income tax purposes. The difference between the basis recorded for financial reporting purposes and the basis recorded for Federal income tax purposes is reflected as a deferred tax liability. As a result of the transaction, we have determined that it is more likely than not that we will recognize certain deferred tax assets and have adjusted our valuation allowance to $38.7 million at September 30, 2005. In accordance with SFAS No. 109, the reduction in the allowance was reflected in the fair value adjustments described in note 1. During the fourth quarter 2005, the deferred tax assets increased $8.7 million and the valuation allowance was increased for the same amount. The valuation allowance is $47.5 million at December 31, 2005.

As of December 31, 2005, BSL had operating net operating loss carryforwards of approximately $128.5 million, which are available to offset future taxable income, if any, through 2025. The formation of BSL constituted an ownership change under Section 382 of the Internal Revenue Code, as amended. As a result, BSL's ability to utilize the net operating loss carryforward to offset future taxable income is subject to certain limitations and restrictions.

At December 31, 2004, BLC has net operating loss carryforwards for Federal and state income tax purposes of approximately $13,611 and $19,331, respectively, which are available to offset future taxable income, if any, through 2024. We have recorded a valuation allowance due to uncertainties regarding our ability to utilize these losses in the future.

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As described in note 11, in 2004 we sold the stock of BLC to Provident who assumed BLC's income tax positions resulting in a non-taxable gain for income tax purposes. For financial reporting purposes we recorded a deferred tax asset of $41.2 million from the gain. Included in the deferred gain on sale leaseback is a net deferred tax liability of $51.7 million assumed by Provident comprised primarily of deferred tax liabilities related to the stock sale, net of operating loss carryforwards and related valuation allowance.

In connection with fresh start accounting, Alterra's assets and liabilities were recorded at their respective fair market values. Deferred tax assets and liabilities were recognized for the tax effects of the difference between the fair values and the tax bases of Alterra's assets and liabilities. In addition, deferred tax assets were recognized for the future use of net operating losses. The valuation allowance established to reduce deferred tax assets as of December 31, 2004 was $28.4 million. The reduction in this valuation allowance relating to net deferred tax items existing at the Effective Date will increase additional paid in capital. At December 31, 2004, Alterra increased additional paid-in capital by $4.8 million as a result of a reduction in valuation allowance related to net deferred tax assets not benefited under fresh-start accounting, but realized in the year ended December 31, 2004. During 2005, Alterra reduced additional paid-in capital by $0.9 million due to a reversal of the valuation allowance, related to net deferred tax asset.

The reorganization of Alterra constituted an ownership change under section 382 of the Internal Revenue Code. The use of any of its net operating losses generated prior to the ownership change that are not reduced pursuant to the provisions discussed above will be subject to an overall annual limitation of approximately $3.6 million. Further utilization of net operating losses can be achieved by increasing the net operating loss limitation (under section 382) for recognized built-in gains. During 2004, Alterra increased the section 382 limitation by $63.3 million as a result of recognizing built-in gains.

Alterra has approximately $71.3 million of net operating losses subject to the section 382 limitation and $6.2 million of regular net operating loss carryforwards at December 31, 2004. Any unused net operating loss carryforwards will expire commencing in years 2021 through 2023.

11. Facility Operating Leases

We have entered into sale leaseback and lease agreements with certain real estate investment trusts (REITs). Under these agreements we either sell facilities to the REIT or enter into a long-term lease agreement for such facilities. The lease terms vary from 10 to 20 years and include renewal options ranging from 5 to 30 years. We are responsible for all operating costs, including repairs, property taxes and insurance. The substantial majority of our lease arrangements are structured as master leases. Under a master lease, we lease numerous facilities through an indivisible lease. We typically guarantee our performance and the lease payments under the master lease and are subject to net worth, minimum capital expenditure requirements per facility per annum and minimum lease coverage ratios. Failure to comply with these covenants could result in an event of default.

Ventas Portfolio

During the first quarter of 2004, the limited partnerships that owned 14 GC Facilities (1,994 units), in which GFB had general and limited partnership interests, sold the facilities to Ventas, Inc. (‘‘Ventas’’) and we entered into an operating lease agreement to lease the facilities from Ventas for an initial aggregate annual lease rate of $10,598 (the ‘‘Ventas Lease’’). The Ventas Lease has an initial term of 15 years with our right to extend for up to two 10-year periods and is guaranteed by BLC. We also have the right to purchase the facilities in year 15 at the greater of the fair market value or a stated minimum purchase price.

On May 13, 2004, we amended the operating lease agreement with Ventas to include a 221-unit facility with an initial annual lease rate of $3.5 million except that we do not have a purchase option.

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On October 19, 2004, the Ventas Lease was amended to provide for: (i) annual escalations of the greater of 2.0% (increased from 1.5%) or 75% of the CPI increase and, (ii) a purchase option in year 15 (from year 10) of the lease.

In May 2005, the Ventas Lease was amended to provide for a security deposit of $7.2 million (increased from $1.2 million) which is in the form of letters of credit.

Provident Portfolio

On October 19, 2004, FBA sold the stock of BLC to Provident Senior Living Trust (‘‘Provident’’). On June 7, 2005, Ventas acquired Provident. Prior to the sale, BLC distributed all the assets and liabilities, except for the real estate of 21 owned facilities (4,474 units/beds) and related property debt, certain other mezzanine loans and the unsecured line of credit, to a new entity representing the continuing BLC entity. In connection with the stock sale, Provident assumed BLC's income tax positions.

In October and December 2004, Alterra sold 38 (1,732 units/beds) and nine facilities (613 units/beds), respectively, to Provident.

The aggregate sales price was $982.8 million including transaction costs, assumed debt and other liabilities. Simultaneously with the closing, we entered into an operating lease agreements to lease back the facilities, resulting in the gain on the sale of $130.8 million being deferred and amortized over the initial lease term. In addition, we recognized a gain of $1.1 million on the assumption of the mezzanine loans. A summary of the deferred gain is as follows:

Sales price	$ 982,798
Net carrying value	(856,339)
Transaction costs	(11,663)
Goodwill write-off	(35,689)
Net deferred tax liability assumed by Provident (note 10)	51,669
Deferred gain	$ 130,776
Proceeds from the sale were distributed as follows:	
Sales price	$ 982,798
Assumption of debt and accrued interest	(461,248)
Assumption of mezzanine loans and unsecured line of credit	(114,202)
Transaction costs, net	(10,494)
Lease security deposit	(20,000)
Dividend to shareholders	(254,577)
Net working capital retained	$ 122,277

BLC's operating lease has an initial term ending on December 31, 2019, with our right to extend for up to two 10-year periods and is guaranteed by BLC. The lease rate can be adjusted for changes in interest rates on variable rate mortgages assumed by the lessor and increases annually starting on January 1, 2006 by the lesser of 3% or four times the percentage increase in CPI.

Alterra's operating lease has an initial term ending on October 31, 2019 with our right to extend for two five-year periods and is guaranteed by Alterra. The lease increases annually by the lesser of 2.5% or four times the percentage increase in CPI.

In connection with the transaction, FBA made a $20.0 million lease security deposit in an interest bearing account at the time of closing and Alterra has agreed to deposit 50% of excess cash flow

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until the security deposit is $10.0 million. The lease deposits will be released upon achieving coverage ratios, as defined. We agreed to spend a minimum of $400 and $450 per unit per year on capital improvements on the Alterra facilities and the BLC facilities, respectively, of which Provident will reduce BLC's security deposit by that same amount up to $600 per unit or $2.7 million per year.

12. Commitments and Contingencies

We have two operating lease agreements for 30,314 and 59,800 square feet of office space that extends through 2010 and 2009, respectively. The leases require the payment of base rent which escalates annually, plus operating expenses (as defined). We incurred rent expense of $1.6 million, $2.4 million and $1.2 million for the years ended December 31, 2005, 2004 and 2003, respectively, under the office leases.

The aggregate amounts of all future minimum operating lease payments, including facilities and office leases, as of December 31, 2005, are as follows:

Year Ending December 31,	Capital/ Financing Leases	Operating Leases	Total
2006	$ 7,944	$ 162,129	$ 170,073
2007	7,944	165,183	173,127
2008	7,944	167,543	175,487
2009	7,944	170,455	178,399
2010	7,944	173,702	181,646
Thereafter	59,947	1,669,504	1,729,451
Total minimum lease payments	99,667	2,508,516	2,608,183
Less amount representing interest (11.83%)	(33,383)	—	(33,383)
	$ 66,284	$ 2,508,516	$ 2,574,800

We have employment agreements with certain officers of the Company that grant these employees the right to receive their base salary and continuation of certain benefits, for a defined period of time, in the event of certain terminations of the officers' employment, as described in those agreements.

Litigation

In connection with the sale of certain facilities to Ventas Realty Limited Partnership (‘‘Ventas’’) in 2004, two legal actions have been filed. The first action was filed on September 15, 2005 by current and former limited partners in 36 investing partnerships in the United States District Court for the Eastern District of New York captioned David T. Atkins et. al. v. Apollo Real Estate Advisors, L.P., et al (the ‘‘Action’’). On March 17, 2006, a third amended complaint was filed in the Action. The third amended complaint is brought on behalf of current and former limited partners in 14 investing partnerships. It names as defendants, among others, the Company, BLC, GFB-AS Investors, LLC (‘‘GFB-AS’’), a subsidiary of BLC, the general partners of the 14 investing partnerships, which are alleged to be subsidiaries of GFB-AS, Fortress Investment Group LLC, an affiliate of our largest stockholder, and our Chief Financial Officer. The nine count third amended complaint alleges, among other things, (i) that the defendants converted for their own use the property of the limited partners of 11 partnerships, including through the failure to obtain consents the plaintiffs contend were required for the sale of facilities indirectly owned by those partnerships to Ventas; (ii) that the defendants fraudulently persuaded the limited partners of three partnerships to give up a valuable property right based upon incomplete, false and misleading statements in connection with certain consent solicitations; (iii) that the defendants committed mail fraud in connection with the sale of facilities

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indirectly owned by the 14 partnerships at issue in the Action to Ventas; (iv) that the defendants committed wire fraud in connection with certain communications with plaintiffs in the Action and another investor in a limited partnership; (v) that the defendants, with the exception of the Company, committed substantive violations of the Racketeer Influenced and Corrupt Organizations Act (‘‘RICO’’); (vi) that the defendants conspired to violate RICO; (vii) that GFB-AS and the general partners violated the partnership agreements of the 14 investing partnerships; (viii) that GFB-AS, the general partners, and our Chief Financial Officer breached fiduciary duties to the plaintiffs; and (vii) that the defendants were unjustly enriched. The plaintiffs have asked for damages in excess of $100.0 million on each of the counts described above, including treble damages for the RICO claims. We have filed a motion to dismiss the claims and intend to continue to vigorously defend this Action. A putative class action lawsuit was also filed on March 22, 2006 by certain limited partners in four of the same partnerships involved in the Action in the Court of Chancery for the State of Delaware captioned Edith Zimmerman et al. v. GFB-AS Investors, LLC and Brookdale Living Communities, Inc. (the ‘‘Second Action’’). The putative class in the Second Action consists only of those limited partners in the four investing partnerships who are not plaintiffs in the Action. The Second Action names as defendants BLC and GFB-AS. The complaint alleges a claim for breach of fiduciary duty arising out of the sale of facilities indirectly owned by the investing partnerships to Ventas and the subsequent lease of those facilities by Ventas to subsidiaries of BLC. The plaintiffs seek, among other relief, an accounting, damages in an unspecified amount, and disgorgement of unspecified amounts by which the defendants were allegedly unjustly enriched. We also intend to vigorously defend this Second Action. Because these actions are in an early stage we cannot estimate the possible range of loss, if any.

In addition, we are involved in various lawsuits and are subject to various claims arising in the normal course of business. In the opinion of management, although the outcomes of these suits and claims are uncertain, in the aggregate, they should not have a material adverse effect on our business, financial condition and results of operations.

13. Insurance, Benefits and Employee Loan

Insurance

We obtain various insurance coverages from commercial carriers at stated amounts as defined in the applicable policy. Losses related to deductible amounts are accrued based on the Company's estimate of expected losses plus incurred but not reported claims. As of March 31, 2006, December 31, 2005 and 2004, we have accrued $31.2 million, $30.5 million and $35.4 million, respectively, for our self-insured programs.

We have secured our self-insured retention risk under our workers' compensation and general liability and professional liability programs with cash and letters of credit aggregating $3.4 million and $8.6 million, $17.1 million and $6.6 million, and $17.9 million and $3.3 million as of March 31, 2006, December 31, 2005 and 2004, respectively.

Employee Benefit Plan

We maintain 401(k) Retirement Savings Plans for all employees that meet minimum employment criteria. The plans provide that the participants may defer eligible compensation on a pre-tax basis subject to certain Internal Revenue Code maximum amounts. We make matching contributions in amounts equal to 25% of the employee's contribution to the plans. Employees are always 100% vested in their own contributions and vest in our contributions over five years. We made contributions to such plans in the amount of $0.1 million and $0.1 million for the three months ended March 31, 2006 and 2005, $0.7 million for the three months ended December 31, 2005, $0.3 million for the nine

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months ended September 30, 2005 and $1.0 million, $0.9 and $0.5 million for the years ended December 31, 2005, 2004 and 2003, respectively. Such amounts are included in facility operating and general and administrative expense in the accompanying consolidated statements of operations.

Employee Loan

Pursuant to the terms of his employment agreement, BLC loaned approximately $2.0 million to our Chief Executive Officer. In exchange, BLC received a ten-year, secured, non-recourse promissory note, which note bears interest at a rate of 6.09% per annum, of which 2.0% is payable in cash and of which the remainder accrues and is due at maturity on October 2, 2010. The note is secured by a portion of our Chief Executive Officer's stock.

14. Segment Information

Pursuant to SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, we have seven reportable segments which we determined based on the way that management organizes the segments within the enterprise for making operating decisions and assessing performance. In addition, the management approach focuses on financial information that an enterprise's decision makers use to make decisions about the enterprise's operating matters. We continue to evaluate the type of financial information necessary for the decision makers as we implement our growth strategies. Prior to September 30, 2005 (the date of the formation transactions) and presently, each of Brookdale Living, which includes BLC, the Fortress CCRC Portfolio and the Prudential Portfolio, and Alterra, had and has distinct chief operating decision makers, or CODMS. Our facilities are considered separate operating segments because they each engage inbusiness activities from which they earn revenues and incur expenses, their operating results are regularly reviewed by the CODMS to make decisions about resources to be allocated to the segment and assess its performance, and discrete financial information is available.

SFAS No. 131 permits aggregation of operating segments that share all common operating characteristics (similar products and services, similar methods used to deliver or provide their products and services, and similar type and class of customer for their products and services) and similar economic characteristics (revenue recognition and gross margin). We believe that each of our facilities provides similar services, delivers these services in a similar manner, and has a common type and class of customer. In addition, all of our facilities recognize and report revenue in a similar manner. However, our individual facility gross margins vary significantly. Therefore, we have aggregated our segments based upon the lowest common economic characteristic of each of our facilities: gross margin. The CODMS allocate resources in large part based on margin and analyze each of the facilities as having either (1) less than 20% operating margins, (2) more than 20% operating margins but less than 40% operating margins, or (3) greater than 40% operating margins. The CODMS believe that the margin is the primary, most significant and most useful indicator of the necessary allocation of resources to each individual facility because it is the best indicator of a facility's operating performance and resource requirements. Accordingly, our operating segments are aggregated into six reportable segments based on comparable operating margins within each of Brookdale Living and Alterra. We define our operating margin for each group of facilities as that group's operating income divided by its revenue. Operating income represents revenue less operating expenses (excluding depreciation and amortization).

We also present a seventh reportable segment for management services because the economic and operating characteristics of these services are different from our facilities aggregated above.

Brookdale Living.   Our Brookdale Living group of facilities operates independent living facilities and CCRCs that provide a continuum of services, including independent living, assisted living, Alzheimer's care, dementia care and skilled nursing care. Our facilities include rental facilities and

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three entrance fee facilities. We also provide various ancillary services to our residents, including extensive wellness programs, personal care and therapy services for all levels of care.

Alterra.   Our Alterra group of facilities operates primarily assisted living facilities that provide specialized assisted living care to residents in a comfortable residential atmosphere. Most of our facilities provide specialized care, including Alzheimer's and other dementia programs. These facilities are designed to provide care in a home-like setting, as opposed to a more institutional setting.

Management Services.   Our management services segment includes facilities owned by others and operated by us pursuant to management agreements. Under our management agreements for these facilities, we receive management fees as well as reimbursed expense revenues, which represent the reimbursement of certain expenses we incur on behalf of the owners.

The accounting policies of our reporting segments are the same as those described in the summary of significant accounting policies. The following table sets forth certain segment financial and operating data.

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	For the Three Months Ended March 31, 2006 (unaudited)	For the Three Months Ended March 31, 2005 (unaudited)	For the Period October 1, 2005 to December 31, 2005	For the Period January 1, 2005 to September 30, 2005	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 200
Revenue(3):							
Brookdale Living							
Less than 20% operating margin	$ 17,724	$ 3,492	$ 13,685	$ 29,903	$ 43,588	$ 17,475	$ 6,
20% – 40% operating margin	31,253	27,192	30,299	102,269	132,568	86,290	67,
Greater than 40% operating margin	59,873	40,240	60,251	129,228	189,479	159,844	109,
Total Brookdale Living	108,850	70,924	104,235	261,400	365,635	263,609	184,
Alterra							
Less than 20% operating margin	13,737	15,098	7,904	38,773	46,677	52,267	5,
20% – 40% operating margin	46,570	48,804	38,045	153,973	192,018	179,857	15,
Greater than 40% operating margin	51,879	39,286	61,676	120,709	182,385	161,594	11,
Total Alterra	112,186	103,188	107,625	313,455	421,080	393,718	32,
Management Services	1,147	871	1,187	2,675	3,862	3,545	5,
	$ 222,183	$174,983	$ 213,047	$ 577,530	$ 790,577	$660,872	$ 222,
Segment Operating Income(1):							
Brookdale Living							
Less than 20% operating margin	$ 3,362	$ 423	1,859	3,727	5,586	2,250	
20% – 40% operating margin	$ 10,130	8,767	9,739	32,491	42,230	26,608	20,
Greater than 40% operating margin	30,244	19,657	30,653	63,805	94,458	76,107	53,
Total Brookdale Living	43,736	28,847	42,251	100,023	142,274	104,965	74,
Average Margin	40.2%	40.7%	40.5%	38.3%	38.9%	39.8%	4
Alterra							
Less than 20% operating margin	1,245	1,142	685	3,774	4,459	5,674	
20% – 40% operating margin	15,017	15,843	12,071	49,783	61,854	57,791	4,
Greater than 40% operating margin	24,093	17,931	29,748	54,493	84,241	73,728	4,
Total Alterra	40,355	34,916	42,504	108,050	150,554	137,193	10,
Average Margin	38.0%	33.8%	39.5%	34.5%	35.8%	34.8%	3

Management Services	803	610	831	1,873	2,704	2,482	3,
	$ 84,894	$ 64,373	$ 85,586	$ 209,946	$ 295,532	$244,640	$ 87,
General and administrative (including non-cash stock compensation expense)(2)	$ 20,741	$ 11,397	27,334	53,204	80,538	42,577	14,
Facility lease expense	45,734	46,502	48,487	140,852	189,339	99,997	30,
Depreciation and amortization	22,299	5,173	19,022	30,861	49,883	52,307	22,
Operating income (loss)	$ (3,880)	$ 1,301	$ (9,257)	$ (14,971)	$ (24,228)	$ 49,759	$ 20,
Total Assets:							
Brookdale Living	$1,385,458	$450,663	$1,256,833	$1,089,410(4)	$1,256,833	$467,320	$1,147,
Alterra	539,613	278,751	440,978	382,525(4)	440,978	279,305	509,
Management Services	—	—	—	—(4)	—	—	
	$1,925,071	$729,414	$1,697,811	$1,471,935(4)	$1,697,811	$746,625	$1,656,

(1)Segment operating income defined as segment revenues less segment operating expenses (excluding depreciation and amortization).

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(2)Net of general and administrative costs allocated to management services reporting segment.
(3)All revenue is earned from external third parties in the United States.
(4)Unaudited.

15. Employee Restricted Stock Plans and Omnibus Stock Incentive Plan

On August 5, 2005, BLC and Alterra adopted employee restricted stock plans to attract, motivate, and retain key employees. The plans provide for the grant of shares of common stock to those participants selected by the board of directors. Upon adoption of the plans, restricted shares of BLC and Alterra were granted to employees. At September 30, 2005, as a result of the formation transactions described in Note 1, these restricted shares were converted into a total of 2.6 million shares of restricted stock in BSL at a value of $19 per share. Pursuant to the plans, 25% to 50% of each individual's award vested upon completion of the initial public offering on November 22, 2005. The remaining awards vest over a period of three to five years.

On October 14, 2005, we adopted a new equity incentive plan for our employees, the Brookdale Senior Living Omnibus Stock Incentive Plan, which was approved by our stockholders on October 14, 2005, to strengthen the commitment of our employees, motivate them to faithfully and diligently perform their responsibilities and attract and retain competent and dedicated persons who are essential to the success of our business and whose efforts will result in our long-term growth and profitability. The plan provides for the issuance of stock options, stock appreciation rights, restricted shares, deferred shares, performance shares, unrestricted shares and other stock-based awards. While we intend to issue stock in the future to key employees as a recruiting and retention tool, we have not established specific parameters regarding future grants of restricted stock.

A total of 2,000,000 shares of our common stock has been reserved for issuance under the plan; provided, however, that commencing on the first day of our fiscal year beginning in calendar year 2006, the number of shares reserved and available for issuance will be increased by an amount equal to the lesser of (1) 400,000 shares and (2) 2% of the number of outstanding shares of our common stock on the last day of the immediately preceding fiscal year. When Section 162(m) of the Internal Revenue Code becomes applicable, the maximum aggregate number of shares that will be subject to stock options or stock appreciation rights that may be granted to any individual during any fiscal year will be 400,000, and the maximum aggregate number of shares that will be subject to awards of restricted stock, deferred shares, unrestricted shares or other stock-based awards that may be granted to any individual during any fiscal year will be 400,000.

The plan will initially be administered by our board of directors, although it may be administered by either our board of directors or any committee of our board of directors, including a committee that complies with the applicable requirements of Section 162(m) of the Internal Revenue Code, Section 16 of the Exchange Act and any other applicable legal or stock exchange listing requirements.

Except as otherwise provided by the plan administrator, on the first business day after our annual meeting of stockholders and each such annual meeting thereafter during the term of the plan, each of our independent directors who is then serving will automatically be granted under the plan a number of unrestricted shares of our common stock having a fair market value of $15,000 as of the date of grant; however, those of ourindependent directors who were granted restricted common stock upon the consummation of our initial public offering will not be eligible to receive these automatic annual grants.

The terms of the plan provide that the board may amend, alter or discontinue the plan, but no such action may impair the rights of any participant with respect to outstanding awards without the participant's consent. Unless the board determines otherwise, stockholder approval of any such action will be obtained if required to comply with applicable law. The plan will terminate on October 13, 2015.

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As a result of the formation transactions described in Note 1, the employee restricted stock plans described above were merged into the Omnibus Stock Incentive Plan. Additional grants of restricted shares under the Incentive Plan were as follows:

	Grants	Value Per Share	Total Value
As of December 31, 2005	554	$ 19.00-28.52	$ 10,100
Three months ended March 31, 2006	44	$ 32.88	1,500

Compensation expense of $3.0 million, $11.1 and $11.5 million was recorded using graded vesting for the three months ended March 31, 2006, the nine months ended September 30, 2005, and three months ended December 31, 2005, respectively, in connection with the vested shares and the balance of the expense will be recorded over the remaining vested period, net of forfeitures estimated at 5% of the shares granted.

16. Acquisitions

On December 30, 2005, we completed the acquisition of all of the shares of capital stock of CMCP Properties Inc. from Capstead Mortgage Corporation, or Capstead. The purchase was structured as a stock transaction, at a total cost of $181 million, consisting of a $57.5 million cash payment and assumption of $119.8 million of debt. At closing we obtained a $30.0 million first mortgage loan against one of the facilities bearing interest at 6.085% payable interest only until February, 2011 and principal and interest thereafter until maturity in February, 2013 and we repaid an existing $19.0 million loan against the facility. In connection with the refinancing we incurred a loss on extinguishment of $2.5 million. The portfolio is comprised of six independent and assisted living facilities located in Florida, Georgia, Virginia, Ohio and Texas (the ‘‘CMCP Properties’’). Subsidiaries of BLC have leased and operated the facilities since May 1, 2002.

On December 22, 2005, we acquired four assisted living facilities (which included 187 units/beds) from Merrill Gardens for an aggregate purchase price of $16.3 million. The acquisition was financed by $15.2 million of first mortgage financing bearing interest at a variable rate of LIBOR plus 1.70%.

On November 30, 2005, we completed our acquisition of six facilities (which included 237 units/beds from Omega Healthcare Investors, Inc (‘‘Omega’’) pursuant to our exercise of a purchase option, for an aggregate purchase price of $20.4 million. The Merrill Gardens and Omega acquisitions were financed by $8.8 million of first mortgage financing bearing interest at LIBOR plus 1.70% and $6.7 million of the net proceeds of our initial public offering.

The above acquisitions were accounted for using the purchase method of accounting and the purchase price was allocated to the assets and liabilities based on their estimated fair values.

The following unaudited pro forma condensed consolidated financial information sets forth the historical financial information for the period October 1, 2005 to December 31, 2005 derived from the consolidated financial statements of Brookdale Senior Living Inc., as adjusted to give effect to:

- acquisition of the capital stock of CMCP Properties, Inc. and the Merrill Gardens portfolio as if these transactions closed on October 1, 2005.

The following unaudited pro forma condensed consolidated financial information sets forth the historical financial information for the nine months ended September 30, 2005 and for the years ended December 31, 2005 and 2004 derived from the consolidated and combined historical financial statements, as adjusted to give effect to:

- pro forma adjustments to give effect to the Provident sale-leaseback and Ventas operating lease on the combined statement of operations as if these transactions closed on January 1, 2004;

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- pro forma adjustments to give effect to the refinancing of five facilities, tax effect of the purchase of four of these facilities and termination of forward interest rate swaps as if these transactions closed on January 1, 2005 and 2004;
- pro forma adjustments to give effect to the Fortress CCRC Portfolio and the Prudential Portfolio acquisitions on the combined statements of operations as if these transactions closed on January 1, 2004;
- pro forma adjustment to give effect to the September 30, 2005 step-up in basis of non-controlling ownership (ownership interests not controlled or owned by affiliates of Fortress Investment Group LLC, ''Minority Shareholders'') due to the exchanges of Brookdale Facility Group minority ownership for Company ownership as if the transaction was completed on January 1, 2004;
- pro forma adjustment to give effect to the compensation expense in connection with the grants under the restricted stock plan;
- incremental general and administrative expenses related to operating as a public company;
- our initial public offering, repayment of indebtedness and other use of proceeds; and
- acquisition of the Chambrel portfolio and Merrill Gardens portfolio subsequent to our initial public offering.

The unaudited pro forma condensed consolidated and combined financial information is presented for informational purposes only, and we do not expect that this information will reflect our future results of operations. The unaudited pro forma adjustments are based on available information and upon assumptions that we believe are reasonable. The unaudited pro forma financial information assumes that the transactions and our initial offering were completed as of January 1, 2005 and 2004 for purposes of the unaudited pro forma condensed combined financial information.

	Three Months Ended March 31,		For the Period From October 1, 2005 to December 31,	For the nine months ended September 30,	For the years ended December 31,	
	2006	2005	2005	2005	2005	2004
Revenues	$ 236,369	$ 222,188	$ 214,259	$ 623,722	$ 837,981	$ 795,360
Loss from operations	(5,503)	(23,845)	(8,629)	(44,249)	(52,878)	(37,391)
Loss before income taxes	(24,368)	(41,505)	(24,438)	(81,948)	(106,386)	(89,553)
Loss from continuing operations	(24,870)	(41,671)	(25,588)	(82,881)	(108,469)	(93,474)
Weighted average basic and diluted loss per share	$ (0.38)		$ (0.43)			
Weighted average shares used in computing basic and diluted loss per share	65,007		59,710			

17. Subsequent Events

On December 21, 2005, we signed an agreement to acquire Southern Assisted Living Inc. (SALI), a company based in North Carolina that operates a portfolio of 41 senior living facilities, all of which are leased, for $82.9 million.

On January 12, 2006, we signed a definitive agreement to purchase 18 owned and leased senior living facilities from American Senior Living L.P. for $124.0 million. The portfolio is located in Alabama, California, Delaware, Florida, Georgia, Louisiana, Ohio, Tennessee, Virginia and

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BROOKDALE SENIOR LIVING INC.
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(In thousands)

Washington and is divided into seven owned and 11 leased facilities. The transaction is subject to customary closing conditions and multiple closings.

On February 7, 2006, we signed a definitive agreement to acquire six properties from AEW Capital Management for $209.5 million. The portfolio located in California, Ohio and Washington is comprised of six independent living, assisted living and CCRC facilities. The transaction is subject to customary closing conditions and possible multiple closings.

On February 10, 2006, we entered into a $330.0 million credit agreement, consisting of a $250.0 million term loan available for acquisitions and an $80.0 million revolving loan with a $60.0 million sublimit for letters of credit. Concurrent with the new credit agreement we terminated our existing line of credit. The credit agreement bears interest at either prime plus 0.5% or LIBOR plus 1.50% and matures on February 10, 2007, subject to extension at our option for six months. In connection with the revolving loan we paid a commitment fee of 0.5% and a non-use fee on the term loan of 0.125% of the average daily amount of undrawn funds so long as we draw less than $150.0 million, 0.25% if we draw $150.0 million or more.

In February 2006, we entered into five-year forward interest rate swaps in the aggregate notional amounts of $283.3 million whereby we pay an average fixed rate of 4.97% and receive 30-day LIBOR from the counterparty.

On February 28, 2006, we terminated the management agreement for four facilities due to a sale. Management fees for these four facilities was $0.8 million for the year ended December 31, 2005, and we received a termination fee of $0.2 million.

On February 28, 2006, we acquired two facilities in Orlando, Florida from Orlando Madison Ivy, LLC. for an aggregate purchase price of $13.0 million. In connection with the acquisition, we obtained an $8.8 million first mortgage bearing interest at a variable rate of LIBOR plus 1.70%.

On March 13, 2006, our Board of Directors declared a quarterly cash dividend of our common stock of $0.35 per share, or an aggregate of $23.2 million for the quarter ended March 31, 2006. The $0.35 per share dividend is payable on April 14, 2006 to holders of record of our common stock on March 31, 2006.

On March 17, 2006, under our Omnibus Stock Incentive Plan, an additional grant of 0.04 million restricted shares were granted at $32.88 per share for a total value of $1.5 million.

(Unaudited)

On March 28, 2006, we purchased 17 assisted living facilities from The Wellington Group LLC for $95.0 million. The acquisition was funded in part with $52.6 million of first mortgage debt bearing interest at LIBOR plus 1.70%. The portfolio is located in Alabama, California, Florida, Georgia, Mississippi, and Tennessee and is divided into 14 owned and four leased properties.

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BROOKDALE SENIOR LIVING INC.
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(In thousands)

18. Quarterly Results of Operations (Unaudited)

The following is a summary of quarterly results of operations for the fiscal quarters (in thousands, expect per share amounts):

	March 31, 2005	June 30, 2005	September 30, 2005	For the Period From October 1, 2005 to December 31, 2005	March 31, 2006
Revenues	$ 174,983	$ 193,188	$ 209,359	$ 213,047	$ 222,183
Income (loss) from operations	878	1,702	(17,551)	(9,257)	(3,880)
Loss before income taxes	(4,129)	(8,980)	(30,115)	(24,306)	(18,824)
Loss before discontinued operations	(4,295)	(8,999)	(29,683)	(24,456)	(19,326)
Net loss	(4,365)	(8,811)	(29,446)	(24,456)	(19,326)
Weighted average basic and diluted earnings (loss) per share				$ (0.41)	$ (0.30)
Weighted average shares used in computing basic and diluted loss per share				59,710	65,007

	For the Quarters Ended			
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
Revenues	$ 155,633	$ 163,220	$ 166,161	$ 175,858
Income from operations	13,162	16,136	15,611	4,850
Income (loss) before income taxes	(8,960)	6,630	(5,675)	(2,051)
Income (loss) before discontinued operations	(8,247)	2,336	(5,095)	(10,161)
Net income (loss)	(9,067)	1,924	(5,209)	(9,537)

Note: The earnings per share disclosure pertain only to the operations of Brookdale Senior Living Inc. from October 1, 2005 through December 31, 2005.

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SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
December 31, 2005
(In thousands)

		Additions				
Description	Balance at Beginning of Period	Charged to costs and expenses	Charged To other Accounts	Combination of Alterra	Deductions	Balance at End of Period
Allowance for Doubtful Accounts:						
Year ended December 31, 2003	$ 300	$ 560	$ —	$ 7,374	$ 588	$ 7,646
Year ended December 31, 2004	$ 7,646	$ 831	$ —	$ —	$ 5,614	$ 2,863
Year ended December 31, 2005	$ 2,863	$ 1,571	$ —	$ —	$ 1,413	$ 3,021
Deferred Tax Valuation Account:						
Year ended December 31, 2003	$ 13,573	$ —	$ —	$ 32,703	$ —	$ 46,276
Year ended December 31, 2004	$ 46,276	$ —	$ 43,006(1)	$ —	$ —	$ 89,282
Year ended December 31, 2005	$ 89,282	$ —	$ —	$ —	$ 41,771(2)	$ 47,511

(1) Change in valuation allowance
(2) Change in valuation allowance due to minority step-up in basis

See accompanying report of independent registered public accounting firm.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder of Brookdale Living Communities, Inc.

We have audited the accompanying combined statements of financial position of the properties comprising the Fortress CCRC Portfolio (the ''Properties'') as of December 31, 2004 and 2003, and the related combined statements of activities and changes in net deficit, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Properties' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Properties' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Properties' internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Properties at December 31, 2004 and 2003, and the combined results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Chicago, Illinois
July 22, 2005

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FORTRESS CCRC PORTFOLIO

COMBINED STATEMENTS OF FINANCIAL POSITION
(In thousands)

	March 31 2005 (Unaudited)	December 31, 2004	2003
Assets			
Current assets:			
Cash and cash equivalents	$ 3,213	$ 3,873	$ 1,962
Accounts receivable	4,570	4,254	3,448
Marketable securities	7,024	16,309	18,816
Prepaid expenses and other	434	651	455
Total current assets	15,241	25,087	24,681
Property and equipment	225,814	225,143	230,855
Accumulated depreciation	(75,995)	(74,065)	(66,586)
Property and equipment, net	149,819	151,078	164,269
Bond proceeds held by trustee	7,276	7,673	12,685
Long-term investments	2,499	2,499	2,151
Goodwill, net	2,341	2,363	2,451

Deferred financing costs, net	3,706	3,778	4,068
Other	530	539	572
Total assets	$ 181,412	$ 193,017	$ 210,877
Liabilities and Net Asset (Deficit)			
Current liabilities:			
Bonds payable	$ 183,079	$ 183,053	$ 182,946
Accrued interest payable	5,611	4,624	2,538
Trade accounts payable and accrued expenses	5,298	4,391	3,737
Due to parent, net	43,863	8,302	12,039
Total current liabilities	237,851	200,370	201,260
Unearned entrance fees	29,786	30,197	35,013
Other	1,758	1,759	1,639
Total liabilities	269,395	232,326	237,912
Net asset (deficit)			
Unrestricted	(91,217)	(42,573)	(30,008)
Temporarily restricted	736	766	823
Permanently restricted	2,498	2,498	2,150
Total net deficit	(87,983)	(39,309)	(27,035)
Total liabilities and net asset (deficit)	$ 181,412	$ 193,017	$ 210,877

See accompanying notes to the combined financial statements.

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FORTRESS CCRC PORTFOLIO

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET DEFICIT
(In thousands)

	Three Months Ended March 31,		Year Ended December 31,		
	2005	2004	2004	2003	2002
	(Unaudited)				
Revenue					
Resident fees	$ 19,706	$ 19,992	$ 80,776	$ 75,856	$ 71,467
Amortization of entrance fees	560	612	2,430	2,841	3,093
Total revenue	20,266	20,604	83,206	78,697	74,560
Expenses					
Facility operating	16,574	16,562	68,079	64,746	63,051
Management fees – affiliate	868	842	3,467	3,320	3,187
Depreciation and amortization	1,990	1,959	7,885	7,753	7,550
Impairment of property and equipment	—	—	9,063	—	—
Total operating expenses	19,432	19,363	88,494	75,819	73,788
Income (loss) from operations	834	1,241	(5,288)	2,878	772

Other income (expense):					
Contributions and deferred gifts	71	604	3,389	2,736	3,383
Interest income	455	266	1,590	1,503	1,619
Net unrealized and realized gains (losses) on investments	(158)	150	75	(457)	(2,643)
Gain on sale of equipment	—	—	—	341	90
Interest expense	(1,013)	(1,508)	(5,329)	(11,410)	(10,993)
Interest expense – affiliate	(675)	(447)	(2,090)	(1,252)	(821)
Amortization of deferred financing costs	(72)	(73)	(290)	(298)	(293)
Net income (loss) from operations	(558)	233	(7,943)	(5,959)	(8,886)
Net transfers (to) from NBA	(48,116)	(797)	(4,331)	(1,590)	(305)
Change in net deficit	(48,674)	(564)	(12,274)	(7,549)	(9,191)
Net deficit at beginning of period	(39,309)	(27,035)	(27,035)	(19,486)	(10,295)
Net deficit at end of period	$ (87,983)	$ (27,599)	$ (39,309)	$ (27,035)	$ (19,486)

See accompanying notes to the combined financial statements.

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FORTRESS CCRC PORTFOLIO

COMBINED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,		Year Ended December 31,		
	2005	2004	2004	2003	2002
	(Unaudited)				
Operating activities					
Change in net assets from operations	$ (558)	$ 233	$ (7,943)	$ (5,959)	$ (8,886)
Adjustments to reconcile change in net assets from operations to net cash provided by (used in) operating activities:					
Amortization of entrance fees	(560)	(612)	(2,430)	(2,841)	(3,093)
Depreciation and amortization	1,990	1,959	7,885	7,753	7,550
Impairment of property and equipment	—	—	9,063	—	—
Net (gain) loss on investment activity	158	(150)	(75)	457	2,643
Amortization of deferred financing costs	72	73	290	298	293
Amortization of debt discounts	26	27	107	110	105
Gain on sale of property and equipment	—	—	—	(341)	(90)
Changes in operating assets and liabilities:					
Accounts receivable	(316)	(362)	(806)	(638)	(86)
Prepaid expenses and other assets	217	(1,810)	(196)	332	201
Other assets	9	14	33	(31)	58

Accrued interest payable	987	770	2,086	171	(63)
Accounts payable and accrued expenses	907	2,004	654	(3,315)	1,496
Other liabilities	(1)	121	120	601	(161)
Net cash provided by (used in) operating activities	2,931	2,267	8,788	(3,403)	(33)
Investing activities					
Net change in bond proceeds held by trustee	397	1,054	5,012	1,840	(575)
Net proceeds from sale (purchase of) marketable securities	9,127	3,926	2,234	10,008	(6,859)
Additions to property and equipment	(709)	(552)	(3,669)	(3,540)	(3,816)
Proceeds from sale of property and equipment	—	—	—	362	123
Net cash provided by (used in) investing activities	8,815	4,428	3,577	8,670	(11,127)
Financing activities					
Repayment of bonds payable	—	—	—	(2,844)	(3,682)
Net transfers to NBA	(48,116)	(797)	(4,331)	(1,590)	(305)
Net advances from (to) parent	35,561	(2,613)	(3,737)	(1,838)	10,964
Payment of financing costs	—	—	—	—	(100)
Net additions to (refunds of) entrance fees	149	(3,381)	(2,386)	738	4,585
Net cash provided by (used in) financing activities	(12,406)	(6,791)	(10,454)	(5,534)	11,462
Net increase (decrease) in cash and cash equivalents	(660)	(96)	1,911	(267)	302
Cash and cash equivalents at beginning of period	3,873	1,962	1,962	2,229	1,927
Cash and cash equivalents at end of period	$ 3,213	$ 1,866	$ 3,873	$ 1,962	$ 2,229
Supplemental disclosure of cash flow information					
Interest paid to third parties	$ —	$ 1,339	$ 3,136	$ 12,381	$ 11,772

See accompanying notes to the combined financial statements.

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FORTRESS CCRC PORTFOLIO

NOTES TO COMBINED FINANCIAL STATEMENTS
(Dollars in thousands)

1. Description of Business

The combined financial statements present the financial position and the results of operations related only to eight continuing care retirement communities owned and operated by The National Benevolent Association of the Christian Church (Disciples of Christ) (the ‘‘NBA’’). In April 2005, Fortress CCRC Acquisition LLC (‘‘Fortress’’) purchased the property and equipment and accounts receivable of eight senior living facilities from NBA for approximately $179,200 and assumed the liabilities associated with entrance fees related to the properties. No other assets were purchased and no other liabilities were assumed. All eight facilities are included in the combined financial statements for the periods presented. For purposes of the combined financial statements, the facilities are referred to as the ‘‘Fortress CCRC Properties.’’ The Fortress CCRC Properties are located in various cities throughout the United States and consist of the following:

Facilities	Location	Total Units
Cypress Village	Jacksonville, FL	523
Robin Run Village	Indianapolis, IN	283
Village at Skyline	Colorado Springs, CO	503
Ramsey Home	Des Moines, IA	139
Patriot Heights	San Antonio, TX	232
Foxwood Springs Living Center	Raymore, MO	311
Heritage Crossing	Edmond, OK	233
Heatherwood Village	Newton, KS	189
		2,413

Four of the above facilities have an aggregate of 825 single family homes at March 31, 2005 that are independently owned by the residents of the homes. The Fortress CCRC Properties are responsible for maintenance of those homes for which they receive monthly service fees.

2. Bankruptcy Filing

On or about December 1, 2003, the NBA failed to make scheduled payments with respect to the loans securing certain of the fixed rate bond issues, including bonds related to the Fortress CCRC Properties, and further failed to make certain payments due to a financial institution, pursuant to which the letters of credit that supported the variable rate bonds were issued, including bonds related to the Fortress CCRC Properties. In addition, in September 2003, the NBA failed to repay certain loans and other financial obligations when they became due. As a result of these events, various lenders declared certain events of default under the respective documents evidencing and/or governing such bonds, loans, and other obligations and filed certain lawsuits against the NBA.

On February 16, 2004 (the ‘‘Petition Date’’), the NBA and certain of its affiliates (including the operations of the Fortress CCRC Properties, collectively, referred to herein as a ‘‘debtor-in-possession’’) filed voluntary petitions under Chapter 11 of Title 11 of the United States Code (the ‘‘Bankruptcy Code’’) in the United States Bankruptcy Court Western District of Texas – San Antonio Division (the ‘‘Bankruptcy Court’’). The NBA and each of such entities were debtors-in-possession under the Bankruptcy Code.

Pursuant to the Bankruptcy Code, neither the NBA nor any of the debtors-in-possession were permitted to make principal, interest, or other debt service payments with respect to the loans securing the fixed rate bonds or the variable rate bonds or with respect to other reimbursement obligations.

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In conjunction with a mediation process ordered by the Bankruptcy Court, the NBA, in September 2004, entered into an agreement pursuant to which it agreed, at the request of its creditors and was subsequently approved by the Bankruptcy Court, to sell 11 of its senior living facilities (including the Fortress CCRC Properties), to Fortress. The sale of 11 properties closed during the period April 6, 2005 through May 19, 2005, at which time Fortress sold the three non-Fortress CCRC Properties to third parties.

On December 29, 2004, the NBA and its creditors filed a Joint Disclosure Statement for Joint Plan of Reorganization and a Joint Plan of Reorganization with the Bankruptcy Court. The Joint Disclosure Statement was approved by the Bankruptcy Court on January 19, 2005. Since that date, the Plan of Reorganization has been approved by the creditors, and on March 2, 2005, the Plan of Reorganization was confirmed by the Bankruptcy Court.

3. Summary of Significant Accounting Policies

Basis of Presentation

The combined financial statements include the accounts related to the operations of the Fortress CCRC Properties. All significant intercompany balances and transactions are eliminated in combination. The combined financial statements are presented as if the Fortress CCRC Properties had operated as one combined entity.

The Fortress CCRC Properties' unaudited combined financial statements as of March 31, 2005 and for the three months ended March 31, 2005 and 2004, have been prepared in accordance with accounting principles generally accepted in the United States (''GAAP'') for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all normal recurring accruals considered necessary for a fair presentation have been included. All amounts included in the footnotes to the combined financial statement, referring to March 31, 2005 and for the three months ended March 31, 2005 and 2004 are unaudited. Operating results for the three month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

The majority of the Fortress CCRC Properties' net assets are unrestricted. The temporarily restricted net assets activity was $(30), $(87), $(57), $(61) and $(162) for the three months ended March 31, 2005 and 2004 and for the years ended December 31, 2004, 2003 and 2002, respectively. The permanently restricted net assets activity was $0, $348, $348, $92, and $173 for the three months ended March 31, 2005 and 2004 and for the years ended December 31, 2004, 2003 and 2002, respectively.

Use of Estimates

The preparation of the combined financial statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported and disclosures of contingent assets and liabilities in the combined financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

Cash Equivalents

All investments with an original maturity of three months or less are considered to be cash equivalents. No investments were purchased by Fortress.

Marketable Securities and Long-Term Investments

Investments in marketable securities are carried at market value. Realized and unrealized gains and losses are reflected in the combined statements of activities. These investments are classified as either marketable securities or long-term investments in the combined statements of financial

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position. These classifications are made to divide those investments held in conjunction with pooled investment trusts, living trusts, unitrusts, annuity trusts, and endowment agreements from those investments classified as available to support current operations. The marketable securities and long term investments were not purchased by Fortress.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Renovations and improvements, which improve and/or extend the useful life of the asset are capitalized and depreciated over their estimated useful life, or if the renovations or improvements are made with respect to facilities subject to an operating lease, over the shorter of the estimated useful life of the renovations or improvements, or the term of the operating lease.

In accordance with Statement of Financial Accounting Standards (''SFAS'') No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets and Long-Lived Assets to Be Disposed, the Fortress CCRC Properties will record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets during the expected hold period are less than the carrying amounts of those assets. Impairment losses will be measured as the difference between carrying value and fair value of assets.

Depreciation is provided on a straight-line basis over the estimated useful lives of assets, which are as follows:

Asset Category	Estimated Useful Life
Buildings and improvements	25 – 40 years
Furniture and equipment	3 – 10 years

Bond Proceeds Held by Trustee

The Fortress CCRC Properties are required to maintain separate accounts for proceeds of bond financings. These accounts are comprised of cash, money market accounts, and government-issued debt securities. Government-issued debt securities are valued at market and have maturity dates which approximate the cash needs relative to the respective construction project or debt service requirement.

Goodwill

Goodwill, in the original amount of $3,500, represents the cost of assets in excess of the book value of the net assets at the acquisition date of the properties. Goodwill was amortized at a rate of approximately $88 per year over 40 years on a straight-line basis through 2031. Accumulated amortization was $1,159, $1,137 and $1,049 at March 31, 2005 and December 31, 2004 and 2003, respectively.

Deferred Financing Costs

Deferred financing costs are recorded at cost and amortized on a straight-line basis, which approximates the level yield method, over the term of the related debt and are included in interest expense.

Resident Fee Revenue

Resident fee revenue is recorded when services are rendered and consists of fees for basic housing (including maintenance on owned units), support services and fees associated with additional services such as personalized health and assisted living care.

Unearned Entrance Fees

Unearned entrance fees represent payments received in exchange for the right to occupy apartments or independent living units. Many of the contracts associated with these arrangements

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stipulate that the residents are entitled to refunds of a percentage of their entrance fees from reoccupancy proceeds obtained from the subsequent right to occupy their units. The refundable portion of an entrance fee is required to be amortized over the estimated useful life of the facility. The nonrefundable portion is to be amortized over the estimated remaining life of the resident. The unamortized refundable entrance fees have been classified as long-term due to the contingencies related to the repayment of the fee.

Donated Property and Gifts

Contributions of property and materials are recorded as support in these combined financial statements at their estimated fair value at the date of gift. Absent donor stipulations on the use of these assets, these gifts are recorded as unrestricted support.

Income Taxes

The NBA and its operating units are exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, these combined statements do not include a provision for federal income tax.

Fair Value of Financial Instruments

Cash and cash equivalents and bond proceeds held by the trustee are reflected in the accompanying combined balance sheets at amounts considered by management to reasonably approximate fair value. As of March 31, 2005 and December 31, 2004, the fair value of bonds payable approximates book value based upon the interest rate determined under the NBA's approved bankruptcy plan.

4. Investments in Marketable Securities

Investments in marketable securities consisted of the following at March 31, 2005 and December 31, 2004 and 2003:

	Marketable Securities	Long-Term Investments	Total Market Value
March 31, 2005	$ 7,024	$ 2,499	$ 9,523
December 31, 2004	$ 16,309	$ 2,499	$ 18,808
December 31, 2003	$ 18,816	$ 2,151	$ 20,967

The majority of the marketable securities are invested in the Total Return Plan. The objective of the Total Return Plan is to generate a return on investment through appreciation in market value and income. Subject to the liquidity requirements of the Total Return Plan, it is part of the investment policy to have the assets of such plan invested in debt and equity securities depending on the economic outlook and/or general market conditions at that time. Because of extreme market volatility, the NBA took action to invest the Total Return Plan exclusively in U.S. Treasury bonds and notes and government agency securities. At December 31, 2004 and 2003, the Total Return Plan remained predominantly invested in U.S. Treasury bonds and notes and government agency securities. At December 31, 2004, the Total Return Plan portfolio had an average duration of approximately 1.35 years and an average maturity of approximately 1.69 years.

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5. Property and Equipment

Property and equipment consist of the following:

	March 31, 2005	December 31, 2004	December 31, 2003
Land	$ 5,745	$ 5,745	$ 6,138
Buildings and improvements	200,460	200,460	206,645
Furniture and equipment	18,216	18,082	17,570
Construction in progress	1,393	856	502
	225,814	225,143	230,855
Accumulated depreciation and amortization	(75,995)	(74,065)	(66,586)
Property and equipment, net	$ 149,819	$ 151,078	$ 164,269

In connection with the sale to Fortress described in Note 1, certain Fortress CCRC Properties (Village at Skyline, Ramsey Home, Heritage Crossing and Heatherwood Village) incurred a total impairment charge of $9,063 as of December 31, 2004, based upon the sale proceeds received.

6. Bonds Payable

Bonds payable consists of the following:

	March 31, 2005	December 31, 2004	December 31, 2003
Taxable and tax-exempt bonds payable with original terms bearing interest at fixed rates ranging from 4.1% to 7.8% payable in semi-annual installments and annual principal payments with original maturity dates from 2022 through 2030	$ 137,825	$ 137,825	$ 137,825
Taxable and tax-exempt bonds payable with original terms bearing interest at floating rates determined by the remarketing agent for the bonds, payable in monthly installments of principal	46,605	46,605	46,605

and interest, as defined in the bond agreements, maturity dates from 2022 through 2031			
Total bonds payable	184,430	184,430	184,430
Unamortized discount	(1,351)	(1,377)	(1,484)
Total bonds payable, net	$ 183,079	$ 183,053	$ 182,946

In late 2003, the NBA ceased making debt service payments and on February 16, 2004 filed for bankruptcy protection. Since no debt service payments were being made, the bonds were in default and have been classified as current at December 31, 2004 and 2003 and March 31, 2005. Under the terms of the bankruptcy plan, the interest rate on all of the above bonds was fixed at 2.17% per annum, and a new maturity date was set as of February 28, 2005.

Included in interest expense is amortization of original issue discount of $26, $27, $107, $110 and $105 for the three months ended March 31, 2005 and 2004 and for the years ended December 31, 2004, 2003 and 2002, respectively.

The NBA and certain related entities are jointly and severally obligated for the repayment of the above bonds. The Bond Proceeds held by Trustee are pledged to secure repayment of the related bonds.

7. Related Party Transactions

The Fortress CCRC Properties are managed by the NBA for a fee based on 4% of adjusted gross expenses, as defined by management. Fees paid to NBA were $893, $842, $3,548, $3,320,

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and $3,187 for the three months ended March 31, 2005 and 2004 and for the years ended December 31, 2004, 2003, and 2002, respectively.

Due to Parent represents amounts advanced by the NBA to support the operations of the Fortress CCRC Properties. These amounts were payable upon demand. Gross due to Parent balances bear interest at 6%, per annum (represents interest expense-affiliate). All unpaid interest was added to the due to Parent balance.

8. Unearned Entrance Fees

The activity for unearned entrance fees is as follows:

	March 31,	December 31,	
	2005	2004	2003
Beginning balance	$ 30,197	$ 35,013	$ 37,116
Additions	686	3,185	7,212
Amortization	(560)	(2,430)	(2,841)
Refunds	(537)	(5,571)	(6,474)
Ending balance	$ 29,786	$ 30,197	$ 35,013

In 2004, the NBA settled a lawsuit with certain occupants of the Fortress CCRC Properties related to entrance fees. Under the terms of the agreement, the NBA was required to refund approximately $3.7 million to these occupants, which has been reflected in the 2004 refunds in the table above.

9. Commitments and Contingencies

Litigation

The Fortress CCRC Portfolio properties are involved in various lawsuits and are subject to various claims arising in the normal course of business. In the opinion of management, although the outcomes of these suits and claims are uncertain, in the aggregate, they should not have a material adverse effect on the Fortress CCRC Portfolio properties' business, financial condition and results of activities.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder of Brookdale Living Communities, Inc.

We have audited the accompanying combined balance sheets of the properties comprising the Prudential Portfolio (the ''Properties'') as of December 31, 2004 and 2003, and the related combined statements of operations, members' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Properties' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Properties' internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Properties' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Properties at December 31, 2004 and 2003, and the combined results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Chicago, Illinois
June 7, 2005

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PRUDENTIAL PORTFOLIO

COMBINED BALANCE SHEETS
(In thousands)

	June 30, 2005 (Unaudited)	December 31, 2004	December 31, 2003
Assets			
Current assets:			
Cash and cash equivalents	$ 934	$ 1,571	$ 1,762
Restricted cash	156	632	633
Accounts receivable	235	199	207
Prepaid expenses and other	700	560	221
Total current assets	2,025	2,962	2,823
Property and equipment	9,739	161,159	159,993
Accumulated depreciation	(1,842)	(21,924)	(17,121)
Property and equipment, net	7,897	139,235	142,872
Deferred financing costs, net	5	385	655
Deferred rent receivable	556	534	468
Total assets	$ 10,483	$ 143,116	$ 146,818
Liabilities and Members’ Equity			
Current liabilities:			
Current portion of debt	$ 6,176	$ 64,819	$ 2,032
Trade accounts payable and accrued expenses	893	1,561	1,325
Deferred revenue	—	797	950
Total current liabilities	7,069	67,177	4,307
Long-term debt, less current portion	—	38,752	103,546
Total liabilities	7,069	105,929	107,853
Members’ equity	3,414	37,187	38,965
Total liabilities and members’ equity	$ 10,483	$ 143,116	$ 146,818

See accompanying notes to the combined financial statements.

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PRUDENTIAL PORTFOLIO

COMBINED STATEMENTS OF OPERATIONS
(In thousands)

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
	(Unaudited)						
Revenue							
Resident fees	$ 10,467	$ 11,139	$ 22,087	$ 22,059	$ 45,118	$ 41,853	$ 40,227
Property rental income	520	546	1,100	1,091	2,249	2,270	2,095
Total revenue	10,987	11,685	23,187	23,150	47,367	44,123	42,322
Expenses							
Facility operating	7,274	6,403	14,054	12,625	26,537	25,035	24,777
Ground lease	248	251	500	503	1,008	1,008	1,008
Management fees – affiliate	887	815	1,690	1,577	3,332	2,867	2,320
Depreciation and amortization	1,128	1,258	2,396	2,509	5,087	4,994	4,702
Total operating expenses	9,537	8,727	18,640	17,214	35,964	33,904	32,807
Income from operations	1,450	2,958	4,547	5,936	11,403	10,219	9,515
Interest expense	(1,348)	(1,156)	(2,715)	(2,318)	(4,827)	(5,000)	(5,629)
Gain on sale of real estate	123,678	—	123,678	—	—	—	—
Net income	$ 123,780	$ 1,802	$ 125,510	$ 3,618	$ 6,576	$ 5,219	$ 3,886

See accompanying notes to the combined financial statements.

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PRUDENTIAL PORTFOLIO

COMBINED STATEMENTS OF MEMBERS' EQUITY
For Six Months Ended June 30, 2005
and for Years Ended December 31, 2004, 2003 and 2002
(In thousands)

	Total Members' Equity
Balance at January 1, 2002	$ 47,962
Net income	3,886
Distributions	(6,155)
Contributions	468
Balance at December 31, 2002	46,161
Net income	5,219
Distributions	(15,240)
Contributions	2,825
Balance at December 31, 2003	38,965
Net income	6,576
Distributions	(8,599)

Contributions		245
Balance at December 31, 2004		37,187
Net income (unaudited)		125,510
Distributions (unaudited)		(159,283)
Balance at June 30, 2005 (unaudited)	$	3,414

See accompanying notes to the combined financial statements.

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PRUDENTIAL PORTFOLIO

COMBINED STATEMENTS OF CASH FLOWS
For Six Months Ended June 30, 2005 and 2004
and for Years Ended December 31, 2004, 2003 and 2002
(In thousands)

	Six Months Ended June 30,		Year Ended December 31,		
	2005	2004	2004	2003	2002
	(Unaudited)				
Operating activities					
Net income	$ 125,510	$ 3,618	$ 6,576	$ 5,219	$ 3,886
Adjustments to reconcile net income to net cash provided by operating activities:					
Gain on sale of real estate	(123,678)	—	—	—	—
Depreciation and amortization	2,396	2,509	5,087	4,994	4,702
Changes in operating assets and liabilities:					
Net change in restricted cash	476	—	1	35	185
Accounts receivable	(36)	39	8	(42)	24
Deferred rent receivable	(22)	(33)	(66)	(87)	(109)
Prepaid expenses and other assets	231	(409)	(339)	92	2
Accounts payable and accrued expenses	(663)	(245)	236	(92)	(177)
Deferred revenue	(797)	(82)	(153)	50	302
Net cash provided by operating activities	3,417	5,397	11,350	10,169	8,815
Investing activities					
Additions to property, and equipment	(232)	(627)	(1,180)	(916)	(842)
Proceeds from sale of real estate	252,856	—	—	—	—
Cash used in investing activities	252,624	(627)	(1,180)	(916)	(842)
Financing activities					
Proceeds from debt	—	34	37	40,200	14,650
Repayment of debt	(97,395)	(1,046)	(2,044)	(36,555)	(15,951)
Distributions to members	(159,283)	(4,027)	(8,599)	(15,240)	(6,155)
Contributions from members	—	—	245	2,825	468

Payment of financing costs		—		—		—		(494)		(211)
Net cash used in financing activities		(256,678)		(5,039)		(10,361)		(9,264)		(7,199)
Net increase (decrease) in cash and cash equivalents		(637)		(269)		(191)		(11)		774
Cash and cash equivalents at beginning of period		1,571		1,762		1,762		1,773		999
Cash and cash equivalents at end of period	$	934	$	1,493	$	1,571	$	1,762	$	1,773
Supplemental non-cash activity										
Write-off of fully depreciated property and equipment	$	—	$	—	$	14	$	—	$	—
Write-off of fully amortized deferred financing costs	$	—	$	370	$	904	$	—	$	—
Supplemental disclosure of cash flow information										
Interest paid	$	2,715	$	2,318	$	4,829	$	4,906	$	5,703

See accompanying notes to the combined financial statements.

PRUDENTIAL PORTFOLIO

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2004
(In thousands)

1. Description of Business

The combined financial statements present the operations of nine assisted living properties owned by limited liability companies under common control and ownership of affiliates of Prudential Financial, Inc. and whose day-to-day operations are managed by Renaissance Senior Living, LLC (‘‘RSL’’). RSL also has an ownership interest in the properties. All nine properties’ operations are included in the combined financial statements as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004. In June 2005, eight of the properties were sold (See Note 8). For purposes of the combined financial statements, the properties are referred to as the ‘‘Prudential Properties.’’ The Prudential Properties are located in various cities in the state of California and consist of the following:

Facilities	Location	Total Units (Unaudited)
Inn at the Park	Irvine	134
Nohl Ranch Inn	Anaheim Hills	127
Mirage Inn	Rancho Mirage	125
Pacific Inn	Torrance	134
Ocean House	Santa Monica	117
The Gables	Monrovia	64
The Lexington	Ventura	114

Oak Tree Villa	Scotts Valley	196
Lodge at Paulin Creek	Santa Rosa	250
		1,261

2. Summary of Significant Accounting Policies

Basis of Presentation

The combined financial statements include the accounts of Prudential Properties. All significant intercompany balances and transactions are eliminated in combination. The combined financial statements are presented as if the Prudential Properties had operated as one combined entity.

The Prudential Properties’ unaudited combined financial statements as of June 30, 2005 and for the three and six months ended June 30, 2005 and 2004, have been prepared in accordance with accounting principles generally accepted in the United States (‘‘GAAP’’) for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All amounts included in the footnotes to the combined financial statements, referring to June 30, 2005 and for the three and six months ended June 30, 2005 and 2004 are unaudited. Operating results for the three and six month period ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

Use of Estimates

The preparation of the combined financial statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported and disclosures of contingent assets and liabilities in the combined financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

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Cash Equivalents

The Prudential Properties considers all investments with an original maturity of three months or less to be cash equivalents.

Resident Fee Revenue

Resident fee revenue is recorded when services are rendered and consists of fees for basic housing, support services and fees associated with additional services such as personalized health and assisted living care. Residency agreements are generally for a term of one year.

Property Rental Income

The Prudential Properties leases a portion of one its facilities to a third party that operates a skilled nursing facility. The Prudential Properties records rental income on a straight-line basis as earned during the lease term. The lease also requires the tenant to reimburse the Prudential Properties for the tenant’s share of common area maintenance, real estate taxes and other recoverable costs. Tenant reimbursement revenue is recognized as the related expenses are incurred.

Income Taxes

No provision for federal income taxes is included in the combined financial statements since such taxes, if any, are payable by the owners of the Renaissance Properties.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Renovations and improvements, which improve and/or extend the useful life of the asset are capitalized and depreciated over their estimated useful life, or if the renovations or improvements are made with respect to facilities subject to an operating lease, over the shorter of the estimated useful life of the renovations or improvements, or the term of the operating lease.

In accordance with Statement of Financial Accounting Standards (‘‘SFAS’’) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets and Long-Lived Assets to Be Disposed, the Prudential Properties will record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets during the expected holding period are less than the carrying amounts of those assets. Impairment losses will be measured as the difference between carrying value and fair value of assets.

Depreciation is provided on a straight-line basis over the estimated useful lives of assets, which are as follows:

Asset Category	Estimated Useful Life
Buildings and improvements	30 years
Furniture and equipment	3 - 7 years

Deferred Costs

Deferred financing costs are recorded at cost and amortized on a straight-line basis, which approximates the level yield method, over the term of the related debt. Accumulated amortization was $58, $383 and $1,017 at June 30, 2005 and December 31, 2004 and 2003, respectively.

Restricted Cash

Restricted cash consists of amounts held in escrow for the payment of future real estate taxes.

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Fair Value of Financial Instruments

Cash and cash equivalents, restricted cash and variable rate debt are reflected in the accompanying combined balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term fixed rate debt using a discounted cash flow analysis based upon Prudential Properties' current borrowing rate for debt with similar maturities. As of June 30, 2005 and December 31, 2004 and 2003, the fair value of fixed-rate debt approximates book value.

3. Property and Equipment

Property and equipment consist of the following:

	June 30, 2005	December 31, 2004	December 31, 2003
Land	$ —	$ 33,872	$ 33,872
Buildings and improvements	9,070	123,676	123,279
Furniture and equipment	669	3,611	2,842
	9,739	161,159	159,993
Accumulated depreciation and amortization	(1,842)	(21,924)	(17,121)
Property and equipment, net	$ 7,897	$ 139,235	$ 142,872

4. Debt

Long-term Debt

Long-term debt consists of the following as of:

	June, 2005	December 31, 2004	December 31, 2003
Mortgage notes payable bearing interest at fixed rates ranging from 4.47% to 7.50% payable in monthly installments of principal and, interest maturity dates from April 2005 through April 2008	$ —	$ 53,740	$ 54,604
Mortgage notes payable bearing interest at variable rates ranging from LIBOR (2.87% and 2.4% at March 31, 2005 and December 31, 2004, respectively) plus 2.20% to LIBOR plus 2.40%, payable in monthly installments of principal and interest, maturity dates in 2005	6,176	49,771	50,923
Promissory notes payable to various financial institutions bearing interest at fixed rates ranging from 6.5% to 9.75% payable in monthly installments of principal and interest, maturity dates ranging from May 2005 through April 2008	—	60	51
Total debt	6,176	103,571	105,578
Less current portion	(6,176)	(64,819)	(2,032)
Total long-term debt	$ —	$ 38,752	$ 103,546

The mortgages notes payable are subject to various operating covenants. In addition, Prudential Properties must periodically fund and maintain escrow accounts, to make future real estate taxes, repairs and maintenance and insurance payments. These are included in prepaid expenses and other assets. In 2004, certain mortgage notes payable were extended and converted to fixed rate debt.

Substantially all of Prudential Properties' property and equipment have been pledged as collateral for its mortgages notes payable and promissory notes payable.

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The annual aggregate scheduled maturities of long-term debt obligations outstanding as of December 31, 2004 are as follows:

Year Ending December 31	Amount
2005	$ 64,819
2006	727
2007	753
2008	37,272
	$ 103,571

In connection with the sale of the Prudential Properties (Note 8) on June 21, 2005, $96,561 of mortgage debt was repaid.

5. Management Fees — Affiliate

The Prudential Properties are managed by RSL for a fee based on 5% of gross revenue. In addition, RSL can earn an incentive fees based upon a percentage of specified net operating income, as defined. Fees paid to RSL were $803, $762, $1,690, $1,577, $3,332, $2,867, and $2,320 for the six months ended June 30, 2005 and 2004 and for the years ended December 31, 2004, 2003, and 2002, respectively.

6. Property Leasing Arrangement

One of the Prudential Properties leases a portion of the property to a skilled nursing facility operator under an operating lease. The lease provides for an initial noncancelable term through 2013 and provides for the tenant to pay their pro rata share of operating expenses and real estate taxes.

Minimum future rentals under the lease as of December 31, 2004 are as follows:

Year	Amount
2005	$ 920
2006	942
2007	966
2008	990
2009	1,015
Thereafter	4,129
	$ 8,962

7. Commitments and Contingencies

Litigation

The Prudential Properties are involved in various lawsuits and subject to various claims arising in the normal course of business. In the opinion of management, although the outcomes of these suits and claims are uncertain, in the aggregate, they are not anticipated to have a material adverse effect on Prudential Properties' business, financial condition and results of operations.

Ground Lease

One of the Prudential Properties is subject to a ground lease with an initial lease term through 2016, and two, 33-year extension options.

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Minimum future payments under the lease as of December 31, 2004 are as follows:

Year	Amount
2005	$ 1,000
2006	1,000
2007	1,000
2008	1,000
2009	1,000
Thereafter	6,958
	$ 11,958

8. Sale of Facilities

On June 21, 2005, eight of the Prudential Portfolio properties were sold to FIT REN LLC, an affiliate of Fortress Investment Group, for a total purchase price of $254,564. On July 22, 2005, the ninth facility (Ocean House) was sold to FIT REN for a purchase price of $27,883.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Alterra Healthcare Corporation:

We have audited the accompanying consolidated balance sheet of Alterra Healthcare Corporation and subsidiaries (the Predecessor Company) as of December 31, 2002, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the period from January 1, 2003 to November 30, 2003 and the year ended December 31, 2002. These consolidated financial statements are the responsibility of the Predecessor Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Predecessor Company as of December 31, 2002, and the results of their operations and their cash flows for the period from January 1, 2003 to November 30, 2003 and the fiscal year ended December 31, 2002 in conformity with U.S. generally accepted accounting principles.

As discussed in notes 1 and 2 to the consolidated financial statements, the Corporation emerged from Chapter 11 bankruptcy on December 4, 2003. Upon emergence from bankruptcy, the Corporation changed its basis of financial statement presentation to reflect the adoption of fresh start accounting in accordance with AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.

/s/ KPMG LLP

Milwaukee,Wisconsin
April 13, 2004

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ALTERRA HEALTHCARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
December 31, 2002
(In thousands, except share data)

Assets	
Current assets:	
Cash and cash equivalents	$ 13,797
Accounts receivable, net of allowance for bad debts	10,253
Assets held for sale	57,243
Prepaid expenses and supply inventory	14,672
Other current assets	12,803
Total current assets	108,768
Property and equipment, net	492,125
Restricted cash and investments	2,188
Goodwill, net	35,515
Other assets	33,509

Total assets	$ 672,105
Liabilities and Stockholders' Deficit	
Current liabilities:	
Current installments of long-term obligations, including convertible debt	$ 722,689
Current debt maturities on assets held for sale	79,108
Short-term notes payable	7,144
Accounts payable	6,812
Accrued expenses	92,151
Guaranty liability	58,500
Deferred rent and refundable deposits	14,840
Total current liabilities	981,244
Long-term obligations, less current installments	171,510
Other long-term liabilities	2,147
Redeemable preferred stock	6,132
Stockholders' deficit:	
Predecessor Company Preferred stock, Authorized 2,500,000 shares; designated 1,550,000 shares; none outstanding	—
Predecessor Company Common stock, $0.01 par value. Authorized 100,000,000 shares; issued and outstanding 22,266,262 shares	221
Predecessor Company Treasury stock, $0.01 par value. 11,639 shares	(163)
Additional paid-in capital	179,526
Accumulated deficit	(668,512)
Total stockholders' deficit	(488,928)
Total liabilities and stockholders' deficit	$ 672,105

See accompanying notes to consolidated financial statements.

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ALTERRA HEALTHCARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Periods January 1, 2003 to November 30, 2003,
and Fiscal Year Ended December 31, 2002
(In thousands)

	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Revenue:		
Resident service fees	$ 378,672	$ 413,553
Management fees	824	2,601

Miscellaneous	546	561
Operating revenue	380,042	416,715
Operating expenses (income):		
Residence operations	264,069	285,171
Bad debt provision	3,693	2,263
Lease expense	57,846	58,658
Gain on lease termination	—	(6,204)
Lease income	(3,811)	(13,755)
General and administrative	33,703	46,541
Loss (gain) on disposal of property and equipment	9,569	(22,914)
Depreciation and amortization	21,292	25,766
Impairment charges	2,859	4,773
Total operating expenses	389,220	380,299
Operating income (loss)	(9,178)	36,416
Other (expense) income:		
Interest expense, net	(29,851)	(50,556)
Amortization of financing costs	(2,648)	(4,967)
Gain on debt extinguishments	13,683	—
Gain on fresh start debt discharge	622,357	—
Convertible debt payment-in-kind (PIK) interest	(3,656)	(25,824)
Equity in losses of unconsolidated affiliates	(667)	(4,856)
Reorganization items	(28,697)	—
Fresh start accounting adjustments	(39,363)	—
Goodwill impairment loss	—	(9,487)
Total other (expense) income, net	531,158	(95,690)
(Loss) income before income taxes and the cumulative effect of a change in accounting principle	521,980	(59,274)
Income tax expense	(119)	(100)
(Loss) income from continuing operations before cumulative effect of a change in accounting principle	521,861	(59,374)
Loss on discontinued operations	(32,933)	(116,762)
Cumulative effect of change in accounting principle	—	(45,866)
Net (loss) income	$ 488,928	$ (222,002)

See accompanying notes to consolidated financial statements.

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ALTERRA HEALTHCARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Periods January 1, 2003 to November 30, 2003,
and Fiscal Year Ended December 31, 2002
(In thousands)

Predecessor Company	Common Stock, Treasury Stock, and Additional Paid-in Capital Shares Outstanding	Amounts	Accumulated Deficit	Total
Balances at December 31, 2001	22,266	179,584	(446,510)	(266,926)
Net loss	—	—	(222,002)	(222,002)
Balances at December 31, 2002	22,266	179,584	(668,512)	(488,928)
Net loss for the 11 months ended November 30, 2003	—	—	(94,066)	(94,066)
Balance prior to application of fresh start accounting	22,266	$ 179,584	(762,578)	(582,994)
Application of fresh start accounting	—	—	582,994	582,994
Cancellation of Predecessor Company equity	(22,266)	(179,584)	179,584	—
Balances at November 30, 2003 of Predecessor Company	—	—	—	—

See accompanying notes to consolidated financial statements.

ALTERRA HEALTHCARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Periods January 1, 2003 to November 30, 2003,
and Fiscal Year Ended December 31, 2002
(In thousands)

	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Cash flows from operating activities:		
Net (loss) income	$ 488,928	$(222,002)
Adjustment to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Cumulative effect of change in accounting principle	—	45,866
Gain on debt extinguishments	(13,683)	—
Gain on fresh start debt discharge	(622,357)	—
Fresh start accounting adjustments	39,363	—
Depreciation and amortization	21,292	25,766
Bad debt provision	3,693	2,263
Payment-in-kind interest	3,656	25,824

Amortization of financing costs	2,648	4,967
Loss (gain) on disposal of property and equipment	9,569	(22,914)
Impairment charges	2,859	14,260
Loss on discontinued operations	32,933	116,762
Income tax expense	119	100
Equity in losses from unconsolidated affiliates	667	4,856
Decrease (increase) in net resident receivable	(2,890)	(4,261)
Decrease in other current assets	4,269	6,057
(Decrease) increase in accounts payable	(1,932)	3,467
(Decrease) increase in accrued expenses and deferred rent	8,908	12,165
(Decrease) increase in past due interest and late fees	(1,621)	10,373
Changes in other assets and liabilities, net	1,496	(2,672)
Net cash (used in) provided by operating activities	(22,083)	20,877
Cash flows (used in) from investing activities:		
Payments for property and equipment	(6,832)	(8,544)
Net proceeds from sale of property and equipment	26,760	60,280
Proceeds from sale/leaseback transactions	62,368	39,825
Decrease in notes receivable, net of reserve	—	500
Changes in investments in and advances to unconsolidated affiliates	1,121	(159)
Purchase of joint venture partnership interests	—	(1,400)
Net cash provided by investing activities	83,417	90,502
Cash flows (used in) from financing activities:		
Repayments of short-term borrowings	(6,724)	(3,609)
Repayments of debtor-in-possession credit facility	(14,870)	—
Repayments of long-term obligations	(100,877)	(111,314)
Proceeds from issuance of debt	31,870	—
Payments for financing costs	(2,558)	(2,655)
Equity contribution	76,000	—
Net cash used in financing activities	(17,159)	(117,578)
Net (decrease) increase in cash and cash equivalents	44,175	(6,199)
Cash and cash equivalents: Beginning of period	13,797	19,996
End of period	$ 57,972	$ 13,797
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 35,739	$ 55,574
Cash paid (refunded) for reorganization items	7,298	—
Cash paid during year for income taxes	92	(333)
Noncash items:		
Notes issued in exchange for joint venture interests	—	1,000
Deconsolidated assets related to subsidiary stock transfer	—	189,221
Deconsolidated liabilities related to subsidiary stock transfer	—	174,534

See accompanying notes to consolidated financial statements.

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ALTERRA HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2003 and December 31, 2002
(In thousands)

(1) Nature of Business and Reorganization and Emergence From Chapter 11

Alterra Healthcare Corporation (when referring to both the Predecessor Company and the Successor Company the term ''Company'' is used), develops, owns, and operates assisted living residences. As of November 30, 2003, the Successor Company operated and managed 332 residences located throughout the United States with approximate capacity to accommodate 15,300 residents.

On January 22, 2003, the Predecessor Company Alterra Healthcare Corporation (hereinafter referred to as the Predecessor Company) filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware in Wilmington (the Bankruptcy Court) (Case No. 03-10254). All other subsidiaries or affiliates of the Predecessor Company were excluded from the proceeding and continued to conduct business in the ordinary course. The Predecessor Company remained in possession of its assets and properties and continued to operate its business as a debtor-in-possession under the jurisdiction and the orders of the Bankruptcy Court.

In conjunction with its Chapter 11 Filing, the Predecessor Company secured a $15.0 million debtor-in-possession (the DIP) credit facility from affiliates of certain principal holders of the Predecessor Company's payment-in-kind securities issued in the summer of 2000.

On February 4, 2003, the Office of the U.S. Trustee for the District of Delaware appointed an official committee of unsecured creditors in the Bankruptcy Case (the Creditors Committee).

On March 18, 2003, upon application of the American Stock Exchange (AMEX), the Securities and Exchange Commission struck the Predecessor Company's common stock and other securities from listing and registration on the AMEX.

On March 27, 2003, the Predecessor Company filed with the Bankruptcy Court a Plan of Reorganization (the Plan) and a Disclosure Statement Accompanying Plan of Reorganization (the Disclosure Statement). Immediately prior to the filing of its Plan and Disclosure Statement, the Company also filed a motion (the Bidding Procedures Motion) with the Bankruptcy Court seeking approval of bidding procedures with respect to the solicitation and selection of a transaction contemplating either (i) the sale of capital stock of the Company to be effective and funded upon the confirmation and effectiveness of the Plan (an Exit Equity Transaction) or (ii) the sale, as a going concern, of all or substantially all of the assets of the Company to be effective and funded upon the confirmation and effectiveness of the Plan (an Asset Sale Transaction, together with an Exit Equity Transaction, referred to herein as a Liquidity Transaction).

On July 22, 2003, the Predecessor Company executed an Agreement and Plan of Merger (Merger Agreement) with FEBC, pursuant to which FEBC would acquire 100% of the common stock of the Company upon emergence from the Chapter 11 bankruptcy proceeding. Pursuant to the Merger Agreement, FEBC would pay the Company $76.0 million of merger consideration, which may be adjusted downward in certain circumstances. FEBC would be capitalized with $76.0 million including (i) a $15.0 million senior loan to FEBC from an affiliate of Fortress Investment Trust II LLC (Fortress), a private equity fund, and (ii) $61.0 million of aggregate equity contributions. Fortress would provide approximately 75% of the equity investment to FEBC and would be entitled to appoint a majority of the directors of the Successor Company Alterra Healthcare Corporation (hereafter referred to as the Successor Company). Emeritus Corporation and NW Select LLC would provide the remaining equity capital to FEBC and would each be entitled to appoint one director. The merger consideration would be used (i) to fund costs of the Company's bankruptcy and reorganization and to provide for the working capital and other cash needs of the Successor Company and (ii) to fund a distribution to the unsecured creditors. In connection with the execution of the Merger Agreement,

Emeritus and Fortress delivered a Payment Guaranty to the Successor Company pursuant to which Emeritus and Fortress guaranteed up to $6.9 million and $69.1 million, respectively, of the merger consideration.

On July 23, 2003, the Predecessor Company presented FEBC's Merger proposal as the winning bid at a Bankruptcy Court hearing in accordance with the court-approved bidding procedures. Following the hearing, the Bankruptcy Court entered an order authorizing the Predecessor Company to execute the Merger Agreement and approving the proposed Merger as the highest and best bid at the auction conducted by the Predecessor Company on July 17, 2003.

The Predecessor Company filed an Amended Plan of Reorganization and an Amended Disclosure Statement with the Bankruptcy Court to incorporate the terms and conditions of the Merger. The Amended Disclosure Statement, voting procedures, solicitation package, and ballot forms were approved by the Bankruptcy Court on September 15, 2003. Ballots were mailed September 20, 2003, to those eligible to vote on the amended plan of reorganization. The deadline to return ballots was October 17, 2003, although the Predecessor Company requested permission from the Bankruptcy Court to accept ballots and changed ballots submitted subsequent to the original voting deadline.

On November 26, 2003, the Bankruptcy Court entered an order confirming the Predecessor Company's Second Amended Plan of Reorganization. The Successor Company emerged on December 4, 2003 (the Effective Date).

Pursuant to the Merger Agreement, the maximum distribution to holders of unsecured claims is approximately $23 million (which includes payments pursuant to settlement agreements with holders of deficiency claims), which was to be adjusted pursuant to the Merger Agreement based on working capital and the cash requirements of the Plan through the Effective Date. Certain liabilities deemed subject to compromise may have been subsequently repaid by the Successor Company, pursuant to the Plan. The following liabilities deemed subject to compromise were eliminated as of the Effective Date of the Successor Company's emergence (in thousands):

Accounts payable	$	7,319
General liability insurance reserve		13,860
Accrued interest on convertible debt and notes payable		24,202
Guaranty liability		58,500
Notes payable		16,008
Short-term notes payable		420
Payment-in-kind debentures		253,892
Original debentures		187,248
Mortgage payable and accrued interest		54,682
Redeemable preferred stock		6,226
Total liabilities subject to compromise	$	622,357

The aggregate net costs resulting from reorganization of the business have been reported in the Consolidated Statements of Operations separately as reorganization items. For the eleven months ended November 30, 2003, the following reorganization items were incurred (in thousands):

Legal and consulting fees	$ 13,899
Lender settlements	9,401
Accrued employee retention plan costs	2,967
Bankruptcy administration costs	2,430
Total	$ 28,697

(2) Fresh Start Accounting

On the Effective Date, the Successor Company adopted fresh start accounting pursuant to the guidance provided by the American Institute of Certified Public Accountant's Statement of Position

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(SOP) 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code. For financial reporting purposes, the Successor Company adopted the provisions of fresh start accounting effective December 1, 2003. In accordance with the principles of fresh start accounting, the Successor Company has adjusted its assets and liabilities to their ''fair values'' as of December 1, 2003. The Successor Company's reorganization value was determined to be equal to the cash amount paid for all of the outstanding common stock of the Successor Company plus the post emergence liabilities existing at the reorganization date. To the extent the fair value of its tangible and identifiable intangible assets net of liabilities exceeded the reorganization value, the excess was recorded as a reduction of the amounts allocated to property and equipment. The net effect of all fresh start accounting adjustments resulted in an expense of $39.4 million, which is reflected in the Predecessor Company's financial results for the 11 months ended November 30, 2003.

The amounts recorded in the consolidated balance sheet of the Predecessor Company were materially changed with the implementation of fresh start accounting. Consequently, the consolidated balance sheet of the Successor Company is not comparable to that of the Predecessor Company, principally due to the adjustment of property and equipment, deferred financing costs, deferred gains, supply inventory, goodwill, long-term debt, discharge of liabilities subject to compromise, and the recapitalization of the Successor Company.

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The effects of the application of fresh start accounting on the Predecessor Company's preconfirmation Condensed Consolidated Balance Sheet are as follows:

ALTERRA HEALTHCARE CORPORATION

REORGANIZED CONDENSED CONSOLIDATED BALANCE SHEET
December 1, 2003
(In thousands)

	Predecessor Company November 30, 2003	Debt discharge	New capital	Fresh start adjustments	Successor Company December 1, 2003
Assets					
Current assets:					
Cash and cash equivalents	$ 11,925	—	76,000(b)	(29,953)(b)	57,972
Accounts receivable, net	8,014	—	—	—	8,014
Assets held for sale	30,683	—	—	21,854(c)	52,537
Prepaid expenses and supply inventory	24,679	—	—	(9,233)(d)	15,446
Other current assets	8,919	—	—	(38)(e)	8,881
Total current assets	84,220	—	76,000	(17,370)	142,850
Property and equipment, net	385,232	—	—	7,066	392,298
Goodwill, net	32,257	—	—	(32,257)(g)	—
Other assets	36,020	—	—	(18,464)(h)	17,556
Total assets	$ 537,729	—	76,000	(61,025)	552,704
Liabilities and Stockholders' Equity					
Current liabilities:					
Current installments of long-term obligations	$ 207,027	—	—	(138,076)(i)	68,951
Current debt maturities on assets held for sale	27,157	—	—	22,057(i)	49,214
Short-term notes payable	4,595	—	—	(4,595)(j)	—
Accounts payable	4,763	—	—	117(e)	4,880
Accrued expenses	86,593	—	—	(11,816)(k)	74,777
Other liabilities	12,381	—	—	—	12,381
Total current liabilities	342,516	—	—	(132,313)	210,203
Long-term obligations, less current installments	152,950	—	—	111,306(i)	264,256
Other long-term liabilities	2,900	—	—	(655)(e)	2,245
Liabilities subject to compromise	622,357	(622,357)(a)	—	—	—
Total liabilities	1,120,723	(622,357)	—	(21,662)	476,704
Stockholders' equity (deficit)	(582,994)	622,357	76,000(b)	(39,363)	76,000
Total liabilities and stockholders' equity	$ 537,729	—	76,000	(61,025)	552,704

Adjustments reflected in the Reorganized Condensed Consolidated Balance Sheet are as follows:

(a)Liabilities subject to compromise are eliminated in accordance with the confirmed Plan.

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(b)

Cash activity includes receipt of $76.0 million of merger proceeds from FEBC reduced by repayment of the $14.9 million DIP credit facility and lender settlements in accordance with the confirmed Plan.

(c) Assets held for sale are adjusted to reflect their estimated fair value and include reclassifications from property and equipment to include those assets pending disposition in accordance with the confirmed Plan.

(d) Supply inventory is adjusted to reflect the Successor Company's accounting policy.

(e) Other assets and liabilities and accounts payable have been adjusted to reflect their estimated fair value.

(f) Net property and equipment have been adjusted to reflect their estimated fair value, reduced by negative reorganization value, and include reclassifications of assets held for sale.

(g) Goodwill has been eliminated pursuant to fresh start accounting.

(h) Deferred financing and lease costs and deferred loss on sale/leaseback were eliminated in accordance with the confirmed Plan.

(i) Current installments of long-term obligations, current debt maturities on assets held for sale, and long-term obligations have been adjusted to reflect their estimated fair value and have been reclassified to reflect appropriate classifications as of December 1, 2003. Additionally, in accordance with the confirmed Plan, the $14.9 million DIP credit facility was repaid and $10.1 million of notes payable were issued to replace the $9.4 million reserve for JV settlements discussed below in (k).

(j) Short-term notes payable were repaid with a portion of the merger proceeds in accordance with the confirmed Plan.

(k) Adjustments to accrued expenses include the repayment of lender settlements from the Merger proceeds and the replacement of the $9.4 million JV settlement reserve with $10.1 million of notes payable as discussed in (i) above in accordance with the confirmed Plan, offset by certain accruals required for bankruptcy administration costs.

(3) Summary of Significant Accounting Policies

(a) Business

Alterra Healthcare Corporation develops, owns and operates assisted living residences. As of December 31, 2002, the Company operated and managed 332 residences located throughout the United States with approximate capacity to accommodate 15,300 residents.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Results of operations of the majority-owned subsidiaries are included from the date of acquisition. All significant intercompany balances and transactions with such subsidiaries have been eliminated in the consolidation. Investments in other affiliated companies in which the Company has a minority ownership position are accounted for on the equity method.

(c) Use of Estimates

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

(d) Recent Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 107 and

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a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and application has not had a material effect on the Company's financial statements.

In December 2003, the FASB issued a revised Interpretation No. 46 (FIN 46R), Consolidation of Variable Interest Entities. This interpretation provides guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE need to be included in a company's financial statements if it meets certain criteria as defined in the interpretation. A company that holds variable interests in an entity will need to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's losses and/or receive a majority of the entity's expected residual returns, if they occur. FIN 46R also requires additional disclosures by primary beneficiaries and other significant variable interest holders. FIN 46R is effective immediately for interests in an entity subject to this interpretation created after December 31, 2003; otherwise, this interpretation is to be applied by the beginning of the first annual period beginning after December 31, 2004. The Corporation early adopted FIN 46R on September 30, 2003. Adoption did not have a material affect on the consolidated financial statements.

(e) Cash Equivalents

The Company considers all highly liquid investments with original maturities of less than ninety days to be cash equivalents for purposes of the consolidated financial statements.

(f) Supply Inventory

The Successor Company adopted a policy to expense supply inventory in the period in which the purchases are made. The Predecessor Company capitalized supply inventory associated with newly opened residences. In accordance with the confirmed Plan, all supply inventory was eliminated through fresh start accounting. The Company believes expensing supplies will not materially affect results of operations in future periods.

(g) Long-lived Assets

Property and equipment are stated at historical cost net of accumulated depreciation for the Predecessor Company. Property and equipment under capital leases are stated at the present value of minimum lease payments. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. Buildings and improvements are depreciated over 40 years, leasehold improvements over 13 years, and furniture, fixtures, and equipment are depreciated over 3 to 7 years. Maintenance and repairs are expensed as incurred. The carrying value of residences owned and operated under capital leases are periodically evaluated for impairment on the established undiscounted cash flows including the residual value of the properties. An impairment loss is recognized when the present value of estimated cash flows, including the estimated residual value, is less than the carrying amount.

Goodwill of the Company represented the costs of acquired net assets in excess of their fair market values. The Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives, and reviewed for impairment in accordance with SFAS No. 144, Accounting for

Impairment or Disposal of Long-Lived Assets.

Under the transitional provisions of SFAS No. 142, the Company identified its reporting units and performed impairment tests on the net goodwill associated with each of these reporting units. The fair

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value of the owned reporting units was determined by estimating the terminal value of the future cash flows. The fair value of the leased reporting units was determined by estimating the present value of the cash flows for the life of the lease. Based on this impairment testing, the Company recorded an impairment loss of $54.7 million in the first quarter of 2002, of which $8.8 million is associated and reported with those residences classified as discontinued operations. The impairment loss has been recorded as a cumulative effect of change in accounting principle and as loss on discontinued operations in the accompanying consolidated statements of operations for the year ended December 31, 2002. As of December 31, 2002, the Company performed its annual impairment test required by the provisions of SFAS No. 142 and an additional impairment loss of $9.5 million was identified based on revised cash flow projections. The $9.5 million annual impairment loss has been recorded in other expenses in the accompanying consolidated statements of operations for the year ended December 31, 2002. As of November 30, 2003, the Company had recorded $32.2 million of goodwill. In accordance with fresh start accounting principles, the Predecessor Company’s goodwill was eliminated effective December 1, 2003.

(h) Assets Held For Sale

Property and equipment held for sale are carried at the lower of cost or estimated fair value less costs to sell. Depreciation and amortization are suspended during the period the assets are classified as held for sale.

(i) Deferred Financing Costs

Financing costs related to the issuance of debt are capitalized and included in other assets and are amortized to interest expense using the effective-interest method over the term of the related debt. As of December 1, 2003, approximately $15.4 million of net deferred financing costs have been eliminated through fresh start accounting.

(j) Revenue

Resident service fees including move-in fees are recognized when services are rendered and are reported at net realizable amounts. Management fees are recognized in the month in which services are performed based on the terms of the management agreements in place for managed residences owned by third parties and, for the Predecessor Company only, those operated under unconsolidated joint venture arrangements. Management fees are generally earned based on a percentage of the residence’s revenues.

Miscellaneous revenue includes fees from the beauty shop, pharmacy, incontinence care program, and vending machine revenue.

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When it has been determined that it is more likely than not that a deferred tax asset will not be realized, a valuation allowance is established.

(l) Stock Options

For financial reporting purposes, the Predecessor Company applied the intrinsic value method of APB Opinion No. 25 in accounting for stock options and, accordingly, compensation cost has been recognized only for stock options granted below fair market value. Had the Predecessor Company

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determined compensation cost based on the fair value method prescribed by SFAS No. 123 the Predecessor Company's net income would have decreased or net loss would have increased as follows (in thousands):

	11 Months Ended November 30, 2003	Year Ended December 31, 2002
Net income (loss) as reported	$ 488,928	(222,002)
Compensation expense under the fair value based method	(37)	(40)
Proforma net income (loss)	$ 488,891	(222,042)

There were no options granted in 2003 or 2002.

(m) Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

(4) Joint Venture Activity

The Predecessor Company entered into the following joint venture settlements during 2002:

- In January 2002 the Company closed on the buyout of joint venture partner interests in one residence with an aggregate capacity of 42 residents in connection with a modification and settlement agreement with one investor group. The Company paid $600,000 in consideration for these acquired interests.
- In October 2002 the Company closed on the buyout of joint venture partner interests in one residence with an aggregate capacity of 40 residents. In consideration for the acquired interests the Company paid $800,000 in cash and issued a $1.0 million note.
- In December 2002 the Company entered into an agreement with one joint venture partner pursuant to which the Company agreed to purchase all the remaining joint venture interests not held by the Company in eight residences and to acquire promissory notes previously issued by the Company aggregating approximately $3.6 million in exchange for the issuance of a five year promissory note for $7.2 million from the Company. This settlement was effective with the Plan confirmation and the consummation of the merger.

The Company entered into the following joint venture settlements during 2003:

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In October 2003 the Company entered into an agreement with the Company's remaining joint venture partner group pursuant to which the Company agreed to purchase all of the remaining joint venture interests not held by the Company in 32 residences and to secure the release of the Company with respect to all claims held by these joint venture partners. Pursuant to this settlement agreement approved by the Court, the limited partners are entitled to receive from the Company an aggregate of $2.9 million of five-year promissory notes. This settlement was effective with the Plan confirmation and consummation of the merger.

(5) Assets Held for Sale

The Predecessor Company previously adopted a plan to dispose of or terminate leases on 143 residences with an aggregate capacity of 6,499 residents and 33 parcels of land. Residences included in the disposition plan were identified based on an assessment of a variety of factors, including geographic location, residence size, operating performance, and creditor negotiations.

The Predecessor Company has recorded an impairment loss on its properties held for sale whenever their carrying value cannot be fully recovered through the estimated cash flows, including net sale proceeds. The amount of the impairment loss recognized is the difference between the residence's carrying value and the residence's estimated fair value less costs to sell. The Company's

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policy is to consider a residence to be held for sale when the Company has committed to a plan to sell such residence and active marketing activity has commenced or it is expected to commence in the near term. During the year ended December 31, 2002, the Predecessor Company recognized an impairment loss of $12.9 million and reclassified as held for sale 19 residences included as part of executed deed in lieu restructuring agreements and six leased residences with pending sales. The impairment loss and revenues and expenses of those residences classified as held for sale subsequent to January 1, 2002 have been recorded as discontinued operations in the consolidated statements of operations.

As of November 30, 2003, 21 residences and five land parcels are held for sale. Assets held for sale principally comprises current assets and liabilities and net property and equipment. The corresponding mortgage liability is recorded in current debt maturities on assets held for sale. The Company expects to sell these residences and land parcels within twelve months of the date they are designated as held for sale.

The following table represents condensed operating information included in the loss on discontinued operations of the Consolidated Statements of Operations of the Company (in thousands):

	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Operating loss	$ (1,824)	(8,559)
Impairment charges	(5,213)	(12,942)
Guaranty liability	—	(58,500)

Net asset write off of former subsidiary	—	(24,060)
Gain (loss) on debt extinguishment	—	5,954
Loss on sale or disposal of residences	(25,896)	(9,826)
Cumulative effect of change in accounting principle	—	(8,829)
Loss on discontinued operations	$ (32,933)	(116,762)

There are a number of factors that may affect the timing of a sale and the sale price that will ultimately be achieved for these residences, including, among other things, the following: potential increased competition from any other assisted living residences in the area, the relative attractiveness of assisted living residences for investment purposes, interest rates, the actual operations of the residence, and the ability to retain existing residents and attract new residents. As a result, there is no assurance as to what price will ultimately be obtained upon a sale of these residences or the timing of such a sale. The estimated fair value of the assets held for sale is reflected in current assets and the outstanding debt related to the assets held for sale is reflected in current liabilities on the consolidated balance sheets.

(6) Property and Equipment

As of December 31, 2002, property and equipment comprises the following (in thousands):

	2002
Land and improvements	$ 61,490
Buildings and leasehold improvements	444,880
Furniture, fixtures, and equipment	88,457
Total property and equipment	594,827
Less accumulated depreciation and amortization	(102,702)
Property and equipment, net	$ 492,125

At December 31, 2002, property and equipment includes $88.3 million of buildings and improvements held under capital and financing leases. The related accumulated amortization totaled $8.7 million at December 31, 2002.

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(7) Unconsolidated Affiliates and Managed Residences

The Company managed certain residences operated by joint ventures in which it either had no ownership or a minority ownership position, typically less than 10%. As of December 31, 2002, the Company owned minority equity interests in entities owning or leasing (and also managed) 18 residences. Substantially all the earnings of these unconsolidated residences are included in the consolidated statements of operations. Effective September 30, 2003, the Predecessor Company early adopted FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, and based on an evaluation of the Company's unconsolidated joint ventures, the residences operating under those joint ventures have been consolidated. Included in other current assets of the Company's balance sheet are net investment in and advances to affiliates of $1.7 million as of December 31, 2002.

The results of operations of these unconsolidated and managed residences operating under joint venture arrangements for 11 months ended November 30, 2003 and 2002 are as follows (in thousands):

	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Resident service fees	$ 14,872	41,586
Residence operation expenses	10,800	30,337
Residence profit	4,072	11,249
Management fee expense	704	2,311
Financing expense	3,603	8,338
(Loss) income before tax	$ (235)	600

Financing expense on these residences includes $3.8 million and $13.8 million of lease and mortgage expense in 2003 and 2002 respectively, which represents lease income to the Company from these residences through September 30, 2003.

The Company also manages certain other residences, including residences managed as a result of the transfer of title to all the stock of its subsidiary to a third party. As of November 30, 2003 and 2002, the Company managed 17 and 29 residences, respectively.

(8) Restricted Cash and Investments

Restricted cash and investments consist of debt service reserves with interest rates ranging from 1% to 3% and maturities ranging from one to twelve months.

(9) Goodwill

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 142, ‘‘Goodwill and Other Intangible Assets,’’ having a required effective date for fiscal years beginning after December 15, 2001. Under SFAS No. 142, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives. The Company adopted SFAS No. 142 effective January 1, 2002.

Supplemental comparative disclosure as if the change had been retroactively applied to the prior period is as follows (in thousands):

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	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Reported income (loss) from continuing operations before cumulative effect of change in accounting principle	$ 521,861	(59,374)
Add: Goodwill amortization	—	—
Adjusted net income (loss) from continuing operations before cumulative effect of change in accounting principle	$ 521,861	(59,374)

(10) Other Assets

Other assets comprises the following at December 31, 2002 (in thousands):

	2002
Deferred financing costs, net	$ 18,710
Lease security deposits	7,443
Deposits and other	7,356
Total other assets	$ 33,509

(11) Long-term Debt, Capital Leases, Redeemable Preferred Stock, and Financing Obligations

Long-term debt, redeemable preferred stock, capital leases, and financing obligations comprises the following at December 31, 2002 (in thousands):

	2002
5.25% convertible subordinated debentures due December 15, 2002, originally callable by the Company on or after December 31, 2000	$ 112,043
7.00% convertible subordinated debentures due June 1, 2004, originally callable by the Company on or after June 15, 2000	40,355
6.75% convertible subordinated debentures due June 30, 2006, originally callable by the Company on or after July 15, 2000	34,850
9.75% Series A convertible debentures due May 31, 2007, originally callable by the Company on or after May 31, 2003	42,500
9.75% Series B convertible debentures due May 31, 2007, originally callable by the Company on or after May 31, 2003	155,167
9.75% Series C convertible debentures due May 31, 2007, originally callable by the Company on or after May 31, 2003	54,762
Total convertible debt	439,677
Mortgages payable, due from 2004 through 2037; weighted average interest rate of 6.46%	131,719
Capital and financing lease obligation payable through 2020; weighted average interest rate of 11.48%	76,967
Serial and term revenue bonds maturing serially from 2003 through 2013; interest rate of 7.34%	3,405
Notes payable to former joint venture partners through 2008; interest rates of 9.0%	15,286
Capital leases, financing obligations and mortgage payable in default and subject to acceleration; interest rates from 4.35% to 8.0%	306,253
Total long-term obligations	973,307
Less current installments and debt maturities on assets held for sale	801,797
Total long-term obligations, less current installments	$ 171,510

Certain of the Company’s debt agreements require the Company to maintain financial ratios, including a debt service coverage ratio and occupancy ratio. As of November 30, 2003 the Company had obtained waivers for all past defaults.

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As of December 31, 2002, the Company was in violation of various covenants with several of its credit facilities. As the Company's principal credit, lease, and other financing facilities were cross-defaulted to a material default occurring under other credit, lease, or financing facilities, a payment default by the Company under one such facility resulted in the Company being in default under other such facilities. Obligations in the amount of $306.2 million were classified as current liabilities at December 31, 2002 because the applicable lenders had the right to accelerate their loans due to the existence of a default.

The Mortgages payable are collateralized by security agreements on property and equipment guarantees by the Company. In addition, certain security agreements require the Company to maintain collateral and debt reserve funds. These funds are recorded as restricted cash and long-term investments.

The Company leases property and equipment with net book values of $88.3 million at December 31, 2002, through various capital and financing leases. See note 18 for further information.

Unsecured notes payable outstanding to former joint venture partners total $15.3 million at December 31, 2002. See note 4 for further information.

In 2000, the Company completed a financing transaction in which it issued $173.0 million of convertible debentures and convertible preferred shares to several investors, including affiliates of the Company. The securities issued were initially convertible at $4.00 per share, bear a 9.75% semi-annual payment-in-kind (PIK) coupon or dividend, and have a seven-year maturity. The Company could call the securities at any time after three years if the trading price of the Company's Common Stock averaged at least $8.00 for the preceding 30 trading days. This initial closing contemplated that the Company had the option to issue up to an additional $29.9 million of these debentures within 180 days following the May 31, 2000 closing. The Company recorded a gain on the early extinguishment of debt of $8.5 million related to its retirement of $41.4 million of convertible debt in the initial closing. On August 10, 2000, the Company exercised its option to issue the additional $29.9 million of securities, thereby increasing the overall financing transaction to a total of $203.0 million (the May 31, 2000 and August 10, 2000 closings are referred to together as the 2000 Equity-Linked Transaction). The securities issued in this transaction include the following:

(a) Series A Stock
1,250,000 shares of the Series A Stock were sold for the stated value, $4.00 per share, representing aggregate proceeds of $5 million.

(b) Series A Debentures
The $42.5 million original aggregate principal amount of 9.75% Series A convertible pay-in-kind debentures due May 31, 2007 bore PIK interest at 9.75% per annum payable semi-annually in the form of additional Series B debentures on January 1 and July 1 of each year.

(c) Series B Debentures
The $112.6 million original aggregate principal amount of 9.75% Series B convertible pay-in-kind debentures due May 31, 2007 bore PIK interest at 9.75% per annum payable semi annually in the form of additional Series B debentures on January 1 and July 1 of each year.

(d) Series C Debentures
The $42.8 million original aggregate principal amount of 9.75% Series C convertible pay-in-kind debentures due May 31, 2007 bore PIK interest at 9.75% per annum payable semi-annually in the form of additional Series C debentures on January 1 and July 1 of each year.

(12) Short-term Notes Payable

In 2001, the Predecessor Company obtained a $7.5 million Bridge Loan that had an initial six-month term, was secured by first mortgages on several residences, and originally bore interest at

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an escalating interest rate, commencing at 10% per annum. At the Company's election, the Bridge Loan was extended by an additional six months whereupon the Bridge Loan became convertible into convertible subordinated debentures of the Company having rights and terms substantially similar to the Series B 9.75% pay-in-kind convertible debentures, but having a conversion price equal to $75 per share of Series B preferred stock (a Common Stock equivalent price of $0.75 per share). The bridge lenders were entitled to participate in any transaction involving the issuance by the Company of equity or equity-linked securities during the term of the Bridge Loan. Effective March 1, 2002, the Company entered into an amendment with the bridge lenders that fixed the interest rate on the Bridge Loan at 9.0% per annum and extended the maturity date for the Bridge Loan to January 5, 2003.

(13) Accrued Expenses

Accrued expenses comprise the following at December 31, 2002 (in thousands):

	2002
Accrued salaries and wages	$ 13,520
Accrued interest	30,440
General liability insurance reserve	20,098
Accrued property taxes	6,373
Accrued vacation	4,751
Accrued workers compensation expense	955
Reserve for loss on joint venture settlements	9,407
Accrued professional fees related to bankruptcy administration	766
Other	5,841
Total accrued expenses	$ 92,151

The Company is self-insured or retains a portion of the exposure for losses related to workers compensation, healthcare benefits, and general liability costs. The reserves as of December 31, 2002 are based on claims filed and an actuarial estimate of expected losses.

(14) Stockholders' Equity

On December 10, 1998, the Company entered into a Rights Agreement with American Stock Transfer & Trust Company, as Rights Agent, pursuant to which it declared and paid a dividend of one preferred share purchase right (a Right) for each outstanding share of Common Stock. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, $0.01 par value per share (the Preferred Shares), of the Company at a price of $130.00 per one one-hundredth of a Preferred Share.

(15) Stock Options

Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. Generally, stock options had 10-year terms, vested 25% per year, and would become fully exercisable after four years from the date of grant. At December 31, 2002, 1,371,460 shares were available for grant under the Stock Option Plan. There were no options granted or exercised during 2003.

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Stock option activity during the years ended December 31, 2002 was as follows:

	Number of shares	Weighted Average Exercise Price
Balance at December 31, 2000	965,187	$ 12.65
Granted	1,000,000	1.31
Exercised	—	—
Forfeited	267,170	14.06
Balance at December 31, 2001	1,698,017	5.75
Granted	—	—
Exercised	—	—
Forfeited	569,477	1.31
Balance at December 31, 2002	1,128,540	$ 7.04

Stock options outstanding at December 31, 2002 are as follows:

Range of Exercise Prices	Number Outstanding at December 31, 2002	Average Remaining Contractual Life	Weighted Average Price	Number Exercisable at December 31, 2002	Weighted Average Price
$0.09 - 1.40	501,229	6.0	$ 1.31	167,896	$ 1.30
1.40 - 8.69	354,313	4.2	5.80	324,249	5.81
8.70 - 17.94	55,807	4.4	15.66	55,807	15.66
17.95 - 20.81	190,895	6.0	18.80	189,517	18.81
20.82 - 29.56	26,296	5.3	29.34	26,296	29.34
Total	1,128,540	5.2	$ 7.04	763,765	$ 9.57

(16) Income Taxes

The components of the provision for income taxes for the period ended November 30, 2003 and year ended December 31, 2002, are as follows (in thousands):

	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Income tax expense (benefit):		
Current:		
Federal	$ —	$ —
State	119	100
Total current	119	100
Deferred:		
Federal	—	—
State	—	—
Total deferred	—	—
Total	$ 119	$ 100

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Deferred tax assets and liabilities consist of the following at December 31, 2002 (in thousands):

	2002
Deferred tax assets:	
Net operating loss carryforwards	$ 163,566
Development write-off	2,250
Building reserve	27,352
Accrued expenses	12,593
Investment in unconsolidated affiliates	1,017
Loss contingency	22,815
Other	741
Total deferred tax assets	230,334
Less valuation allowance	(218,899)
Deferred tax assets, net of valuation allowance	$ 11,435
Deferred tax liabilities:	
Property and equipment	$ 4,550
Deferred gain on sale/leaseback	5,170
Other	1,715
Deferred tax liabilities	$ 11,435

During 2000, a valuation allowance was established because the Company was uncertain that such deferred tax assets in excess of the applicable reversing deferred tax liabilities would be realized in future years. The valuation allowance established to reduce deferred tax assets as of December 31, 2002 was $218.9 million. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The effective tax rate on income before income taxes varies from the statutory Federal income tax rate as follows:

	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Statutory rate	35.0%	35.0%
State taxes, net	4.0	4.0
Valuation allowance	(59.4)	(25.9)
PIK interest	—	(4.1)
Stock transfer	23.6	(7.1)
Other	(3.3)	(1.9)
Effective rate	(0.1)%	0.0%

The Company has approximately $419.4 million of regular net operating loss carryforwards at December 31, 2002. Any unused net operating loss carryforwards will expire commencing in years 2007 through 2022. As a result of the emergence from bankruptcy, the net operating loss carryforwards were reduced to $116.6 million. These net operating loss carryforwards are subject to limitations under Section 382 of the Internal Revenue Code.

(17) Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

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(a) Cash and Cash Equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

(b) Restricted Cash

The carrying amount approximates fair value because of the short maturity of the underlying investments. Restricted cash is classified as such because it is restricted as collateral for lease arrangements and debt service reserves.

(c) Short-term Notes Payable, Mortgages Payable, Convertible Subordinated Debentures Payable

The carrying amount of short-term notes payable approximates fair value because of the short maturity of those instruments.

The carrying amount of mortgages payable and financing obligations approximates fair value because the stated interest rates approximate fair value.

The fair value of the Company’s convertible subordinated debentures is estimated based on quoted market prices. At December 31, 2002, the Company’s convertible subordinated debentures had a book value of $187.3 million.

(18) Sale Leasebacks, Lease Commitments and Contingencies
Pursuant to the Merger Agreement, the maximum distribution to holders of unsecured claims is approximately $23 million (which includes payments pursuant to settlement agreements with holders of deficiency claims), which will be adjusted pursuant to the Merger Agreement based on working capital and the cash requirements of the Plan through the Effective Date. Certain creditors of the Company have filed requests for payment with the Bankruptcy Court. Additionally, a number of administrative claims have been filed with the Bankruptcy Court.

The Company has entered into sale/leaseback agreements with certain REITs as a source of financing the development, construction, and to a lesser extent, acquisitions of assisted living residences. Under such agreements, the Company typically sells to the REIT one or more residences at a negotiated value and simultaneous with such sale, the Company enters into a lease agreement for such residences. The initial terms of the leases vary from 10 to 15 years and include aggregate renewal options ranging from 15 to 30 years. The Company is responsible for all operating costs, including repairs, property taxes, and insurance. The annual minimum lease payments are based upon a percentage of the negotiated sales value of each residence. The residences sold in sale/leaseback transactions typically are sold for an amount equal to or less than their fair market value. The leases are accounted for as operating or capital leases with any applicable gain or loss realized in the initial sales transaction being deferred and amortized into income in proportion to rental expense over the initial term of the lease.

During 2002, the Company completed sale/leaseback transactions accounted for as a financing of 12 residences with REITs for an aggregate purchase price of $40.6 million. The proceeds of this refinancing were used principally to retire mortgage loan and accrued interest obligations.

In February 2003, the Company sold 25 residences, extinguished the related debt, and leased back the facilities under an operating lease. The Company also refinanced $6.9 million of debt secured by six residences.

As of November 30, 2003, the Company had six multi-residence portfolios leased from various REITs. These portfolios include an aggregate of 225 residences with an aggregate capacity of 9,609 beds. The Company has entered into restructuring agreements with respect to five of these leased portfolios, including amendments of certain lease covenants and terms and, in three lease facilities, the conversion of individual leases into single master leases. The cash rent due under one lease facility was modified through the application of various deposits held by the landlord to satisfy a portion of the cash rent obligation in the early years of the restructured master lease.

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The Company is required by certain REITs to obtain a letter of credit as collateral for leased residences. Outstanding letters of credit at November 30, 2003 and December 31, 2002 were $3.5 million.

In addition to leased residences, the Company leases certain office space and equipment under noncancelable operating leases with remaining initial terms of between 2 and 18 years. Rental expense on all operating leases, including residences, for the 11 month period ended November 30, 2003, and the fiscal year ended December 31, 2002 was $57.8 million, $58.7 million, respectively.

Future minimum lease payments for the next five years and thereafter under noncancelable leases at November 30, 2003, are as follows (in thousands):

	Capital	Operating
2004	$ 19,410	$ 59,673
2005	7,728	59,243
2006	7,728	58,548
2007	7,728	55,951
2008	7,728	51,308
Thereafter	142,076	508,828
Total minimum lease payment	192,398	$ 793,551
Less amount representing interest	115,431	
Long-term capital lease obligations	$ 76,967	

The minimum lease payments presented are the base rents at the initial term of the lease. The base rents may increase after the initial year on certain leases by the increase in the consumer price index and for other leases, as a percentage of increased gross revenues of the leased residence, thus the amounts being paid may be greater than the minimum lease payments.

From time to time, the Company is involved in various legal proceedings relating to claims arising in the ordinary course of its business. Neither the Company nor its subsidiaries is a party to any legal proceeding, the outcome of which, individually or in the aggregate, is expected to have a material adverse affect on the Company’s financial condition or results of operations.

(19) Subsequent Events

An additional nine residences and five land parcels were designated as assets held for sale effective December 1, 2003. In the period from December 1, 2003 to December 31, 2003, nine residences were sold or disposed of and approximately $28.6 million in debt was repaid or was assumed by the buyer.

In January 2004, the Company paid in full $17.1 million of debt outstanding as of December 31, 2003 relating to seven residences.

In January 2004, the Company’s Board of Directors approved a plan to sell an additional 13 residences. These properties are included in property and equipment at December 31, 2003 and have a net book value of $11.3 million. The estimated fair value of these properties exceeds their carrying value.

The Company terminated five residence leases and sold one land parcel subsequent to December 31, 2003. Additionally, pursuant to a prior agreement with one of the Company’s lenders, two residences were foreclosed upon. There was no significant gain or loss associated with these transactions.

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Brookdale Senior Living, Inc.

We have audited the accompanying consolidated balance sheet of CMCP – Properties, Inc. (the ‘‘Company’’) as of December 31, 2004, and the related consolidated statements of income, stockholder’s equity, and cash flows for the year then ended and for the period from January 1, 2005 through December 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CMCP – Properties, Inc. at December 31, 2004, and the consolidated results of its operations and its cash flows for the year then ended and for the period from January 1, 2005 through December 30, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Dallas, Texas
February 14, 2006

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CMCP – Properties, Inc.

Consolidated Statements of Income

	Period from January 1, 2005 through December 30, 2005	Year Ended December 31, 2004
Revenue		
Rent	$ 11,446,561	$ 10,264,866
Rent abatement amortization	(169,835)	(170,292)
Total revenue	11,276,726	10,094,574
Expense		
Interest expense:		
Borrowings secured by real estate	5,409,460	4,141,909
Issue cost amortization	324,383	325,256
Interest rate cap amortization	43,673	3,165

Line of credit fee	—	1,526
Total interest expense	5,777,516	4,471,856
Depreciation:		
Buildings	2,980,587	2,988,620
Furniture, fixtures and equipment	718,066	720,000
Total expenses	9,476,169	8,180,476
Operating income	1,800,557	1,914,098
Other revenue (expense)		
Interest on restricted cash	68,222	99,669
Interest expense – Parent	(1,460,044)	(1,676,182)
Management fee to Parent	(60,000)	(60,000)
Other operating expense	(19,084)	(34,158)
Total other revenue (expense)	(1,470,906)	(1,670,671)
Net income	$ 329,651	$ 243,427

See accompanying notes to financial statements.

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CMCP – Properties, Inc.

Consolidated Balance Sheet

	December 31, 2004
Assets	
Property:	
Land	$ 16,450,000
Buildings	119,550,497
Furniture, fixtures and equipment	3,600,000
	139,600,497
Accumulated depreciation – buildings	(7,975,319)
Accumulated depreciation – furniture, fixtures and equipment	(1,919,998)
	129,705,180
Restricted cash:	
Principal reserve funds	2,454,157
Interest rate cap reserve funds	264,162
Repair and replacement reserve fund	1,450,000
	4,168,319
Receivables and other assets	7,176,299
	$ 141,049,798
Liabilities	
Borrowings secured by real estate	$ 120,001,017
Payable to Parent	15,709,145
Accrued interest payable	115,000

	135,825,162
Stockholder's Equity	
Common stock – $0.01 par value; 1,000 shares authorized, issued and outstanding	10
Paid-in capital	5,528,686
Accumulated earnings	216,940
Accumulated other comprehensive loss	(521,000)
	5,224,636
	$ 141,049,798

See accompanying notes to financial statements.

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CMCP — Properties, Inc.

Consolidated Statements of Stockholder's Equity

	Common Stock	Paid-In Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
Balance at December 31, 2003	$ 10	$ 5,528,686	$ (26,487)	$ (233,000)	$ 5,269,209
Net income	—	—	243,427	—	243,427
Other comprehensive loss	—	—	—	(288,000)	(288,000)
Balance at December 31, 2004	10	5,528,686	216,940	(521,000)	5,224,636
Net income	—	—	329,651	—	329,651
Other comprehensive income	—	—	—	17,000	17,000
Conversion of payable to Parent to paid-in capital	—	10,254,632	—	—	10,254,632
Balance at December 30, 2005	$ 10	$ 15,783,318	$ 546,591	$ (504,000)	$ 15,825,919

See accompanying notes to financial statements.

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CMCP – Properties, Inc.

Consolidated Statements of Cash Flows

	Period from January 1, 2005 through December 30, 2005	Year Ended December 31, 2004
Operating activities:		
Net income	$ 329,651	$ 243,427
Non-cash items:		
Amortization of issue costs	324,383	325,256
Depreciation	3,698,653	3,708,620
Amortization of rent abatement	169,835	170,292
Interest rate cap amortization	43,673	3,165
Increase in principal and interest rate cap reserve funds	(1,484,759)	(1,340,989)
Net change in receivables and other assets	297,638	1,326
Increase in accrued interest payable	67,695	19,899
Net cash provided by operating activities	3,446,769	3,130,996
Investing activities:		
Net decrease in other restricted cash	1,455,764	5,866,690
Decrease in accounts receivable	777,585	245,295
Net cash provided by investing activities	2,233,349	6,111,985
Financing activities:		
Principal payments on borrowings	(225,605)	(205,197)
Decrease in payable to Parent	(5,454,513)	(9,037,784)
Net cash used in financing activities	(5,680,118)	(9,242,981)
Net change in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of year	—	—
Cash and cash equivalents at end of year	$ —	$ —

See accompanying notes to financial statements.

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CMCP – Properties, Inc.

Notes to Consolidated Financial Statements

Note 1 – Business and Sale of Entity

In May 2002 Capstead Mortgage Corporation (‘‘CMC’’ or the ‘‘Parent’’), through its qualified real estate investment trust (‘‘REIT’’) subsidiary, CMCP – Properties, Inc. (‘‘CMCP’’ or the ‘‘Company’’) acquired six ‘‘independent’’ senior living facil (collectively, the ‘‘Properties’’). The aggregate purchase price of the Properties was $139.7 million, including approximately $3.1 million in closing costs and the assumption by CMCP of $19.7 million of related mortgage debt and $101.1 million of tax-exempt bond debt. The following table summarizes information about the Properties:

Property	Location	Year Opened
Chambrel at Roswell	Roswell, GA	1987
Chambrel at Pinecastle	Ocala, FL	1987
Chambrel at Island Lake	Longwood, FL	1985
Chambrel at Montrose	Akron, OH	1987
Chambrel at Williamsburg	Williamsburg, VA	1987
Chambrel at Club Hill	Garland, TX	1987

The Properties were acquired pursuant to purchase agreements initially negotiated and executed by an affiliate of Brookdale Living Communities, Inc. (collectively with its subsidiaries, ‘‘Brookdale’’) and subsequently assigned to CMCP. Brookdale, an owner, operator, developer and manager of senior living facilities, is a majority-owned affiliate of Fortress Investment Group, LLC. Fortress Investment Group, LLC was affiliated with CMC until July 22, 2003. Concurrent with the acquisition, the Company entered into a long-term ‘‘net-lease’’ arrangement with Brookdale, under which Brookdale is responsible for the ongoing operation and management of the Properties.

On December 30, 2005, CMC sold the stock of CMCP to Brookdale for $57.5 million.

Note 2 – Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of CMCP and its subsidiaries. Intercompany balances and transactions have been eliminated. Real estate held for lease and related assets are owned by real estate subsidiaries and pledged to secure related borrowings.

Use of Estimates

The use of estimates is inherent in the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The straight-line amortization of issue costs is based on the estimated 11 years the tax-exempt bonds are expected to be outstanding. Depreciation on real estate is based on estimates of the useful lives of buildings, furniture, fixtures and equipment, which could be affected by significant adverse events or changes in circumstances and potentially lead to impairment charges.

Real Estate

Land, buildings, furniture, fixtures and equipment are carried at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the depreciable assets (40 years for buildings and five years for furniture, fixtures and equipment).

Should a significant adverse event or change in circumstances occur, management will assess if the real estate has become impaired. Real estate is evaluated for impairment if estimated operating cash flows (undiscounted and without interest charges) over its remaining useful life are less than its

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net carrying value. If impaired, the difference between net carrying value and fair value (based on standard real estate appraisal techniques) would be included in expense as an impairment charge. No impairment charges have been taken as of December 30, 2005.

Recognition of Rent on Real Estate Held for Lease

Rent is recognized on a straight-line basis over the term of the related lease. Accordingly, a three-month rent abatement at the beginning of the lease has been deferred and is being amortized over the 20-year term of the lease. As of December 31, 2004, the accumulated balance of deferred rent is $3.0 million.

Derivative Financial Instruments

The Company may from time to time acquire derivative financial instruments (‘‘Derivatives’’) for risk management purposes. These may include interest rate floors, swaps and caps, U.S. Treasury futures contracts and options, written options on financial assets or various other Derivatives available in the marketplace that are compatible with the Company’s risk management objectives. Derivatives held are recorded as assets or liabilities at fair value on the Company’s balance sheet. The accounting for changes in fair value of each Derivative held depends on whether it has been designated and qualifies as an accounting hedge, as well as the type of hedging relationship identified.

CMCP has made limited use of Derivatives during the year ended December 31, 2004 and for the period from January 1, 2005 through December 30, 2005. Included in Receivables and other assets are interest rate caps acquired in connection with the 2002 assumption and subsequent refinancing of tax-exempt bonds secured by the Properties (see NOTE 4), which are designated as an accounting hedge with changes in value considered 100% correlated to changes in expected future cash flows of the variable-rate bonds, excluding the effects of time value. Accordingly, changes in fair value are recorded in Accumulated other comprehensive income (loss).

Income Taxes

CMC and its qualified REIT subsidiaries (including the Company) have elected to be taxed as a REIT for federal income tax purposes. As a result, the Company is included in the tax return of CMC for the year ended December 31, 2004 and the period from January 1, 2005 through December 30, 2005. A REIT will generally not be subject to income tax as long as it distributes at least 90 percent of its ordinary taxable income and meets certain other requirements. Accordingly, no provision for income taxes has been made for the Company for the year ended December 31, 2004 and the period January 1, 2005 through December 30, 2005.

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Note 3 – Real Estate Held for Lease

The lease arrangement consists of a master lease covering all of the Properties and individual property-level leases (referred to collectively as the ‘‘Lease’’). The Lease has an initial term of 20 years and provides for two 10-year renewal periods. Beginning May 1, 2007, Brookdale will have the option of purchasing all of the Properties from CMCP at the greater of fair value or CMCP’s original cost, after certain adjustments. Brookdale is responsible for paying all expenses associated with the operation of the Properties, including real estate taxes, other governmental charges, insurance, utilities and maintenance, and an amount representing a cash return on CMCP’s equity in the Properties after payment of monthly debt service, subject to annual increases based upon increases (capped at 3%) in the Core

Consumer Price Index. Brookdale is responsible for changes in related debt service requirements under the terms of the Lease. The Lease qualifies as an operating lease for financial reporting purposes with future minimum rentals expected for the remainder of the lease as follows (in thousands):

2005	$ 11,447
2006	11,416
2007	11,416
2008	11,416
2009	11,416
Thereafter	140,793
	$ 197,904

Included in Receivables and other assets at December 31, 2004 was $1.2 million of rent and other receivables due from Brookdale.

Note 4 – Borrowings Secured by Real Estate

The components of Borrowings secured by real estate and related weighted average interest rates (calculated including bond issue cost amortization) were as follows as of December 31, 2004 (dollars in thousands):

	Borrowings Outstanding	Average Rate
Mortgage borrowings	$ 19,160	7.92%
Tax-exempt bonds	100,841	2.98
	$ 120,001	3.77

Mortgage borrowings consist of a fixed-rate mortgage secured by one senior living facility that matures in 2009. The tax-exempt bonds are credit-enhanced by Fannie Mae and secured by mortgages on the remaining five senior living facilities. Interest rates on the bonds adjust weekly based on the Bond Market Association Municipal Swap Index (‘‘BMA Index’’). Interest rate cap agreements with notional amounts aggregating $100.8 million, five-year terms, and cap rates equal to a 6% BMA Index, are held to provide funds to pay interest on the bonds in excess of a 6% BMA Index, should that occur. Monthly interest rate cap and principal reserve fund payments are made to the trustee for the purchase of new cap agreements in 2007 and the eventual retirement of the bonds by 2032. Held in escrow by the bond trustee as of December 31, 2004 were a total of $4.2 million in interest rate cap reserves, principal reserves and repair and replacement reserves. Included in Receivables and other assets are $2.9 million in bond issue costs net of $682,000 in accumulated amortization. Amortization expense over the next five years is estimated to be $325,000 per year.

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Weighted average effective interest rates for Borrowings secured by real estate (calculated including bond issue cost amortization) were 4.82% and 3.71% during the period from January 1, 2005 through December 30, 2005 and the year ended December 31, 2004, respectively. Related interest paid totaled $5.8 million and $4.5 million during the period from January 1, 2005 through December 30, 2005 and the year ended December 31, 2004, respectively. As of December 31, 2004, future maturities and principal reserve fund requirements for these borrowings were as follows (in thousands):

2005	$ 1,513
2006	1,617
2007	1,730
2008	1,850
2009	19,831
Thereafter	91,024
	$ 117,565

Note 5 – Management Agreement

Pursuant to a management agreement, CMC administers the day-to-day operations of the Company. CMC is at all times subject to the supervision of the Company's Board of Directors and has only such functions and authority as the Company delegates to it. CMC receives an annual basic management fee of $60,000 per year ($10,000 per property). The agreement is nonassignable except by consent of the Company and CMC. The agreement may be terminated without cause at any time upon 90 days written notice. In addition, the Company has the right to terminate the agreement upon the happening of certain specified events, including a breach by CMC of any provision contained in the agreement which remains uncured for 30 days after notice of such breach and the bankruptcy or insolvency of CMC.

CMC is required to pay employment expenses of its personnel (including salaries, wages, payroll taxes, insurance, fidelity bonds, temporary help and cost of employee benefit plans), and other office expenses, travel and other expenses of directors, officers and employees of CMC. The Company is required to pay all other expenses of operation (as defined in the agreement).

Note 6 – Payable to Parent

On January 1, 2004, the Company signed a $30 million revolving subordinated promissory note with CMC under which interest accrued on amounts payable based on the annual federal short-term rate as published by the Internal Revenue Service. This note matured January 1, 2005 and was renewed for another year. Interest of $1.5 million and $1.7 million was paid during 2005 and 2004, respectively. The note, with a balance of $10.3 million, was capitalized prior to the sale of the Company on December 30, 2005.

Note 7 – Stockholder's Equity

CMC was the sole stockholder of the Company until the Company was sold to Brookdale on December 30, 2005.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
American Retirement Corporation:

We have audited the accompanying consolidated balance sheets of American Retirement Corporation and subsidiaries (the Company) as of December 31, 2005 and 2004 and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Retirement Corporation and subsidiaries as of December 31, 2005 and 2004 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Nashville, Tennessee
February 24, 2006

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AMERICAN RETIREMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2006 (Unaudited)	December 31, 2005	December 31, 2004
ASSETS			
Current assets:			
Cash and cash equivalents	$ 84,245	$ 40,771	$ 28,454
Restricted cash	21,824	18,554	25,270
Accounts receivable, net of allowance for doubtful accounts	27,227	24,480	16,175
Inventory	1,442	1,389	1,364
Prepaid expenses	4,594	3,346	2,667
Deferred income taxes	9,378	9,795	5,645
Other current assets	12,524	15,790	8,490

Total current assets	161,234	114,125	88,065
Restricted cash, excluding amounts classified as current	10,746	9,881	24,864
Land, buildings and equipment, net	558,257	551,298	496,297
Notes receivable	33,234	32,865	18,563
Deferred income taxes	45,231	45,234	—
Goodwill	36,463	36,463	36,463
Leasehold acquisition costs, net of accumulated amortization	21,346	21,938	29,362
Other assets	78,570	67,670	55,636
Total assets	$945,081	$879,474	$ 749,250
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	$ 7,437	$ 11,978	$ 10,372
Current portion of capital lease and lease financing obligations	16,946	16,868	16,474
Accounts payable	5,825	4,902	5,937
Accrued payroll and benefits	10,169	12,599	10,125
Accrued property taxes	6,629	8,653	8,872
Other accrued expenses	9,899	12,428	9,023
Other current liabilities	8,568	9,072	8,505
Tenant deposits	4,566	4,563	4,804
Refundable portion of entrance fees	85,434	85,164	79,148
Deferred entrance fee income	37,591	38,407	33,800
Total current liabilities	193,064	204,634	187,060
Long-term debt, less current portion	117,591	134,605	125,584
Capital lease and lease financing obligations, less current portion	156,281	160,549	182,652
Deferred entrance fee income	125,112	122,417	111,386
Deferred gains on sale-leaseback transactions	86,392	89,012	98,876
Deferred income taxes	—	—	4,163
Other long-term liabilities	24,692	24,186	19,615
Total liabilities	703,132	735,403	729,336
Minority interest	12,330	11,316	14,213
Commitments and contingencies (See notes)			
Shareholders' equity:			
Preferred stock, no par value; 5,000,000 shares authorized, no shares issued or outstanding	—	—	—
Common stock, $.01 par value; 200,000,000 shares authorized, 35,286,257 (unaudited), 31,751,575 and 25,636,429 shares issued and outstanding, respectively	350	315	252
Additional paid-in capital	315,194	225,476	168,092
Accumulated deficit	(85,925)	(90,727)	(160,425)
Deferred compensation, restricted stock	—	(2,309)	(2,218)
Total shareholders' equity	229,619	132,755	5,701
Total liabilities and shareholders' equity	$945,081	$879,474	$ 749,250

See accompanying notes to consolidated financial statements.

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AMERICAN RETIREMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three months ended March 31, 2006	Three months ended March 31, 2005	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
	(unaudited)	(unaudited)			
Revenues:					
Resident and health care	$127,786	$116,653	$488,383	$443,443	$396,307
Management and development services	1,224	500	3,528	1,882	1,522
Reimbursed expenses	2,083	802	3,089	2,284	2,148
Total revenues	131,093	117,955	495,000	447,609	399,977
Costs and operating expenses:					
Cost of community service revenue, exclusive of depreciation expense presented separately below	83,454	78,301	326,504	300,797	280,808
Lease expense	15,333	15,510	60,936	60,076	46,484
Depreciation and amortization, inclusive of general and administrative depreciation and amortization of $364 (unaudited), $943 (unaudited), $1,925, $1,990, and $1,728, respectively	9,407	9,271	36,392	31,148	26,867
Amortization of leasehold acquisition costs	592	699	2,567	2,917	2,421
Loss (gain) on disposal or sale of assets	84	12	709	(41)	(23,153)
Reimbursed expenses	2,083	802	3,089	2,284	2,148
General and administrative	9,942	6,591	30,327	28,671	25,410
Total costs and operating expenses	120,895	111,186	460,524	425,852	360,985
Income from operations	10,198	6,769	34,476	21,757	38,992
Other income (expense):					
Interest expense	(4,270)	(3,557)	(15,815)	(31,477)	(53,570)
Interest income	1,626	720	4,364	2,783	2,762
Other	(214)	139	192	447	132
Other expense, net	(2,858)	(2,698)	(11,259)	(28,247)	(50,676)
Income (loss) before income taxes and minority interest	7,340	4,071	23,217	(6,490)	(11,684)
Income tax expense (benefit)	2,714	1,375	(47,530)	2,421	2,661
Income (loss) before minority interest	4,626	2,696	70,747	(8,911)	(14,345)
Minority interest in losses (earnings) of consolidated subsidiaries, net of tax	176	(71)	(1,049)	(2,406)	(1,789)
Net income (loss)	$ 4,802	$ 2,625	$ 69,698	$ (11,317)	$ (16,134)
Basic earnings (loss) per share	$ 0.14	$ 0.09	$ 2.29	$ (0.48)	$ (0.88)
Dilutive earnings (loss) per share	$ 0.14	$ 0.09	$ 2.17	$ (0.48)	$ (0.88)
Weighted average shares used for basic earnings (loss) per share data	33,798	28,899	30,378	23,798	18,278
Effect of dilutive common stock options and non-vested shares	1,098	1,801	1,746	—	—
Weighted average shares used for dilutive earnings (loss) per share data	34,896	30,700	32,124	23,798	18,278

See accompanying notes to consolidated financial statements.

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AMERICAN RETIREMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND
COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Common stock Shares	Amount	Additional paid-in capital	Accumulated deficit	Deferred Compensation	Total shareholders' equity
Balance at December 31, 2002	17,341,191	$ 173	$ 145,706	$(132,974)	$ —	$ 12,905
Net and comprehensive loss	—	—	—	(16,134)	—	(16,134)
Issuance of common stock pursuant to associate stock purchase plan	62,793	1	111	—	—	112
Issuance of common stock for conversion of convertible debentures	2,266,517	23	5,079	—	—	5,102
Balance at December 31, 2003	19,670,501	$ 197	$ 150,896	$(149,108)	$ —	$ 1,985
Net and comprehensive loss	—	—	—	(11,317)	—	(11,317)
Issuance of common stock pursuant to associate stock purchase plan	155,042	2	598	—	—	600
Issuance of common stock pursuant to employee stock option exercise, including related income tax benefit	561,988	5	2,813	—	—	2,818
Issuance of common stock for conversion of convertible debentures	4,808,898	48	11,167	—	—	11,215
Issuance of restricted stock	440,000	—	2,618	—	(2,618)	—
Amortization of restricted stock	—	—	—	—	400	400
Balance at December 31, 2004	25,636,429	$ 252	$ 168,092	$(160,425)	$(2,218)	$ 5,701
Net and comprehensive income	—	—	—	69,698	—	69,698
Issuance of common stock pursuant to secondary offering	5,175,000	52	49,878	—	—	49,930
Issuance of common stock pursuant to associate stock purchase plan	101,000	1	978	—	—	979
Issuance of restricted stock	277,000	—	2,038	—	(2,038)	—

Cancellation of restricted stock	(42,910)	—	(311)	—		(311)
Issuance of common stock pursuant to employee stock option exercise, including related income tax benefit	605,056	10	4,801	—	—	4,811
Amortization of restricted stock	—	—	—	—	1,947	1,947
Balance at December 31, 2005	31,751,575	$ 315	$ 225,476	$ (90,727)	$(2,309)	$ 132,755

See accompanying notes to consolidated financial statements.

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AMERICAN RETIREMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
Cash flows from operating activities:					
Net income (loss)	$ 4,802	$ 2,625	$ 69,698	$(11,317)	$(16,134)
Adjustments to reconcile net income (loss) to cash and cash equivalents provided by operating activities:					
Tax benefit from release of tax valuation allowance	—	—	(55,697)	—	—
Depreciation and amortization	9,999	9,970	38,959	34,065	29,288
Loss on extinguishment of debt	—	—	794	—	—
Non-cash stock-based compensation expense	1,495	218	1,947	400	—
Tax benefit from exercise of stock options	—	395	2,266	432	—
Amortization of deferred financing costs	197	96	674	4,700	2,259
Amortization of prepaid insurance	1,131	1,050	—	—	—
Non-cash interest income	(36)	—	—	—	—
Accrual of deferred interest	—	—	—	—	1,996
Amortization of deferred gain on sale-leaseback transactions	(2,961)	(2,956)	(11,815)	(10,902)	(4,960)
Loss (gain) on sale or disposal of assets	84	12	709	(41)	(23,153)
Losses (gains) from unconsolidated joint ventures	346	(66)	(6)	278	478
Deferred income taxes	2,218	(765)	(243)	(484)	1,645
Minority interest in (losses) of consolidated subsidiaries	(176)	71	1,049	2,406	1,789
Entrance fee items:					
Amortization of deferred entrance fee income	(4,639)	(4,064)	(18,264)	(17,502)	(15,423)
Proceeds from entrance fee sales-deferred income	8,789	7,805	37,404	31,992	30,588

Changes in assets and liabilities, exclusive of acquisitions and sale-leaseback transactions:					
Accounts receivable	(2,747)	334	(9,031)	(1,273)	(792)
Inventory	(53)	49	(17)	(56)	183
Prepaid expenses	(2,479)	(1,834)	(915)	1,233	188
Other assets	(216)	(609)	(2,393)	2,303	5,825
Accounts payable	923	(517)	(1,040)	1,137	(1,093)
Accrued interest	(29)	(499)	(159)	(204)	392
Other accrued expenses and other current liabilities	(7,737)	(757)	3,181	(190)	(99)
Tenant deposits	3	(9)	(331)	53	(237)
Deferred lease liability	1,094	1,249	2,638	5,285	3,472
Other liabilities	(366)	57	1,347	(3,184)	1,033
Net cash and cash equivalents provided by operating activities	9,642	11,855	60,755	39,131	17,245
Cash flows from investing activities:					
Additions to land, buildings and equipment	(13,985)	(5,679)	(36,440)	(19,262)	(16,467)
Acquisition of communities and property, net of cash acquired	—	(13,950)	(20,007)	—	—
Investment in joint ventures	(12,568)	—	(13,635)	—	—
Distributions received from joint ventures	324	—	—	—	—
Proceeds from the sale of assets	—	208	9,472	12,594	8,405
Acquisition of other assets	(118)	—	(1,000)	—	—
Investment in restricted cash	(4,150)	(3,389)	(13,617)	(22,551)	(29,734)
Proceeds from release of restricted cash	734	3,749	34,263	14,540	27,353
Net change in other restricted cash accounts	(719)	(1,181)	785	342	(391)
Issuance of notes receivable	(376)	—	(9,465)	—	(4)
Receipts from notes receivable	145	42	333	362	255
Other investing activities	—	233	908	358	112
Net cash and cash equivalents used by investing activities	(30,713)	(19,967)	(48,403)	(13,617)	(10,471)

(continued)

See accompanying notes to consolidated financial statements.

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	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
Cash flows from financing activities:					
Proceeds from the issuance of long-term debt	7,650	—	23,736	54,100	19,267
Proceeds from lease financing	—	—	—	120,500	—
Proceeds from the issuance of common stock, net of transaction expenses of $1,916 (unaudited), $3,166 (unaudited), $3,166, $0 and $0, respectively	89,854	49,934	49,930	—	—
	561	—	979	597	112

Proceeds from the issuance of stock pursuant to the associate stock purchase plan					
Proceeds from the exercise of stock options	369	540	2,545	2,389	—
Tax benefit from exercise of stock options in excess of recognized compensation cost	448	—	—	—	—
Refundable entrance fee items:					
Proceeds from entrance fee sales – refundable portion	2,896	4,996	14,895	12,069	11,202
Refunds of entrance fee terminations	(4,370)	(6,517)	(21,105)	(12,871)	(15,107)
Principal payments on long-term debt	(33,394)	(32,283)	(63,309)	(184,962)	(17,551)
Distributions to minority interest holders	(762)	(984)	(4,066)	(4,215)	(3,228)
Principal reductions in master trust liability	(244)	(285)	(1,071)	(1,234)	(1,389)
Expenditures for financing costs	(163)	(63)	(2,569)	(625)	(978)
Contingent earnouts	1,700	—	—	—	(594)
Net cash and cash equivalents provided (used) by financing activities	64,545	15,338	(35)	(14,252)	(8,266)
Net increase (decrease) in cash and cash equivalents	$ 43,474	$ 7,226	$ 12,317	$ 11,262	$ (1,492)
Cash and cash equivalents at beginning of period	40,771	28,454	28,454	17,192	18,684
Cash and cash equivalents at end of period	$ 84,245	$ 35,680	$ 40,771	$ 28,454	$ 17,192
Supplemental disclosure of cash flow information:					
Cash paid during the period for interest	$ 3,947	$ 3,771	15,608	24,338	40,449
Income taxes paid	$ 120	$ 611	5,048	4,838	1,761

Supplemental disclosure of non-cash transactions during the years ended December 31, 2005, 2004 and 2003:

During the years ended December 31, 2005, 2004 and 2003, the Company (acquired)/sold certain communities and interests in real property and improvements, and entered into and amended certain lease agreements for an aggregate (consideration) proceeds of ($10.5 million), $12.6 million and $8.4 million. In conjunction with these transactions, assets and liabilities changed as follows:

	Years ended December 31,		
	2005	2004	2003
Land, buildings and equipment (acquired) disposed	$ (59,698)	$ 16,165	$ 115,223
Other assets	6,631	(7,131)	(3,643)
Accrued interest and other liabilities	265	(6,926)	(1,597)
Refundable portion of entrance fees	631	—	—
Deferred entrance fee income	9,779	—	—
Deferred gain on sale-leaseback transaction	—	16,568	69,934
Long-term debt, including current portion	26,819	—	(168,471)
Minority interest	5,038	(6,082)	(3,041)
Cash (paid) received in conjunction with (acquisition) disposal of communities and property, net of cash received or paid	$ (10,535)	$ 12,594	$ 8,405

(continued)

See accompanying notes to condensed consolidated financial statements.

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During the years ended December 31, 2005 and 2004, contingent earn-out agreements related to three free-standing assisted living communities (which were sold and leased-back in 2002) expired. These agreements constituted continuing involvement at the time of the lease, thus the transaction was recorded as a lease financing. The expiration of these contingent earn-out agreements results in operating lease treatment for the two free-standing assisted living communities. As a result, land, buildings and equipment and debt changed as follows:

	Years ended December 31,		
	2005	2004	2003
Land, buildings and equipment	$ (5,332)	(12,420)	$ —
Lease financing obligations	5,538	12,849	—
Deferred gains on sale-leaseback transactions	(206)	(429)	—

During the year ended December 31, 2005, the Company completed a transaction with a real estate investment trust (‘‘REIT’’) pursuant to which the Company received $9.5 million in proceeds under its existing leases on two of its retirement center communities. This investment by the REIT is recorded by the Company as a refinancing of a previous $8.7 million note payable. In connection with this refinancing, the Company incurred a loss on debt extinguishment which is included as a non-cash charge in the Company's consolidated statements of cash flows for the year ended December 31, 2005.

During the years ended December 31, 2005 and 2004, the Company granted 277,000 and 440,000, respectively, shares of restricted stock. Initially measured compensation related to these grants was $1.7 million and $2.6 million, respectively, which is being amortized as compensation expense over the period of vesting. See Note 12. In addition, during the year ended December 31, 2004, the Company issued 4,808,898 shares of common stock, par value $0.01 per share, to certain holders of the Series B Notes. The holders elected to convert $10.9 million of the Series B Notes to common stock at the conversion price of $2.25 per share. During the year ended December 31, 2003, the Company issued 2,266,517 common shares, par value $0.01 per share, to holders of the Company's 10% Series B Convertible Senior Subordinated Notes (Series B Notes). The holders elected to convert $5.1 million of the Series B Notes to common stock at the conversion price of $2.25 per share. As a result, debt and equity changed as follows:

	Years ended December 31,		
	2005	2004	2003
Accrued interest	$ —	$ 383	(5,102)
Long-term debt	—	10,820	23
Common stock	—	48	5,079
Additional paid-in capital	2,034	13,773	—
Deferred compensation, restricted stock	(2,034)	(2,618)	—

Supplemental disclosure of non-cash transactions during the three months ended March 31, 2006 (unaudited) and 2005 (unaudited):

During the three months ended March 31, 2005, the Company acquired an entrance-fee continuing care retirement community and a free-standing assisted living community for approximately $14.0 million of cash (including estimated closing costs of $0.6 million) plus the assumption of various liabilities, including existing entrance fee refund obligations. As a result of the transaction, assets and liabilities changed as follows:

	Three months ended March 31,	
	2006	2005
	(unaudited)	(unaudited)
Land, buildings and equipment acquired, net	$ —	$ 26,139
Deferred entrance fee income	—	(9,779)
Refundable portion of entrance fees	—	(631)
Other	—	(1,779)
Cash paid for acquisition of community and property	$ —	$ 13,950

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AMERICAN RETIREMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Presentation

The accompanying consolidated financial statements include the accounts of American Retirement Corporation (‘‘ARC’’) and its wholly-owned and majority-owned subsidiaries (ARC and such subsidiaries being collectively referred to as the ‘‘Company’’) that operate, own and manage senior living communities. The accounts of limited liability companies, joint ventures and partnerships are consolidated when the Company maintains effective control over such entities' assets and operations, notwithstanding, in some cases, a lack of majority ownership. Under current authoritative literature, the Company consolidates the communities it manages for others if the Company has the unilateral ability to conduct the ordinary course of business of the managed communities and is the primary beneficiary of the managed entities’ operations. As a result, the Company consolidates the operating results of a managed community and a community currently under development. All significant inter-company balances and transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies and Practices

The Company principally provides housing, health care, and other related services to senior residents through the operation and management of senior living communities located throughout the United States. The communities provide a combination of independent living, assisted living and skilled nursing services. The following is a summary of the Company’s significant accounting policies.

(a) Use of Estimates and Assumptions: The preparation of the consolidated financial statements requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of land, buildings and equipment, leasehold acquisition costs, goodwill, purchase options and contingent earn-outs; valuation allowances for accounts and notes receivable and deferred income tax assets; actuarial life expectations of residents; and obligations related to employee benefits and liability claims. Actual results could differ from those estimates.

(b) Recognition of Revenue: The Company provides residents with housing and health care services through various types of agreements. The Company also receives fees for developing certain communities and managing other senior living communities owned by others.

The majority of the Company's communities provide housing and health care services through annually renewable agreements with the residents. Under these agreements, residents are billed monthly fees for housing and additional services, which are recognized as revenue under these agreements on a monthly basis as the services are provided to its residents.

Management services revenue is recorded monthly as services and administrative support under management agreements are provided to the owners and lessees of the subject communities. Such revenues are determined by an agreed formula set forth in the applicable management agreement (e.g., a specified percentage of revenues, income or cash flows of the managed community, or a negotiated fee per the management agreement).

Certain communities provide housing and health care services under various types of entrance fee agreements with residents (entrance fee communities). These agreements require new independent living residents to pay an upfront entrance fee, and may obligate the Company to provide a limited healthcare benefit in the form of future assisted living or skilled nursing housing and services during the life of the resident. These benefits generally take the form of reduced monthly or daily rates for assisted living or skilled nursing services, or a certain number of days of these services are allowed at no additional cost during each quarter or year. Each new entrance fee resident must meet certain asset and income criteria as part of these lifecare agreements.

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Generally, a portion of the entrance fee is refundable to the resident or the resident's estate upon termination of the agreement. Since termination of a resident's agreement can result under many contracts in a refund being due in less than one year, the refundable portion of these entrance fees (equal to the stated fixed minimum refund percentage) is recorded on the balance sheet as a current liability. The remaining portion of entrance fees is shown as deferred entrance fee income. While deferred entrance fee income is generally classified as a long-term liability on the balance sheet, a portion is shown as a current liability during the early years of a resident's agreement (only until the contractual provisions of the agreement decrease the potential refund to the fixed minimum percentage stated in the agreement).

The deferred entrance fee income is amortized into revenue using the straight-line method over the estimated remaining life expectancy of the resident, based upon actuarial projections. Additionally, under these agreements the residents pay a monthly service fee, which entitles them to the use of certain amenities and certain services. Residents may also elect to obtain additional ancillary services, which are also billed on a monthly basis, as the services are provided. The Company recognizes these additional fees as revenue on a monthly basis when earned.

Certain communities also provide services under a type of an entrance fee agreement whereby the entrance fee is fully refundable to the resident or the resident's estate contingent upon the occupation of the unit by the next resident, unless otherwise required by applicable state law. In this situation, the resident also shares in a percentage, typically 50%, of any appreciation in the entrance fee paid by the succeeding resident, but receives no healthcare benefit. This contingent refund is paid to the preceding resident only upon occupancy of the unit by a new, succeeding resident. Because these refunds are contingent and only payable out of subsequent entrance fee proceeds, these entrance fees are classified on the Company's consolidated balance sheet as deferred entrance fee income. Because these units can be reoccupied during the remaining life of the building and the Company's obligations continue as long as the unit can be reoccupied, these refunds are amortized into revenue on a straight-line basis over the remaining life of the building. Additionally, under these agreements the residents pay a monthly service fee, which entitles them to the use of certain amenities and services. These residents may also elect to obtain additional ancillary services, which are billed on a monthly basis, as the services are provided. The Company recognizes these additional fees as revenue on a monthly basis when earned. If residents terminate these agreements, they are required to continue to pay their monthly service fee for the lesser of a specified time period (typically one year) or until the relevant unit is reoccupied.

Resident and health care revenues are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

The Company also provides certain management services related to the development or expansion and construction management of senior living communities, for which it receives certain fees. The Company recognizes these revenues as services are rendered.

(c) Cash and Cash Equivalents: For purposes of the Consolidated Statements of Cash Flows, the Company considers highly liquid debt investments with original maturities of three months or less to be cash equivalents.

(d) Restricted Cash: Restricted cash includes cash equivalents held by lenders under loan agreements in escrow for property taxes and property improvements, operating reserves required by certain state licensing authorities and certificates of deposit, held as collateral for letters of credit or in conjunction with leasing activity and insurance requirements, as well as resident deposits. Restricted cash is determined to be short-term when the restriction requirement will expire within twelve months.

For purposes of the Consolidated Statements of Cash Flows, purchases of restricted cash instruments and proceeds from the sale or release of such instruments are presented gross if

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their expected turnover or maturity exceeds three months. Activity for restricted cash accounts which have a turnover rate of three months or less is presented net.

(e) Accounts Receivable: Accounts receivable are reported at the net invoiced amount. The allowance for doubtful accounts is the estimated amount of probable credit losses in accounts receivable. At December 31, 2005 and 2004, the allowance for doubtful accounts included in accounts receivable is $4.2 million and $3.2 million, respectively. During the year ended December 31, 2005 and 2004, the Company recorded $2.3 million and $1.9 million, respectively, of bad debt expense. The Company determines the allowance based on historical write-off experience, actual resident information and payor type. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(f) Inventory: Inventory consists of supplies and is stated at the lower of cost (first-in, first-out) or market.

(g) Land, Buildings, and Equipment: Land, buildings, and equipment are recorded at cost and include interest capitalized on long-term construction projects during the construction period, as well as other costs directly related to the acquisition, development, and construction of the communities. In accordance with the Company's policy, expenditures related to maintaining and enhancing communities under its control are capitalized where such expenditures exceed $500 and enhance the value of or increase the economic life of the underlying asset. Maintenance, repairs and betterments that do not enhance the value of or increase the life of the assets are expensed as incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over 15 to 40 years, and furniture, fixtures and equipment are depreciated over three to seven years. Assets under lease financings and leasehold improvements are amortized over the shorter of their useful life or remaining base lease term. Construction in progress includes costs incurred related to the development, construction or remodeling of senior living communities. If a project is abandoned or delayed, any costs previously capitalized are measured for impairment and expensed accordingly.

(h) Purchase Options: Purchase options to acquire property are recorded at their cost and, upon exercise, are applied to the cost of the property at the time of acquisition. Nonrefundable purchase options are expensed when they expire or when the Company determines it is no longer probable that the property will be acquired. If the Company determines at some future time that it no longer intends to exercise these options, that it will transfer them for other consideration, or that their value is impaired, a loss would be recorded at that time.

(i) Notes Receivable: Notes receivable are recorded at cost, less any related allowance for impairment. Impairment losses are included in the allowance for doubtful accounts through a charge to bad debt expense. Management considers a note to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the note agreement.

(j) Goodwill: Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires intangible assets with definite useful lives be amortized over their respective useful life to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. As of March 31, 2006 (unaudited) and December 31, 2005 and 2004, the Company had $36.5 million of goodwill.

(k) Leasehold Acquisition Costs: Leasehold acquisition costs consist primarily of costs incurred in conjunction with entering into certain new leases and for costs incurred for the acquisition of

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lease rights from previously managed special purpose entity communities. These costs provide the Company the opportunity to lease the communities. Leasehold acquisition costs are amortized principally on a straight-line basis over the remaining contractual or expected life of the related lease agreements if shorter.

(l) Other Assets: Other assets consist primarily of security deposits, unexercised nonrefundable purchase options, deferred financing costs, costs of acquiring lifecare contracts, deferred entrance fee receivables, contingent earn-outs, investments in joint ventures and investments in leased communities. Deferred financing costs are amortized using the straight-line method over the terms of the related debt agreements. Costs of acquiring initial lifecare contracts are amortized over the life expectancy of the initial residents of a lifecare community. Nonrefundable purchase options to acquire property are recorded at their cost and, upon exercise, are applied to the cost of the property acquired. Contingent earn-outs represent management's estimate of additional sale proceeds to be received from the counterparty in certain sale lease-back transactions which were accounted for as financing transactions. Management periodically assesses the recoverability of the recorded balances of contingent earn-outs and adjusts the carrying amount to its revised estimate with a corresponding increase or decrease to interest expense. Investments in leased communities represent the Company's investment in two retirement centers and one free-standing assisted living community and are accounted for using the equity method.

(m) Accounting for Interests in Joint Ventures: The Company makes a determination whether it holds a controlling interest in joint ventures is which it has only partial ownership. In cases where it has a majority or controlling ownership, the entity is consolidated with an adjustment for the minority interest of the third parties. When the Company owns a non-controlling minority interest (since other partners or members control or participate in the management decisions of these entities), the investments are accounted for under the equity method. The investments are recorded at cost and subsequently adjusted for equity in net income (losses) and cash contributions and distributions. The Company recognizes profits on sales of services to these entities to the extent of the ventures' outside ownership interest. The Company recognizes an impairment loss when there is a loss in the value in the equity method investment which is deemed to be an other-than-temporary decline. See Note 8. In the case of ventures which are considered to be variable interest entities, the Company will consolidate the results of these ventures in accordance with FIN No. 46R, Consolidation of Variable Interest Entities, if it is the primary beneficiary.

(n) Lease Classification: The Company, as the lessee, makes a determination with respect to each of these leases whether they should be accounted for as operating or financing leases. The Company bases its classification criteria on estimates regarding the fair value of the leased community, minimum lease payments, the Company's effective cost of funds, the economic life of the community and certain other terms in the lease agreements. Lease expense attributable to communities under operating leases is recognized on a straight-line basis over the base lease term. Contingent rent that depends on factors directly related to the future use of leased property is accrued when it is deemed probable such amounts will be due. For communities under financing obligation arrangements, a liability is established on the balance sheet based on either the present value of the lease payments or the gross proceeds received and a corresponding long-term asset is recorded. Lease payments are allocated between principal and interest on the lease obligation and the lease asset is depreciated over the term of the lease. In addition, the Company depreciates assets under lease financings and amortizes leasehold improvements over the shorter of their economic life or the base lease term. Sale lease-back transactions are recorded as lease financing obligations when the transactions include a form of continuing involvement, such as purchase options or contingent earn-outs.

Certain of these leases provide for various additional lease payments, as well as renewal options. Many of these leases contain fixed or formula based rent escalators. To the extent that the formula based escalator is based on a fixed rate increase, lease payments are accounted for

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on a straight-line basis over the life of the lease. In addition, the Company recognizes all rent holidays in operating leases on a straight-line basis over the lease term, including the rent holiday period.

(o) Other Liabilities: The Company periodically reviews the adequacy of its accruals related to general and professional liability, workers' compensation, employee medical claims and other claims on an ongoing basis, using historical claims, third party administrator estimates, advice from legal counsel and industry loss development factors.

(p) Obligation to Provide Future Services: Under the terms of certain entrance fee contracts, the Company is obligated to provide future lifecare services to its residents. The Company, through the use of external advisors, periodically calculates the present value of the net cost of future services and use of facilities and compares that amount with the present value of future resident cash inflows. If the present value of the net cost of future services and use of facilities exceeds discounted future cash inflows, a liability will be recorded with a corresponding charge to income. As of March 31, 2006 (unaudited) and December 31, 2005 and 2004, the Company did not have a liability associated with its obligation to provide future services and use of facilities.

(q) Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are recorded using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to adjust net deferred tax assets to the amount which management believes will more likely than not be recoverable. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(r) Earnings per Share: Basic and diluted earnings per share for the three years ended December 31, 2005, 2004 and 2003 and the three months ended March 31, 2006 (unaudited) and 2005 (unaudited) have been computed on the basis of the weighted average number of shares outstanding. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. During the three months ended March 31, 2006 and 2005 and the year ended December 31, 2005, there were approximately 1.9 million (unaudited), 2.1 million (unaudited) and 2.1 million options, respectively, to purchase shares of common stock which had an exercise price below the average market price of the common shares outstanding on a weighted average basis. All options outstanding during the years ended December 31, 2004 and 2003 were excluded from the computation of diluted earnings per share for such periods because of net losses during those periods.

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A computation of diluted earnings (loss) per share is as follows (in thousands):

	Three months ended March 31,		For the year ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
Net income (loss)	$ 4,802	$ 2,625	$ 69,698	$ (11,317)	$ (16,134)
Weighted average shares used for basic earnings per share data	33,798	28,899	30,378	23,798	18,278

Effect of dilutive common securities:					
Employee stock options and non-vested stock	1,098	1,801	1,746	—	—
Weighted average shares used for diluted earnings per share data	34,896	30,700	32,124	23,798	18,278
Basic income (loss) per share	$ 0.14	$ 0.09	$ 2.29	$ (0.48)	$ (0.88)
Effect of dilutive securities	—	—	(0.12)	—	—
Diluted income (loss) per share	$ 0.14	$ 0.09	$ 2.17	$ (0.48)	$ (0.88)

The Company had 28,000 (unaudited), 111,000 (unaudited) and 28,000 options outstanding during the three months ended March 31, 2006 and 2005 and the year ended December 31, 2005, respectively that were excluded from the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive. All options outstanding during the year ended December 31, 2004 and 2003 were excluded from the computation of diluted earnings per share for such periods because of net losses during these periods.

During 2004 and 2003, the Company elected to redeem the balance of its 10% Series B Convertible Senior Subordinated Notes due 2008 (Series B Notes). The notes were not included in the computation of diluted earnings per share for the year ended December 31, 2004 and 2003 as the effect would be anti-dilutive.

(s) Stock-Based Compensation: In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Accounting for Share Based Payment, an amendment to SFAS No. 148, Stock-Based Compensation — Transition and Disclosure and a revision to SFAS No. 123, Accounting for Stock-Based Compensation (''SFAS No. 123(O)''). SFAS No. 123(R) requires alternative methods of transition for the change to the fair value method of accounting for stock-based employee compensation and is effective as of the beginning of the first annual period that begins after June 15, 2005. The impact of the adoption of SFAS No. 123(R) is discussed in Note 2(z) to these consolidated financial statements.

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25, to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123(O) established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. The following table illustrates the effect on net income (loss) if the fair-value-based method had been applied to all outstanding and unvested awards in each period.

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	For the year ended December 31,		
	2005	2004	2003
Net income (loss), as reported	$ 69,698	$ (11,317)	$ (16,134)
Add: Stock based compensation included in net income	1,913	400	—
Deduct total stock-based employee compensation expense determined under fair-value-based method, net of tax	(3,295)	(1,346)	(557)
Pro forma net income (loss)	$ 68,316	$ (12,263)	$ (16,691)
Income (loss) per share:			
Basic – as reported	$ 2.29	$ (0.48)	$ (0.88)

Diluted – as reported	$	2.17	$	(0.48)	$	(0.88)
Basic – pro forma	$	2.25	$	(0.52)	$	(0.91)
Diluted – pro forma	$	2.13	$	(0.52)	$	(0.91)

(t) Fair Value of Financial Instruments: The carrying amount of cash and cash equivalents approximates fair value because of the short-term nature of these accounts and because amounts are invested in accounts earning market rates of interest. The carrying value of restricted cash, accounts receivable, debt associated with assets held-for-sale and accounts payable approximate their fair values because of the short-term nature of these accounts. The carrying value of notes receivable and debt approximates fair value as the interest rates approximate the current rates available to the Company. The interest rate swap is carried at fair value.

(u) Derivative Financial Instruments: The Company recognizes all derivatives as either assets or liabilities, measured at fair value, in the consolidated balance sheets. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it.

At December 31, 2005 and 2004, the Company's derivative financial instruments consisted of one interest rate swap agreement accounted for as a hedge against changes in the fair value of certain debt liabilities. The notional amount of the agreement is $34.8 million and matures on July 1, 2008. Under the terms of the agreement, the Company receives a fixed rate payment of 6.87% on the respective debt (balance at December 31, 2005 was $32.9 million), but pays a floating rate stated by the swap agreement based on LIBOR and a foreign currency index, with a maximum rate of 8.12%. The fair value of the remaining interest rate swap as of December 31, 2005 and 2004 was a $0.8 million and a $0.9 million liability, respectively. Subsequent changes in the fair values of the interest rate swap are recorded in earnings.

(v) Impairment of Long-Lived Assets: In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets, such as property and equipment, and certain identifiable intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are separately presented on the balance sheet as held-for-sale and reported at the lower of the carrying amount or fair value less the costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are presented separately in the appropriate asset and liability section of the balance sheet.

(w) Comprehensive Income (Loss): During 2005, 2004 and 2003, the Company's only component of comprehensive income (loss) was net income (loss).

(x) Segment Disclosures: The Company operates in three reportable business segments: retirement centers, free-standing assisted living communities and management services.

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(y) Reclassifications: Certain amounts have been reclassified to conform to fiscal 2005 presentation.

(z) Recently Issued Accounting Standards:

In December 2004, the FASB issued SFAS No. 153, ‘‘Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29.’’ The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005, while early application was permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after December 2004. The Company adopted the provisions of SFAS No. 153 on April 1, 2005.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (‘‘FIN No. 47’’). FIN No. 47 clarifies that the term, conditional asset retirement obligation as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional upon a future event that may or may not be within the control of the entity. Even though uncertainty about the timing and/or method of settlement exists and may be conditional upon a future event, the obligation to perform the asset retirement activity is unconditional. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred generally upon acquisition, construction, or development or through the normal operation of the asset. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of FIN No. 47 had no material effect on the Company’s financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, ‘‘Accounting Changes and Error Corrections’’, a replacement to APB Opinion No. 20, ‘‘Accounting Changes’’ and SFAS No. 3, ‘‘Reporting Accounting Changes in Interim Financial Statements.’’ SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. Additionally, SFAS No. 154 carries forward the guidance in APB Opinion No. 20 for reporting the correction of an error, a change in accounting estimate and requires justification of a change in accounting principle. This pronouncement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and accordingly, the Company will adopt SFAS No. 154 in the first quarter of 2006.

In June 2005, the Emerging Issues Task Force (‘‘EITF’’) reached a consensus on Issue No. 05-06, Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination (‘‘EITF 05-06’’). EITF 05-06 concludes that the amortization period for leasehold improvements acquired in a business combination and

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leasehold improvements that are in service significantly after and not contemplated at the beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date of inception. As of December 31, 2005, this pronouncement had no material effect on the Company’s financial position, results of operations or cash flows.

In June 2005, the EITF reached consensus in EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, to provide guidance on how general partners in a limited partnership should determine whether they control a limited partnership and therefore should consolidate it. The EITF agreed that the presumption of general partner control would be overcome only when the limited partners have either of two types of rights. The first type, referred to as kick-out rights, is the right to dissolve or liquidate the partnership or otherwise remove the general partner without cause. The second type, referred to as participating rights, is the right to effectively participate in significant decisions made in the ordinary course of the partnership’s business. The kick-out rights and the participating rights must be substantive in order to overcome the presumption of general partner control. The consensus is effective for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified subsequent to the date of FASB ratification (June 29, 2005). For existing limited partnerships that have not been modified, the guidance in EITF 04-5 is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of EITF 04-5 will have a material effect on its financial position, results of operations or cash flows.

On October 6, 2005, the Financial Accounting Standards Board (‘‘FASB’’) released FASB Staff Position (‘‘FSP’’) FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period. This FSP affects companies that are engaged in construction activities on buildings or grounds, which are accounted for as operating leases. The FSP requires companies to expense rental costs associated with these leases starting on the date that the tenant is given control of the premises. As a result, companies must cease capitalizing rental costs during construction periods. The FSP is effective for the first reporting period beginning after December 15, 2005. Retrospective application is permitted but not required. The January 1, 2006 adoption of FSP FAS 13-1 did not have a material effect on the Company's financial position, results of operations or cash flows for the period, however, the accounting related to future acquisition activity could be affected by the provisions of this statement.

In December 2004, the FASB issued SFAS No. 123 (Revised), Share-Based Payment (‘‘SFAS No. 123(R)’’). This standard revises SFAS No. 123, APB No. 25 and related accounting interpretations, and eliminates the use of the intrinsic value method. This standard requires the expensing of all stock-based compensation, including stock options, using the fair value based method. In April 2005, the Securities and Exchange Commission (‘‘SEC’’) issued a release that amends the compliance dates for SFAS 123(R), which requires us to apply SFAS No. 123(R) as of January 1, 2006. The Company has adopted SFAS No. 123(R) as of January 1, 2006.

SFAS 123(R) requires public companies to adopt its requirements using either the ‘‘modified prospective’’ or the ‘‘modified retrospective’’ method. The ‘‘modified prospective’’ method requires the recognition of compensation cost beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 as originally issued (‘‘SFAS No. 123(O)’’) for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. The ‘‘modified retrospective’’ method includes the requirements of the modified prospective method described above, but also permits the Company to restate, based on the amounts previously recognized under SFAS No. 123(O) for purposes of pro forma disclosures, either (a) all prior periods presented or (b) prior interim periods of the year of adoption. The Company has elected to expense its share-based payments using the modified prospective transition method prescribed in SFAS No. 123 (R).

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As permitted by SFAS No. 123(O) and through December 31, 2005, the Company accounted for share-based payments to employees using APB No. 25's intrinsic value method and, since prior grants were generally issued with an exercise price equal to the market price of our common stock on the date of grant, recognized no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. Had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123(O) as described in the disclosure of pro forma net income and earnings per share in Note 2(s) to these consolidated financial statements.

As of December 31, 2005, the Company had approximately 0.8 million unvested options outstanding that will be expensed over the applicable remaining requisite service period. The total fair value of these unvested outstanding options is approximately $1.9 million, net of deferred tax benefits of approximately $0.6 million, of which $0.7 million will be expensed during fiscal 2006, net of $0.1 million of deferred tax benefits. As shown on the following table, the total estimated impact of the adoption of SFAS No. 123(R) and total expense related to all stock-based compensation plans for the year ending December 31, 2006 is expected to approximate $1.5 million and $4.1 million, respectively (amounts shown below in millions):

Unvested options[(1)]	$ 0.8
Estimated fiscal 2006 option grants	1
Associate Stock Purchase Plan	0.2
Estimated deferred tax benefits	(0.5)
Total estimated expense associated with adoption of SFAS No. 123R	1.5
Restricted stock, net of estimated deferred tax benefits	2.6
Total estimated fiscal 2006 stock compensation expense	$ 4.1

(1) Relates to the expense associated with unvested options outstanding prior to the adoption of SFAS No. 123R.

SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Because the timing of these cash flows are directly dependent upon when employees exercise stock options, the Company cannot reliably estimate the impact of this change to its statements of cash flows.

The weighted average fair value of options granted during 2005, 2004 and 2003 was $6.89, $2.40, and $1.02, respectively. Considering 2005 market trends, we expect this average to continue to increase. The Company had 0.8 million and 0.7 million unvested options outstanding at December 31, 2005 and 2004, respectively.

Other recent accounting pronouncements issued did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

(aa) Share-Based Payment (Unaudited)

On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) requiring the measurement and recognition of all share-based compensation under the fair value method. The Company implemented SFAS No. 123(R) using the modified prospective transition method.

Accordingly, for the three months ended March 31, 2006, the Company recognized share-based compensation for all current award grants and for the unvested portion of previous award grants based on grant date fair values. Prior to 2006, the Company accounted for share-based awards under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to

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Employees, and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25, to account for its stock option plans. Under this method, compensation expense was generally recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Prior period financial statements have not been adjusted to reflect fair value of share-based compensation expense under SFAS No. 123(R).

As permissible under SFAS No. 123(R), the Company changed its method of expense attribution for fair value share-based compensation from the accelerated approach to the straight-line approach for all new awards granted. The Company anticipates that the straight-line method will provide a more meaningful measure of costs incurred as options are generally granted with vesting provisions that are subject to time-based vesting requirements. At January 1, 2006, there was no unrecognized compensation for share-based awards granted prior to the adoption of SFAS No. 123(R) that will be required to be recognized under the accelerated method.

The Company uses historical data and projections to estimate expected employee behaviors related to option exercises and forfeitures. SFAS No. 123(R) requires that forfeitures be included as part of the grant date estimate. The cumulative effect of forfeitures related to previous SFAS No. 123 pro forma expense was not material. Prior to adopting SFAS No. 123(R), the Company reduced share-based compensation expense when forfeitures occurred.

The Company estimates the fair value of each stock option award on the grant date using the Black-Scholes-Merton valuation model incorporating the assumptions noted in the following table. Option valuation models require the input of highly subjective assumptions, and changes in assumptions used can materially affect the fair value estimate. Expected volatility and dividends are based on implied and historical factors related to the Company's common stock. Expected term represents the estimated weighted-average time between grant and employee exercise. Risk-free rate is based on U.S. Treasury rates appropriate for the expected term. The following table reflects pro forma information for the period ended March 31, 2005 had the Company applied the fair-value provisions of SFAS 123.

	Three Months Ended March 31,	
	2006	2005 (pro forma)
Option valuation assumptions:		
Dividend yield	—	—

Expected volatility	55.2%	66.7%
Risk-free interest rate	4.5%	2.3%
Weighted-average expected term of options granted	4.8 years	3.0 years
Weighted-average grant date fair value per share- options granted	$15.54	$5.61
Total intrinsic value of options exercised during the period (in millions)	$1.1	$1.1
Total fair value of restricted shares vested during the period (in millions)	$1.1	$0.2

Stock-based compensation awards are granted under the American Retirement Corporation 1997 Stock Incentive Plan (‘‘the 1997 Plan’’). In 1997, the Company adopted a stock incentive plan (the ‘‘1997 Plan’’). The 1997 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 1997 Plan include the Company's non-employee directors, employees, officers, and consultants. The options generally expire ten years from the date of grant and vest ratably over a three-year period. The exercise price of options granted to employees under the 1997 Plan was equal to the fair value of the Company's common stock on the option grant date. As of March 31, 2006, 1.0 million shares of unissued common stock remain reserved for future grants under the 1997 Plan.

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Stock Options

A summary of the Company's stock option information at December 31, 2005 and activity for the three months ended March 31, 2006 is presented below (shares in thousands) (weighted average remaining contractual term in years):

Options	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Weighted Average Grant-Date Fair Value	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2005	1,937	$ 4.43	$ 36.2		6.84
Granted	72	26.56	—	$ 15.54	
Exercised	(58)	6.67	1.1	2.62	
Forfeited	(24)	11.23	0.3	5.15	
Outstanding at March 31, 2006	1,927	7.12	35.6		6.68
Exercisable at March 31, 2006	1,219	4.80	25.4		

At March 31, 2006 and December 31, 2005, the Company had 0.6 million and 0.8 million unvested options outstanding at a weighted average grant-date fair value of $4.31 and $4.06, respectively. During the three months ended March 31, 2006, 0.1 million options vested at a weighted average grant-date fair value of $2.48 million.

Restricted Stock

On September 22, 2005, the Company granted certain members of management a total of 277,000 shares of performance-based non-vested stock. One-third of shares underlying the grant vested on March 31, 2006, and the remainder will vest in two equal tranches on March 31, 2007 and March 31, 2008, subject to continued employment and the Company's achievement of certain performance targets. The first tranche was subject to ‘‘variable’’ accounting rules under APB No. 25. As a result, compensation expense related to these grants was recognized as the shares vested and varied with changes in the Company's stock price prior to the January 1, 2006 adoption of SFAS No. 123(R). In accordance with the provisions of SFAS No. 123(R), the Company expensed the remainder of the unvested shares over the vesting term based on the $18.23 grant-date fair value beginning January 1, 2006. Compensation expense for the three months ended March 31, 2006 is representative only of the first tranche that vested on March 31, 2006. Compensation expense on the second and third tranches will be recognized on a straight-line basis over the respective requisite service periods.

On July 19, 2004, the Company granted certain members of management a total of 440,000 shares of restricted stock. This stock had a $5.95 market value at the date of grant and vests ratably over a period of three years from the grant date, subject only to continued employment. Compensation expense related to the 2004 grant was considered ‘‘fixed’’ under the provisions of APB No. 25 and is treated in a similar manner under SFAS No. 123(R). Compensation expense related to this grant will be recognized on a straight-line basis over the remaining requisite service period. Approximately 280,000 shares related to this grant remain unvested at March 31, 2006.

The following table compares total share-based compensation expense for the three months ended March 31, 2006 and 2005 (in thousands):

	Three Months Ended March 31,	
	2006	2005
Total share-based compensation expense	$ 1,495	$ 218
Tax benefit	(428)	—
Total share-based compensation, net of tax	$ 1,067	$ 218

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The following table compares the net income for the three months ended March 31, 2006 reflecting SFAS No. 123(R) share-based compensation of $1,067, net of tax, reported in the current quarter compared to the March 31, 2005 pro forma SFAS No. 123 fair value compensation of $28 thousand, net of tax, and reported APB No. 25 intrinsic value compensation of $0.2 million, net of tax, consisting of restricted stock amortization (in thousands, except per share amounts).

	Three Months Ended March 31,	
	2006	2005
Reported net income	$ 4,802	$ 2,625
Additional pro forma stock-based compensation, net of tax	—	(28)

Comparative net income	$ 4,802	$ 2,597
Basic earnings per share as reported	0.14	0.09
Basic earnings per share (prior year pro forma)	0.14	0.09
Diluted earnings per share as reported	0.14	0.09
Diluted earnings per share (prior year pro forma)	0.14	0.09

At March 31, 2006, $7.4 million of unrecognized stock-based compensation expense for all outstanding unvested stock options and restricted stock is expected to be recognized over a weighted average period of 2.1 years.

Prior to the adoption of SFAS No. 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash inflows in the condensed consolidated statements of cash flows, in accordance with the provisions of the Emerging Issues Task Force (‘‘EITF’’) Issue No. 00-15, Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option. SFAS No. 123(R) requires the benefit of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. This amount is shown as ‘‘tax benefit from exercise of stock options in excess of recognized compensation cost’’ on the unaudited condensed consolidated statement of cash flows. This requirement reduced net operating cash flows and increased financing cash flows by $0.4 million for the three months ended March 31, 2006. Had SFAS No. 123(R) been adopted on January 1, 2005, net operating cash flows would have been reduced by $0.4 million and net financing cash flows would have increased by $0.4 million for the three months ended March 31, 2005. Prior period results have not been restated to conform to current period presentation.

In accordance with APB No. 25, the Company presented the unamortized expense associated with the restricted stock grants as an offsetting amount to additional paid in capital. This ‘‘gross up’’ presentation is prohibited under SFAS No. 123(R) since the full fair value of share-based payments is not recognized until the associated instrument vests. As a result, the Company discontinued this method of accounting and reclassified the unamortized expense into additional paid-in capital on January 1, 2006. This reclassification had no impact to the Company's financial position, results of operations or cash flows.

(3) Restricted Cash

The composition of restricted cash at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Held by trustee under agreement:		
Certificates of deposit	$ 8,859	$ 18,122
Cash and other short-term investments	19,576	32,012
	28,435	50,134
Less long-term restricted cash	9,881	24,864
Short-term restricted cash	$ 18,554	$ 25,270

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The certificates of deposit are pledged to a variety of parties for various reasons such as state requirements (primarily for entrance fee communities), collateral for various self-insurance programs, and collateral to support the Company’s lease obligations. The Company recognizes interest income on these certificates of deposit when earned.

(4) Other Current Assets

A summary of other current assets at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Lifecare receivables	$ 4,158	$ 2,587
Income tax receivable	2,843	969
Contingent earn-outs receivable	5,259	1,359
Other current assets	3,530	3,575
Total current assets	$ 15,790	$ 8,490

Contingent earn-out receivables relate to a 2003 sale lease-back transaction with a third party buyer. The earn-out provisions of the related lease agreements specify certain criteria that must be met to receive the earn-out consideration. Based upon the Company's review of the earn-out performance criteria, the Company believes that these estimates are realizable, however management periodically assesses the recoverability of the recorded balances and adjusts the carrying amount of these assets when necessary. During 2005, an earn-out was reclassified from a long-term receivable to a current receivable as a result of its October 31, 2006 expiration.

(5) Land, Buildings, and Equipment

A summary of land, buildings, and equipment at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Land and improvements	$ 42,225	$ 26,634
Land held for development	4,301	7,451
Buildings and improvements	534,550	492,309
Furniture, fixtures, and equipment	54,731	50,019
Leasehold improvements	15,532	13,077
	651,339	589,490
Less accumulated depreciation	(122,359)	(98,687)
Construction in progress	22,318	5,494
Total	$ 551,298	$ 496,297

The schedule above includes assets related to nine communities at December 31, 2005 and ten communities at December 31, 2004 that were accounted for as lease financing obligations. At December 31, 2005 and 2004, respectively, the schedule above includes: land improvements of $2.7 million and $1.8 million, buildings and improvements of $182.7 million and $187.6 million, furniture, fixtures, and equipment of $10.2 million and $9.9 million, leasehold improvements of $0.9 million and $0.5 million related to capital lease or lease financing obligations. At December 31, 2005 and 2004, the Company's accumulated depreciation related to these assets totaled $37.0 million and $21.6 million, respectively.

Depreciation expense was $35.8 million, $30.7 million, and $26.4 million for the years ended December 31, 2005, 2004, and 2003, respectively.

(6) Notes Receivable

During 2005, the Company entered into a 15-year management agreement with ASF of Edmond, LLC, an affiliate of American Seniors Foundation (''ASF''), to manage a not-for-profit community in Edmond, Oklahoma that ASF recently acquired.

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The Company facilitated ASF's $9 million acquisition by providing a $6.0 million, 4.5 year senior mortgage loan bearing interest at one month LIBOR plus 4%, and a $4.5 million, 15-year junior mortgage loan bearing interest at 12.5%, both of which are fully collateralized by the assets of the facility. It is ASF's intention to replace the interim financing with permanent tax-exempt financing at the appropriate time. At December 31, 2005, the Company has $9.5 million outstanding under these notes, which approximates current fair value.

On December 12, 2005, the Company entered into a transaction with ASF of Green Hills, LLC, an affiliate of ASF, pursuant to which the Company entered into a management services agreement to manage the development and construction of ASF’s rental assisted living community in Nashville, Tennessee, and subsequently manage the operations of the community. ASF’s total development cost of the project is estimated to be approximately $32.3 million. The Company agreed to provide certain initial financing to ASF, by providing a $32.3 million loan to ASF, which will be advanced by the Company primarily over the next twelve months. The loan is evidenced by a construction loan agreement and two promissory notes and is secured by a first mortgage lien. A $26.3 million promissory note receivable matures on December 12, 2010 and bears interest at a variable rate equal to one month LIBOR plus 250 basis points. A second $6.1 million promissory note receivable matures on December 12, 2015 and bears interest at 10.5%. Under the promissory notes, ASF is required to make monthly payments of interest only through the scheduled maturity dates. At December 31, 2005, $5.5 was outstanding under these notes receivable from ASF. ASF intends to refinance these notes with long-term tax-exempt financing upon stabilization of the community.

In order to provide this financing to ASF, the Company obtained a $26.3 million construction loan from a commercial bank. The loan matures on December 12, 2010 and bears interest at a variable rate equal to one-month LIBOR plus 225 basis points. The loan is evidenced by a construction loan agreement and promissory note. Under this loan, the Company is required to make monthly payments of interest only through the scheduled maturity date. The loan is secured by a collateral assignment of the ASF loan documents. At December 31, 2005, the Company has $1.7 million outstanding under this loan.

At December 31, 2005, the Company also held a note resulting from a loan to a lessor of a retirement community that is being leased by the Company. This note generally earns interest at a fixed rate of approximately 6%. Interest and principal are due monthly based on a 35 year amortization. The note receivable matures in June 2038 and is secured by the related community. At December 31, 2005, the Company has $18.0 million outstanding under this note, including the current portion, which approximates current fair value.

(7) Leasehold Acquisitions

At December 31, 2005 and 2004, the Company had $21.9 million and $29.4 million, respectively, of net leasehold acquisition costs. The subject leases terminate at various points through August 2018. Leasehold acquisition costs are amortized principally on a straight-line basis over the remaining contractual or expected life of the related lease agreements (generally ten to 15 years, or, if shorter, the expected life of the lease). Accumulated amortization for the years ended December 31, 2005 and 2004 was $9.6 million and $9.4 million, respectively. Amortization expense for the years ended December 31, 2005, 2004 and 2003 was $2.6 million, $2.9 million, and $2.4 million, respectively. The Company assesses the leasehold acquisition costs for impairment based upon the amount of estimated undiscounted future cash flows over the remaining lease terms.

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(8) Other Assets and Joint Ventures

Other assets at December 31, 2005 and 2004 consist of the following (in thousands):

	2005	2004
Investments in and advances to joint ventures	$ 16,616	$ 2,361
Investment in leased communities	9,725	10,160
Nonrefundable purchase options	9,397	9,300
Security deposits	8,780	8,780
Deferred entrance fee receivables	4,648	5,654
Deferred financing costs, net	4,984	1,552
Contingent earn-outs	—	3,900
Long-term prepaid rent	1,323	1,416
Costs of acquiring lifecare contracts, net	1,507	1,755
Other	10,690	10,758
Total	$ 67,670	$ 55,636

During 2004, the Company sold a substantial majority of our interest in the real property underlying two retirement centers and one free-standing assisted living community, while retaining a 10% interest in real estate holding companies that own the three communities. The Company continues to operate the communities under a master lease. This investment in leased communities is accounted for using the equity method.

On November 1, 2005, the Company entered into a joint venture agreement with Senior Housing Partners III (‘‘SHP’’). The joint venture is owned 20% by the Company and 80% by SHP, a senior housing affiliate of Prudential Real Estate Investors. Simultaneously, the Company assigned to the joint venture its rights in a purchase agreement for the acquisition of eight senior living communities from an affiliate of Epoch Senior Living, Inc., for a purchase price of $138.0 million plus customary transaction expenses and the assumption of certain operating obligation of the communities. Pursuant to the joint venture agreement, the Company will manage the communities pursuant to a long-term management agreement. The subject communities are located in Arizona (2), Colorado, Georgia, Kansas, Minnesota, Nevada and Texas. At December 31, 2005, the Company’s investment in this joint venture was $11.2 million.

The joint venture was capitalized by proportional equity contributions from the Company and SHP, and an $85.0 million term loan obtained from a commercial bank. The loan bears interest at one-month LIBOR plus a 2% margin and requires payments of interest only until its scheduled maturity on October 31, 2010. Beginning on November 1, 2007, the joint venture could be required to commence payment under a 25-year mortgage amortization schedule, if the joint venture fails to maintain certain financial covenants specified in the agreement.

Summary combined unaudited financial information of the Company’s joint ventures as of and for the years ended December 31, 2005 and 2004 follows (in thousands):

	2005	2004

Current assets	$ 6,985	$ 920
Land, buildings and equipment, net	148,433	12,751
Other assets	1,949	139
Total assets	$ 157,367	$ 13,810
Current liabilities	$ 9,865	$ 5,257
Long-term liabilities	93,910	12,184
Total liabilities	103,775	17,441
Partners' and members' equity (deficit)	53,592	(3,631)
Total liabilities and partners' and members equity (deficit)	$ 157,367	$ 13,810
Revenues	$ 9,385	$ 4,843
Net loss	(1,393)	(779)

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At December 31, 2005 and 2004, the Company had $16.6 million and $2.4 million, respectively, of investments in and advances to these joint ventures. For the years ended December 31, 2005, 2004, and 2003, respectively, the Company recognized $0, $0.3 million, and $0.5 million of net losses related to these unconsolidated joint ventures.

(9) Secondary Public Offerings and Acquisitions

On January 26, 2005, the Company completed a public offering of 5,175,000 shares of common stock, including the underwriter's over-allotment of 675,000 shares. The shares were priced at $10.25. The net proceeds of the offering, after deducting underwriting discounts and commissions, were approximately $49.9 million.

The Company used the proceeds of its January 26, 2005 secondary offering to make certain debt repayments. During January 2005, the Company repaid in full the balance on a mortgage loan from Health Care Property Investors (HCPI) in the amount of $5.7 million, bearing interest at 9%. In addition, during January 2005, the Company repaid in full the $17.2 million of 9.625% fixed interest-only mortgage notes, issued in 2001, due October 1, 2008.

On February 1, 2005, the Company acquired Galleria Woods, an entrance-fee continuing care retirement community with 207 units, located in Birmingham, Alabama. The Company acquired the community for approximately $5.5 million of cash (including closing costs) plus the assumption of existing entrance-fee refund obligations of approximately $10.4 million, generally repayable from the entrance fees of future residents.

The transaction was accounted for using the ''purchase'' method as required by SFAS No. 141, Business Combinations, and accordingly, the results of operations of the acquired community were included in the Company's consolidated financial statements from the date of acquisition. The cost to acquire Galleria Woods was allocated to the assets acquired and liabilities assumed based on their fair values.

On October 14, 2005, the Company entered into a joint venture agreement with Denver Lowry Senior Housing, LLC (''DLSH'') to develop and operate a rental continuing care retirement community in Denver, Colorado. The joint venture is owned 20% by the Company and 80% by DLSH, an affiliate of CNL Capital Corp. Pursuant to the joint venture agreement, the Company will act as developer of the $38.0 million project and will manage the community pursuant to a long-term management agreement.

In order to finance construction of the facility, the venture entered into a $25.5 million construction loan with a commercial lender. The loan is evidenced by a loan agreement and a promissory note, and is secured by a first mortgage lien. The loan matures on December 1, 2008, and the joint venture has two one-year extension options. The outstanding principal balance of the loan bears interest at a variable rate equal to LIBOR plus 2.75%. The joint venture will be required to make monthly payments of interest only through the scheduled maturity date. If the joint venture exercises its extension options, it will also be required to make monthly principal payments (based upon a 25 year amortization schedule) during the extension period(s).

The Company also agreed to provide an operating deficits guaranty for the benefit of the lender, pursuant to which the Company may be required to fund certain of the joint venture's operating deficits. In the event that the Company is required to fund any such operating deficits, the amounts so funded will be treated as advances by the Company to the joint venture and will be required to be repaid prior to any other distributions being made to the members of the joint venture.

On January 24, 2006, the Company completed a public offering of 3,450,000 shares (unaudited) of its common stock, including the underwriter's over-allotment of 450,000 shares (unaudited). The shares were priced at $26.60 (unaudited). The net proceeds of the offering, after deducting underwriting discounts and commissions and estimated expenses, were approximately $89.8 million (unaudited). A portion of the proceeds of this offering were primarily used to repay higher cost debt and fund certain acquisitions during the quarter ended March 31, 2006 (unaudited). The Company expects to use the remainder of the proceeds to fund acquisitions and expansion and development activity, and for general corporate purposes.

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(10) Investments in Joint Ventures (Unaudited)

On February 28, 2006, two newly-formed joint ventures in which the Company has a 20% interest completed the acquisition of four senior living communities from affiliates of Cypress Senior Living, Inc. for an aggregate purchase price of $146.3 million. The communities are located in Arlington, Dallas and Ft. Worth, Texas and Leawood, Kansas.

The two joint venture entities are owned 20% by the Company and 80% by affiliates of CNL Capital Investments Corp. Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., provided the joint ventures with approximately $95.5 million of first mortgage financing for the acquisition, which is evidenced by two credit and security agreements. The Company has also guaranteed debt service payments under first mortgage financing in the event of certain defaults or nonperformance by the counterparty. The debt has a three-year term with two twelve-month extension options and requires the payment of interest only at a floating rate based upon one month LIBOR plus 2.10%. The remainder of the purchase price was funded by proportional capital contributions by the joint venturers. At closing, the Company also entered into long-term management agreements for the communities. The management fees will be included in the company's management services segment.

Although the Company holds a significant variable interest in the joint ventures, it is not considered the primary beneficiary of these entities as defined by FIN No. 46(R). As a result, the Company accounts for its investment under the equity method of accounting. The Company believes its maximum exposure to loss as a result of its involvement with this variable interest entity is approximately $10.8 million at March 31, 2006, which represents its initial contribution into the joint ventures.

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(11) Long-term Debt and Other Transactions

A summary of long-term debt is as follows (in thousands):

	March 31, 2006 (unaudited)	December 31, 2005	December 31, 2004
At March 31, 2006 (unaudited) and December 31, 2005 and 2004 various mortgage notes, interest at variable and fixed rates, generally payable monthly with any unpaid principal and interest due between 2006 and 2037. Interest rates at March 31, 2006 (unaudited) and December 31, 2005 range from 6.5% to 9.50%. The loans are secured by certain land, buildings and equipment.	$ 79,949	$ 109,090	$ 109,401
At March 31, 2006 (unaudited) and December 31, 2005 and 2004 various construction loans, interest generally payable monthly with unpaid principal due between 2006 and 2009. Variable interest rates at March 31, 2006 and December 31, 2005 range from 7.0% (unaudited) to 9.0% (unaudited) and 4.4% to 8.3%, respectively. The loans are secured by certain real property.	25,046	17,392	—
At March 31, 2006 (unaudited) and December 31, 2005 and 2004 various other long-term debt, generally payable monthly with any unpaid principal and interest due between 2006 and 2018. Variable and fixed interest rates at March 31, 2006 (unaudited) and December 31, 2005 range from 4.7% to 9.0%. The loans are secured by certain land, buildings and equipment.	20,033	20,101	26,555
Subtotal debt	125,028	146,583	135,956
Capital lease and lease financing obligations with principal and interest payable monthly bearing interest at fixed rates ranging from 0.4% to 10.9% at March 31, 2006 (unaudited) and December 31, 2005, respectively, with final payments due between 2006 and 2017. The obligations are secured by certain land, buildings and equipment.	173,227	177,417	199,126
Total debt, including capital lease and lease financing obligations	298,255	324,000	335,082
Less current portion of debt	7,437	11,978	10,372
Less current portion of capital lease and lease financing obligations	16,946	16,868	16,474
Long-term debt, excluding current portion	$ 273,872	$ 295,154	$ 308,236

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At March 31, 2006, the aggregate scheduled maturities of long-term debt were as follows (in thousands):

	Long-term Debt (unaudited)	Capital Lease and Lease Financing Obligations (unaudited)	Total Debt at March 31, 2006 (unaudited)
For the twelve months ending March 31, 2007	$ 7,437	$ 16,946	$ 24,383
For the twelve months ending March 31, 2008	9,997	17,524	27,521
For the twelve months ending March 31, 2009	18,753	18,316	37,069
For the twelve months ending March 31, 2010	8,569	19,099	27,668
For the twelve months ending March 31, 2011	25,443	20,048	45,491
Thereafter	54,829	81,294	136,123
	$ 125,028	$ 173,227	$ 298,255

The aggregate scheduled maturities of long-term debt were as follows (in thousands) at December 31, 2005:

	Long-term Debt	Capital Lease and Lease Financing Obligations	Total Debt December 31, 2005
2006	$ 11,978	$ 16,868	$ 28,846
2007	17,317	17,354	34,671
2008	16,905	18,107	35,012
2009	8,783	18,878	27,661
2010	26,470	19,808	46,278
Thereafter	65,130	86,402	151,532
	$ 146,583	$ 177,417	$ 324,000

The Company has various construction loan commitments totaling approximately $54.6 million (unaudited) and $50.6 million that are not reflected in its consolidated financial statements at March 31, 2006 and December 31, 2005, respectively.

On June 29, 2005, the Company obtained a letter of credit facility from a commercial bank. The facility provides for the issuance of up to $10.7 million of standby letters of credit and is collateralized by a mortgage on two of the Company’s free-standing assisted living communities. The Company presently has $8.4 million of letters of credit outstanding under this facility, which has an initial term of one year, and can be renewed for two additional one year periods in accordance with its terms. A fee of 1% per annum is payable for any letters of credit issued under the facility. In the event a standby letter of credit is drawn upon, the amount so drawn will bear interest at the prime rate.The letter of credit facility contains certain financial covenants and other restrictions related to certain communities. As a result of this letter of credit facility, the Company released approximately $8.4 million from its restricted cash balance, which was used to repay debt.

At March 31, 2006, the Company had $15.3 million (unaudited) of standby letters of credit issued under a letter of credit facility from a commercial bank which is collateralized by a mortgage on three free standing assisted-living communities. As of March 31, 2006 (unaudited), no amounts have been drawn on these letters of credit.

On January 26, 2006, the Company repaid an $8.9 million (unaudited) loan to a commercial bank bearing interest at a variable rate (7.33% (unaudited) at December 31, 2005), due April 1, 2006 and a $4.5 million (unaudited) mortgage loan bearing interest at a floating rate (6.81% (unaudited) at December 31, 2005), due January 1, 2007. These mortgage loans were secured by first mortgages in substantially all the property and equipment of two free-standing assisted living communities. On February 14, 2006, the Company paid off a $15.2 (unaudited) million mortgage loan bearing interest at 9.25% (unaudited), due September 16, 2016. The loan was secured by a first mortgage in substantially all the property and equipment of a retirement center. The repayment of these loans will

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result in a $1.8 million (unaudited) reduction in interest expense for the year ending December 31, 2006, based on rates in effect at the time of repayment. The Company used a portion of the proceeds of the January 24, 2006 public equity offering to retire these obligations (unaudited).

Earn-outs

At December 31, 2005, approximately $56.4 million of the Company's $177.4 million of lease financing obligations include contingent earn-out provisions under certain leases which expire between March 2006 and October 2006. The contingent earn-out provisions relate to one retirement center and five free-standing assisted living communities. When these provisions expire, the Company's continuing involvement related to the initial sale-leaseback transactions will be relieved and the subject leases will no longer be accounted for as lease financing obligations, but will be accounted for as operating leases. As a result, lease financing obligations, depreciation expense and interest expense will decrease and operating lease obligations and lease expense will increase. At December 31, 2005, the expected reduction of lease financing obligations as a result of these expirations, unless further extended, is:

During the three months ended March 31, 2006	$ 7.3 million
During the three months ended December 31, 2006	46.7 million
	$54.0 million

On December 31, 2005, the earn-out related to an underlying lease of a free standing assisted living community expired. The expiration of this earn-out relieved the Company's continuing involvement and changed the accounting from a lease financing obligation to an operating lease. As a result, fixed assets decreased $5.3 million and lease financing obligations decreased $5.5 million. The net gain of $0.2 million was deferred and recognized over the remaining term of the lease.

During the year ended December 31, 2004, the Company elected to forgo earn-outs related to two free-standing assisted living communities. The expiration of these earn-outs relieved the continuing involvement and changed the accounting from lease financing obligations to operating leases. As a result, fixed assets decreased $12.4 million and lease financing obligations decreased $12.8 million, with the net gain of $0.4 million deferred and recognized over the remaining term of the lease.

Guaranties

At December 31, 2005, the Company guaranteed approximately $18.0 million of mortgage debt that is not reflected on the Company's balance sheet, of which $9.6 million relates to a retirement center which the Company leases and $8.4 million relates to a joint venture which the Company manages. These guaranties require that the Company pay or perform the borrower's obligation. Accordingly, the Company would be required to make any payments, and perform any obligations, if the relevant borrower fails to do so. To date, the Company has not been required to fund any debt guaranties, and at December 31, 2005, the Company does not believe that it will be required to make payments under its current outstanding guaranties. If we were required to fund a debt guaranties, the Company would be entitled to seek indemnity or contribution payments from the borrower and, if applicable, any co-guarantor.

Substantially all of the Company's assets are pledged (including first priority mortgages) to secure its indebtedness. Certain of the Company's indebtedness and lease agreements are cross-collateralized or cross-defaulted. Any default with respect to such obligations could cause the Company's lenders or lessors to declare defaults, accelerate payment obligations or foreclose upon the communities securing such indebtedness or exercise their remedies with respect to such communities, which could have a material adverse effect on the Company. Certain of the Company's debt instruments and leases contain financial and other covenants, typically related to the specific communities financed or leased.

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(12) Operating Leases

As of March 31, 2006 (unaudited) and December 31, 2005, the Company operated 43 of its senior living communities under long-term leases (34 operating leases and nine leases classified as lease financing obligations). Of the 34 operating lease communities, 26 are operated under four master lease agreements, with the remaining communities leased under individual lease agreements. The Company also leases its corporate offices and is obligated under several ground leases for senior living communities. At March 31, 2006 (unaudited), the remaining base lease terms varied from three to nineteen years. At December 31, 2005, the remaining base lease terms varied from two to thirteen years. Many of the leases provide for renewal, extension and purchase options. Many of the leases also provide for graduated lease payments, either based upon fixed rate increases or a specified formula. In addition, several leases have provisions for contingent lease payments based on occupancy levels or other measures. To the extent that lease escalators are dependent on an existing index or rate, lease increases associated with the escalators are accounted for on a straight-line basis over the life of the lease. In addition, a majority of the Company's lease agreements impose certain restrictions or required authorizations for certain changes such as expansions or significant modifications.

Net lease expense for the three months ended March 31, 2006 was $15.3 million (unaudited), which includes lease payments of $17.3 million (unaudited), plus accruals for future lease escalators (straight-line lease expense) of $1.0 million (unaudited), net of the amortization of the deferred gain from prior sale-leasebacks of $3.0 million (unaudited).

Net lease expense for the three months ended March 31, 2005 was $15.5 million (unaudited), which includes lease payments of $17.0 million (unaudited), plus accruals for future lease escalators of $1.5 million (unaudited), net of the amortization of the deferred gain from prior sale-leasebacks of $3.0 million (unaudited).

Future minimum lease payments at March 31, 2006 are as follows (in thousands) (unaudited):

Twelve months ending March 31, 2007	$ 68,687
Twelve months ending March 31, 2008	69,198
Twelve months ending March 31, 2009	68,519
Twelve months ending March 31, 2010	69,567
Twelve months ending March 31, 2011	70,160
Thereafter	338,404
	$ 684,535

Net lease expense for the year ended December 31, 2005 was $60.9 million, which includes lease payments of $67.9 million, plus accruals for future lease escalators dependent upon an existing index or rate (straight-line lease expense) of $4.9 million, net of the amortization of the deferred gain from prior sale-leasebacks of $11.9 million. Total net lease expense was $60.9 million, $60.1 million and $46.5 million for 2005, 2004, and 2003, respectively.

Future minimum lease payments at December 31, 2005 are as follows (in thousands):

2006	$ 68,246
2007	69,291
2008	67,980
2009	69,054
2010	69,829
Thereafter	355,692
	$ 700,092

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The following table provides a summary of operating lease obligations at March 31, 2006 (unaudited) by lessor:

	Future Minimum Lease Payments	
	Twelve Months Ending March 31, 2007 (unaudited)	Remaining Lease Term (unaudited)
Master lease agreements for eleven communities. Initial terms ranging from 10 to 15 years, with renewal options for two additional ten year terms.	$ 25,363	$ 218,660
Operating lease agreements for three communities with an initial term of 15 years and renewal options for two additional five year terms or two additional ten year terms.	9,344	126,189
Master lease agreement for nine communities. Initial 12 year term, with renewal options for two additional five year terms.	11,117	83,913
	4,344	44,683

Operating lease agreement for a community which has a 23 year term, with a seven year renewal option. The Company also has an option to purchase the community at the expiration of the lease term at fair market value.		
Operating lease agreement for a community with an initial term of 15 years with two five year renewal options and a right of first refusal to repurchase the community. The Company previously recorded a deferred gain of $11.7 million on the sale, which is being amortized over the base term of the lease.	3,893	39,372
Master lease agreement for six communities with an initial ten year term, with renewal options for four additional ten year terms.	6,178	34,988
Other lease agreements for three communities, as well as a lease for the home office. Initial terms ranging from eight to 17 years, with various renewal options.	8,448	68,043
Total operating lease obligations	$ 68,687	$ 615,848

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The following table provides a summary of operating lease obligations at December 31, 2005 by lessor:

	Future Minimum Lease Payments	
	Year Ending December 31, 2006	Remaining Lease Term
Master lease agreements for eleven communities. Initial term ranging from 10 to 15 years, with renewal options for two additional ten year terms.	$ 25,063	$ 223,894
Operating lease agreements for three communities with an initial term of 15 years and renewal options for two additional five year terms or two additional ten year terms.	9,294	128,545
Master lease agreement for nine communities. Initial 12 year term, with renewal options for two additional five year terms.	11,085	86,701
Operating lease agreement for a community which has a 23 year term, with a seven year renewal option. The Company also has an option to purchase the community at the expiration of the lease term.	4,344	45,768
Operating lease agreement for a community with an initial term of 15 years with two five year renewal options and a right of first refusal to repurchase the community. The Company recorded a deferred gain of $11.7 million on the sale, which is being amortized over the base term of the lease.	3,894	40,346
Master lease agreement for six communities with an initial ten year term, with renewal options for four additional ten year terms.	6,140	36,542
	8,426	70,050

Other lease agreements for three communities, as well as various home office leases. Initial terms ranging from eight to 17 years, with various renewal options.		
Total operating lease obligations	$ 68,246	$ 631,846

During 2005, the Company purchased the real assets of a retirement center and a free-standing assisted living community which were previously operating pursuant to operating leases. Furthermore, a lease related to an assisted-living community which was previously accounted for as a lease financing obligation was reclassified to an operating lease as a result of the expiration of an earn-out and the Company’s continuing involvement in the lease. During 2004, the Company entered into an operating lease agreement for a retirement center, which previously had been owned.

(13) Refundable Entrance Fees and Deferred Entrance Fee Income

Entrance fees related to the residency and care agreements entered into with residents are received at the time of occupancy. The refundable portion of the entrance fee equal to the stated minimum refund percentage is reported as a liability (refundable portion of entrance fees) and is not amortized. The remaining portion of the fee is reported as deferred entrance fee income and is generally amortized into income over the actuarially determined life expectancy of each resident. Entrance fees that are refundable to the resident upon occupation of the unit by the next resident are recorded as deferred entrance fee income and amortized into revenue over the remaining life of the building.

Residency and care agreements may be terminated by residents at any time for any reason with 30 days notice. Generally, a portion of the entrance fee is refundable to the resident or the resident’s estate upon termination of the agreement. Since termination of a resident’s agreement can result under many contracts in a refund being due in less than one year, the refundable portion of these entrance fees (equal to the stated fixed minimum refund percentage) is recorded on the balance sheet as a current liability. The Company’s experience is that payment of these liabilities is offset by subsequent entrance fee sales. The deferred entrance fee income is generally a long-term liability on the balance sheet, except that a portion is shown as a current liability during the early years of a resident’s agreement (only until the contractual provisions of the agreement reduce the potential refund to the fixed minimum percentage stated in the agreement). At termination, the refundable

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amount is paid to the resident or resident’s estate. Payments of such refunds are charged against the resident’s deferred entrance fees and refundable portion of entrance fees, and any gain or loss is included in resident and health care services revenue.

Under certain of the Company’s residency and health care agreements for its lifecare communities, residents entered into a Master Trust Agreement whereby amounts were paid by the resident into a trust account. These funds were then made available to the related communities in the form of a non-interest bearing loan to provide permanent financing for the related communities and are collateralized by the land, buildings and equipment at the community. As of December 31, 2005, the remaining obligation under the Master Trust Agreements is $27.4 million and is payable monthly based on a 40-year amortization of each resident’s balance. The current installment due in 2006, and annually for the subsequent five-year period, is approximately $1.0 million. The annual obligation is reduced as individual residency agreements terminate.

Upon termination of the resident's occupancy under a Master Trust Agreement, the resident or the resident's estate receives a payment of the remaining loan balance from the trust and pays a lifecare fee to the community based on a formula in the residency and health care agreement, not to exceed a specified percentage of the resident's original amount paid to the trust. This lifecare fee is amortized by the Company into revenue on a straight-line basis over the estimated life expectancy of the resident beginning with the date of occupancy by the resident. The amortization of the lifecare fees is included in resident and health care revenue in the consolidated results of operations. At December 31, 2005 and 2004, the Company had accrued $4.6 million and $5.7 million, respectively, as deferred entrance fee receivables which are included as a component of other assets. The Company reports the obligation under the Master Trust Agreements as a refundable portion of entrance fees and deferred entrance fee income based on the applicable residency agreements.

In February 2005, the Company acquired a continuing care retirement community in Birmingham, Alabama. As a result of this acquisition, the Company assumed $9.8 million in deferred entrance fee income and $0.6 million of refundable entrance fee liabilities.

Entrance fee liabilities at December 31, 2005 and 2004, respectively (in thousands) were:

	Master Trust	Other Residency Agreements	Total
At December 31, 2005:			
Other current liabilities	$ 999	—	$ 999
Refundable portion of entrance fees	12,551	72,613	85,164
Deferred entrance fee income–current portion	—	38,407	38,407
Deferred entrance fee income–long-term portion	13,856	108,561	122,417
	$ 27,406	$ 219,581	$ 246,987

	Master Trust	Other Residency Agreements	Total
At December 31, 2004:			
Other current liabilities	$ 1,363	—	$ 1,363
Refundable portion of entrance fees	14,466	64,682	79,148
Deferred entrance fee income–current portion	—	33,800	33,800
Deferred entrance fee income–long-term portion	16,851	94,535	111,386
	$ 32,680	$ 193,017	$ 225,697

The refundable portion of entrance fees is shown on the balance sheet as a current liability. A portion of the deferred entrance fee income is also classified as a current liability during the early years of a resident's agreement. Although these amounts are classified as a current liability based on the agreement terms, the Company expects that, consistent with historical trends, the refund obligations actually paid in any year will be offset by the resale of the vacated apartment units.

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(14) Shareholders' Equity

The Company is authorized to establish and issue, from time to time, up to 5 million shares of no par value preferred stock, in one or more series, with such dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preference as authorized by the Board of Directors. At December 31, 2005 and 2004, no preferred shares had been issued.

On November 18, 1998, the Company's Board of Directors adopted a Shareholders' Rights Plan (the ''Rights Plan'') to protect the interests of the Company's shareholders if the Company is confronted with coercive or unfair takeover tactics by third parties. Pursuant to the Rights Plan, a dividend of one Right for each outstanding share of the Company's Common Stock was issued to shareholders of record on December 7, 1998. Under certain conditions, each Right may be exercised to purchase one one-hundredth of a share of Series A Preferred Stock at an exercise price of $86.25 per Right. Each Right will become exercisable following the tenth day after a person's or group's acquisition of, or commencement of a tender or exchange offer for 15% or more of the Company's Common Stock. If a person or group acquires 15% or more of the Company's Common Stock, each right will entitle its holder (other than the person or group whose action has triggered the exercisability of the Rights) to purchase common stock of either the Company or the acquiring company (depending on the form of the transaction) having a value of twice the exercise price of the Rights. The Rights will also become exercisable in the event of certain mergers or asset sales involving more than 50% of the Company's assets or earning power. The Rights may be redeemed prior to becoming exercisable, subject to approval by the Company's Board of Directors, for $0.001 per Right. The Rights expire on November 18, 2008. The Company has reserved 2,000,000 shares of Series A Preferred Stock for issuance upon exercise of the Rights.

The Company had previously issued Series B Notes which were convertible into shares of the Company's common stock at any time prior to their April 1, 2008 maturity, at the option of the holder, at the conversion price of $2.25 per share. During the year ended December 31, 2003, holders of Series B Notes elected to convert $5.1 million of the $16.0 million of convertible debentures to common stock at the conversion price of $2.25 per share. As a result, the Company issued 2,266,517 shares of common stock. On February 12, 2004, the Company announced that it was electing to redeem $4.5 million in principal amount of its Series B Notes and on March 12, 2004, $27,320 was redeemed at a redemption price of 105% (expressed as a percentage of principal amount), plus accrued but unpaid interest to the redemption date. On April 1, 2004, the Company further announced that it was electing to redeem the remaining $2.1 million principal balance of its Series B Notes and on April 30, 2004, $8,356 was redeemed at a redemption price of 103.5% (expressed as a percentage of principal amount), plus accrued but unpaid interest to the redemption date. As a result of these two redemption notices, holders of Series B Notes elected to convert $10.9 million of Series B Notes into 4,808,898 shares of common stock at the conversion price of $2.25 per share, and as of April 30, 2004, no Series B Notes remained outstanding.

On January 26, 2005, the Company completed a public offering of 5,175,000 shares of its common stock, including the underwriter's over-allotment of 675,000 shares. The shares were priced at $10.25. The net proceeds of the offering, after deducting underwriting discounts and commissions, were approximately $49.9 million.

On January 24, 2006, the Company completed a public offering of 3,450,000 shares (unaudited) of its common stock, including the underwriter's over-allotment of 450,000 shares (unaudited). The shares were priced at $26.60 (unaudited). The net proceeds of the offering, after deducting underwriting discounts and commissions and estimated expenses, were approximately $89.8 million (unaudited). A portion of the proceeds of this offering were primarily used to repay higher cost debt and fund certain acquisitions during the quarter ended March 31, 2006 (unaudited). The Company expects to use the remainder of the proceeds to fund acquisitions and expansion and development activity, and for general corporate purposes.

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(15) Stock-Based Compensation

Stock Incentive Plan

In 1997, the Company adopted a stock incentive plan (the ''1997 Plan'') providing for the grant of stock options, stock appreciation rights, restricted stock, and/or other stock-based awards. Pursuant to the 1997 Plan, as amended, or approximately 4.4 million shares of common stock at December 31, 2005, have been issued or reserved under the 1997 Plan.

Restricted Stock

On September 22, 2005, the Company granted certain members of management a total of 277,000 shares of performance-based non-vested stock. The shares underlying the grant will vest in three stand-alone tranches on March 31, 2006, March 31, 2007, and March 31, 2008, subject to continued employment and the Company's achievement of certain performance targets set for each tranche. The first tranche was subject to ''variable'' accounting rules under APB 25. As a result, 2005 compensation expense related to the first tranche was recognized and varied with changes in the Company's stock price. Upon the adoption of SFAS No. 123(R) on January 1, 2006, the Company will expense the remainder of the unvested shares over the vesting term based on grant-date fair values, which are set at the time all key terms, including performance measures, are set for each tranche.

On July 19, 2004, the Company granted certain members of management a total of 440,000 shares of restricted stock. This stock had a $5.95 market value at the date of grant and vests ratably over a period of three years from the grant date, subject only to continued employment. Compensation expense under the grant is ''fixed'' under the provisions of APB Opinion No. 25 and will be treated similarly upon adoption of the adoption of SFAS No. 123(R) on January 1, 2006. Measured compensation related to the grant totaled $2.6 million which is being amortized as compensation expense over the period of vesting.

For the years ended December 31, 2005, 2004 and 2003, the Company expensed $1.9 million, $0.4 million and $0, respectively, as compensation expense related to the amortization of the restricted stock grants.

Stock Options

The option exercise price and vesting provisions of stock options are fixed when options are granted. The options generally expire ten years from the date of grant and vest over a three-year period. The weighted average fair value of options granted during 2005, 2004 and 2003 was $6.89, $2.40, and $1.02, respectively.

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A summary of the Company's stock option activity, and related information for the years ended December 31, 2005, 2004 and 2003, respectively, is presented below (shares in thousands):

Options	Shares	Average Exercise Price
Outstanding at December 31, 2002	2,127	$ 4.73
Granted	156	2.20
Exercised	—	—
Forfeited	(208)	9.83
Outstanding at December 31, 2003	2,075	$ 3.99
Granted	895	5.20
Exercised	(562)	4.26
Forfeited	(149)	4.66
Outstanding at December 31, 2004	2,259	$ 4.43
Granted	392	14.91
Exercised	(605)	4.21
Forfeited	(109)	7.85
Outstanding at December 31, 2005	1,937	$ 4.43

The following table summarizes information about stock options outstanding at December 31, 2005 (shares in thousands):

Range of Exercise Prices	Number Outstanding	Number Exercisable at December 31, 2005	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$1.650 - 3.000	106	69	7.04	$ 2.25
$3.100 - 3.140	697	697	5.11	3.10
$3.440 - 4.000	54	51	5.57	3.83
$4.900 - 4.900	447	109	8.25	4.90
$4.950 - 7.940	190	95	7.42	5.85
$8.000 - 14.000	98	62	4.41	12.70
$14.110 - 14.110	211	54	9.38	14.11
$14.120 - 19.280	120	23	8.36	16.62
$24.730 - 25.100	14	—	9.91	25.03
$1.650 - 25.100	1,937	1,160	6.84	6.43

There were exercisable options to purchase an aggregate of 1,160,149 shares at a weighted average exercise price of $4.84 per share as of December 31, 2005.

In accordance with SFAS No. 148, pro forma information regarding net income or loss and income or loss per share as disclosed in Note 2(s) to these consolidated financial statements has been determined by the Company using the ‘‘Black-Scholes’’ option pricing model with the following weighted average assumptions for the years ended December 31, 2005, 2004 and 2003, respectively: 3.17%, 1.12% and 1.16% risk-free interest rate, 0% dividend yield, 66.0%, 67.0% and 69.6% volatility rate, and an expected life of the options equal to the remaining vesting period.

In December 2004, the FASB issued SFAS No. 123 (Revised), Share-Based Payment (SFAS 123(R). This standard revises SFAS No. 123, APB No. 25 and related accounting interpretations, and eliminates the use of the intrinsic value method. The adoption of SFAS 123(R) will have a significant effect on the Company’s statement of operations, which is discussed in Note 2(z) to these consolidated financial statements.

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Associate Stock Purchase Plan

In 1997, the Company adopted an associate stock purchase plan (''ASPP'') pursuant to which an aggregate of 418,078 shares remain authorized and available for issuance to employees at December 31, 2005. Under the ASPP, employees (excluding officers) who have been employed by the Company continuously for at least 90 days are eligible, subject to certain limitations, as of the first day of any option period (January 1 through June 30, or July 1 through December 31) (an ''Option Period'') to contribute on an after-tax basis up to 15% of their base pay per pay period through payroll deductions and/or a single lump sum contribution per Option Period to be used to purchase shares of common stock. On the last trading day of each Option Period, the amount contributed by each participant over the course of the Option Period will be used to purchase up to 700 shares of common stock at a purchase price per share equal to 85% of the closing market price of the common stock on the last day of the option Option Period. The ASPP is intended to qualify for favorable tax treatment under Section 423 of the Internal Revenue Code. During 2005, 2004 and 2003, respectively, 127,315, 155,042 and 62,793 shares were issued pursuant to the ASPP at an average purchase price of $15.52, $4.63 and $1.77 per share, respectively.

(16) Executive Officer Incentive Compensation Plans

During 2003 the Board of Directors modified the incentive compensation programs for its senior officers, which reduced the annual incentive opportunity for this group, and added a program that provided a one-time additional incentive opportunity under a multi-year program. During the period beginning in 2003 and ending in 2007, the senior officer group could earn an additional incentive bonus upon achieving certain specified goals regarding improvements in the Company's capital structure, financial results, or other specified goals. These amounts would be paid out during the quarter following the time the objective is met. During 2004, approximately $2.0 million of additional incentive bonuses were approved by the Company's Board of Directors and paid during the fourth quarter 2004 as a result of achieving the specified goals related to improvements in the Company's capital structure.

(17) Retirement Plans

Associates of the Company participate in a savings plan (the ''401(k) Plan'') which is qualified under Sections 401 (a) and 401(k) of the Code. To be eligible, an associate must have been employed by the Company for at least three months. The 401(k) Plan permits associates to make voluntary contributions up to specified limits. The Company matches 1% of participant contributions, up to 2% of the participant's monthly compensation. In addition, the Company may make discretionary contributions up to 2% of the participant's quarterly compensation. The Company may also contribute an additional amount determined in its sole judgment. In 2005, 2004 and 2003, Company contributions totaled approximately $0.9 million, $0.6 million, $0.5 million, respectively.

In September 2004, the Company established a deferred compensation plan which allows a select group of management or highly compensated employees to defer a portion of their cash compensation. Participants voluntarily electing to defer portions of their cash compensation shall be deferred for a minimum of five years or until a separation of service (as defined in the plan). Amounts deferred by each participant are accrued but unfunded by the Company and accrue interest at the prime rate plus one percent per annum, but not less than six percent per annum or greater than ten percent per annum. At December 31, 2005, the deferred amount plus accrued interest is approximately $0.7 million.

In 2004, the Company adopted a supplemental executive retirement plan (SERP) that allows eligible executives to defer a portion of their compensation. Currently, Mr. Sheriff is the only participant in the SERP, and he elected to defer $48,000 of his base salary during 2005 and 2004. The participant directs the investment of these deferred amounts among several available investment funds. Generally, the participant will be entitled to receive the amount of his or her SERP account, upon termination of employment with the Company by death, disability or retirement.

The Company maintains a non-qualified deferred compensation plan (the ‘‘162 Plan’’) which allows associates who are ‘‘highly compensated’’ under IRS guidelines to make after-tax contributions

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to an investment account established in such associates’ name. Additional contributions may be made by the Company at its discretion. All contributions to the 162 Plan are subject to the claims of the Company’s creditors. The Company contributed $42,000 per year on behalf of Mr. Sheriff during 2005, 2004 and 2003.

(18) Income Taxes

Income tax expense for the years ended December 31, 2005, 2004, and 2003 were attributable to income (losses) before income taxes and minority interest and consists of the following (in thousands):

	Years Ended December 31,		
	2005	2004	2003
U.S. Federal:			
Current	$ 5,396	$ 2,955	$ 552
Deferred	(43,239)	—	—
Total U.S. Federal	(37,843)	2,955	552
State:			
Current	621	1,508	464
Deferred	(10,308)	(2,042)	1,645
Total State	(9,687)	(534)	2,109
Total income tax (benefit) expense	$ (47,530)	$ 2,421	$ 2,661

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2005 and 2004 are presented below (in thousands):

	Years Ended December 31,	
	2005	2004
Deferred tax assets:		
Federal and state operating loss carryforwards	$ 4,163	$ 4,642
Deferred gains on sale lease-back transactions	35,775	40,344
Accrued expenses not deductible for tax	2,999	2,770
Intangible assets	4,844	4,609

Asset impairment charges and other losses	468	1,337
Deferred entrance fee revenue	33,312	30,103
Deferred rent	5,464	4,830
Other	2,784	3,267
Total gross deferred tax assets	89,809	91,902
Less valuation allowance	(6,083)	(66,096)
Total deferred tax assets, net of valuation allowance	83,726	25,806
Deferred tax liabilities:		
Buildings and equipment	27,710	22,608
Other	987	1,716
Total gross deferred tax liabilities	28,697	24,324
Net deferred tax asset	$ 55,029	$ 1,482

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The following table summarizes the significant differences between the U.S. Federal statutory tax rate and the Company's effective tax rate for financial statement purposes on income (loss) before income taxes and minority interest:

	2005	2004	2003
Statutory tax rate income (loss)	35.0%	(35.0%)	(35.0%)
State income taxes, net of Federal benefit	(27.0%)	(5.3%)	15.2%
Non-deductible expenses and other items	(1.3%)	0.5%	0.7%
Change in Federal valuation allowance	(211.4%)	77.1%	41.9%
Total	(204.7%)	37.3%	22.8%

As of December 31, 2005 and 2004, the Company carried a valuation allowance against deferred tax assets in the amount of $6.1 million and $66.1 million, respectively, a decrease of $60.0 million. In assessing valuation of its deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets related to deductible temporary differences is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In determining when it may meet the ‘‘more likely than not’’ recoverability criteria for its deferred tax assets, the Company will continue to assess its projected future taxable income and other factors.

During 2005, the Company determined that it would reduce its valuation allowance against deferred assets, resulting in a significant tax benefit. This determination was made following a comprehensive analysis and careful consideration of the factors described above and the following attributes:

- the nature and predictable timing of reversal of the subject deferred tax assets and the nature and timing of losses that contributed to the tax valuation allowance,
- the Company's reported positive income from operations, net income and occupancy data,
- senior management's proven ability to reasonably project future operating results, and

• the continued improvement in the Company's capital structure

(19) Segment Information

The Company has significant operations principally in three business segments: (1) retirement centers, (2) free-standing assisted living communities and (3) management services. At March 31, 2006 and December 31, 2005, retirement centers represented 33 (unaudited) and 29 respectively, of the Company's senior living communities at which the Company provides a continuum of care services such as independent living, assisted living, Alzheimer's and skilled nursing care. At March 31, 2006 (unaudited) and December 31, 2005, the Company operated 41 free-standing assisted living communities. Free-standing assisted living communities are generally comprised of stand-alone assisted living communities that are not located on a retirement center campus, which also provide specialized care such as Alzheimer's and memory enhancement programs. Free-standing assisted living communities are generally much smaller than retirement centers. The management services segment includes fees from management agreements for communities owned by others, and reimbursed expense revenues together with associated expenses. At March 31, 2006 (unaudited) and December 31, 2005, the Company had six management agreements with third parties relating to six retirement centers and also operated a seventh retirement center, Freedom Square, under a long-term management agreement. In accordance with applicable accounting rules, the operating results of Freedom Square are included in the consolidated results of the Company's retirement center segment and, accordingly, are not included in the management services segment.

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The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The following table sets forth certain segment financial and operating data[1] (in thousands).

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005	Years Ended December 31, 2005	Years Ended December 31, 2004	Years Ended December 31, 2003
	(unaudited)				
Revenues:					
Retirement Centers	$ 98,606	91,046	$ 378,114	347,179	312,723
Free-standing Assisted Living Communities	29,180	25,607	110,269	96,264	83,584
Management Services[2]	3,307	1,302	6,617	4,166	3,670
Total	$ 131,093	117,955	$ 495,000	447,609	399,977
Segment operating contribution:[3]					
Retirement Centers	$ 34,255	30,592	$ 127,064	116,589	98,837
Free-standing Assisted Living Communities	10,077	7,760	34,815	26,057	16,662
Management Services	1,224	500	3,528	1,882	1,522
Total	$ 45,556	38,852	$ 165,407	144,528	117,021
Lease expense	$ 15,333	15,510	$ 60,936	$ 60,076	$ 46,484
Depreciation and amortization (including general and administrative depreciation and amortization of $364 (unaudited), $943 (unaudited), $1,925, $1,990 and 1,728	9,407	9,271	36,392	31,148	26,867

respectively)					
Amortization of leasehold acquisition costs	592	699	2,567	2,917	2,421
(Gain) loss on sale of assets	84	12	709	(41)	(23,153)
General and administrative	9,942	6,591	30,327	28,671	25,410
Income from operations	$ 10,198	6,769	$ 34,476	21,757	38,992

	March 31, 2006 (unaudited)	December 31, 2005	2004
Total Assets:			
Retirement Centers	$ 505,853	$ 521,581	$ 498,132
Free-standing Assisted Living Communities	192,488	188,548	182,353
Management Services	246,740	169,345	68,765
Total	$ 945,081	$ 879,474	$ 749,250

(1)Segment financial and operating data does not include any inter-segment transactions or allocated costs.

(2)Management Services represent the Company’s management fee revenues, reimbursed expense revenue, as well as reimbursed expenses of $3.1 million, $2.3 million, $2.1 million, respectively for the years ended December 31, 2005, 2004 and 2003 and $2.1 million (unaudited) and $0.8 million (unaudited) for the three months ended March 31, 2006 and 2005, respectively.

(3)Segment operating contribution is defined as segment revenues less cost of community service revenue (which includes costs of community service revenue and reimbursed expenses and excludes depreciation).

(20) Commitments and Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the ultimate liability with respect to those proceedings and claims will not materially affect the financial position, operations, or liquidity of the

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Company. The Company maintains commercial insurance on a claims-made basis for medical malpractice and professional liabilities.

Insurance

The delivery of personal and health care services entails an inherent risk of liability. Participants in the senior living and health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Company currently maintains general and professional medical malpractice insurance policies for the Company's owned, leased and certain of its managed communities under a master insurance program. Premiums and deductibles for this insurance coverage have risen dramatically in recent years. In response to these conditions, the Company has significantly increased the staff and resources involved in quality assurance, compliance and risk management during the past several years, and have also modified its insurance programs.

At March 31, 2006 (unaudited) and December 31, 2005, the Company maintained single incident and aggregate liability protection in the amount of $25.0 million for general liability and $15.0 million for professional liability, with self-insured retentions of $1.0 million and $5.0 million, respectively. The Company believes it has adequately accrued amounts to cover open claims not yet settled and incurred but not reported claims as of March 31, 2006 (unaudited) and December 31, 2005. Beginning January 1, 2006, the Company formed a wholly-owned ‘‘captive’’ insurance company for the purpose of insuring certain portions of its risk retention under its general and professional liability insurance programs.

The Company operates under a self-insured workers’ compensation program, with excess loss coverage provided by third party carriers. As of December 31, 2005, the Company’s coverage for workers’ compensation and related programs, excluding Texas, included excess loss in an aggregate amount of $6.3 million, with a deductible amount of $350,000 per claim prior to January 1, 2006 and $500,000 (unaudited) thereafter. As of December 31, 2005, the Company provided cash collateralized letters of credit in the aggregate amount of $8.2 million related to this program, which are reflected as restricted cash on the Company’s consolidated balance sheet. For work-related injuries in Texas, the Company is a non-subscriber under Texas state law, meaning that work-related losses are covered under a defined benefit program outside of the Texas Workers' Compensation system. At March 31, 2006 (unaudited) and December 31, 2005, the Company carried excess loss coverage of $1.0 million per individual, with a deductible of $250,000 per individual under its non-subscriber program. Losses are paid as incurred and estimated losses are accrued on a monthly basis. The Company utilizes a third party administrator to process and pay filed claims.

The Company maintains a self-insurance program for employee medical coverage, with stop-loss insurance coverage of amounts in excess of $250,000 per associate prior to January 1, 2006 and $275,000 (unaudited) thereafter. Estimated costs related to this self-insurance program are accrued based on known claims and projected settlements of unasserted claims incurred but not yet reported to the Company. Subsequent changes in actual experience (including claim costs, claim frequency, and other factors) could result in additional costs to the Company.

During the years ended December 31, 2005, 2004, and 2003, and the three months ended March 31, 2006 and 2005, the Company expensed $17.0 million, $17.2 million, $15.7 million, $3.3 million (unaudited), and $4.2 million (unaudited) respectively, related to premiums, claims and costs for general liability and professional medical malpractice, workers’ compensation, and employee medical insurance related to multiple insurance years.

Management Agreements

The Company’s management agreements are generally for terms of three to 20 years, but certain of the agreements may be canceled by the owner of the community, without cause, on three to six months’ notice. Certain of these management agreements provide the Company with long-term

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renewal options. Pursuant to the management agreements, the Company is generally responsible for providing management personnel, marketing, nursing, resident care and dietary services, accounting and data processing services, and other services for these communities at the owner’s expense and receives a monthly fee for its services based on either a contractually fixed amount, a percentage of revenues or income, or cash flows in excess of operating expenses and certain cash flows of the community. At March 31, 2006, the Company's existing management agreements expire at various times through December 2021 (unaudited). At December 31, 2005, the Company’s existing management agreements expire at various times through August 2020.

In connection with these management agreements, the Company has guaranteed mortgage debt of $8.3 million (unaudited) and $8.4 million at March 31, 2006 and December 31, 2005, respectively, related to a joint venture which the Company manages.

Regulatory Requirements

Federal and state governments regulate various aspects of the Company's business. The development and operation of health care facilities and the provision of health care services are subject to federal, state, and local licensure, certification, and inspection laws that regulate, among other matters, the number of licensed beds, the provision of services, the distribution of pharmaceuticals, billing practices and policies, equipment, staffing (including professional licensing), operating policies and procedures, fire prevention measures, environmental matters, and compliance with building and safety codes. Failure to comply with these laws and regulations could result in the denial of reimbursement, the imposition of fines, temporary suspension of admission of new patients, suspension or decertification from the Medicare programs, restrictions on the ability to acquire new communities or expand existing communities, and, in extreme cases, the revocation of a community's license or closure of a community. Management believes the Company was in compliance with such federal and state regulations at March 31, 2006 (unaudited) and December 31, 2005.

Other

A portion of the Company’s skilled nursing revenues are attributable to reimbursements under Medicare. Certain per person annual limits on therapy services, which were temporarily effective beginning in September 2003 before being deferred, became effective again as of January 2006. Administrative procedures regarding auto-exceptions to these limits and approval processes for other exceptions by individual are being implemented by Medicare representatives. While we expect that these limits will reduce our therapy revenues from certain residents, we do not expect them to have a significant impact on our overall business. There continue to be various federal and state legislative and regulatory proposals to implement cost containment measures that will limit payments to healthcare providers in the future. Changes in the reimbursement policies of the Medicare program could have an adverse effect on our results of operations and cash flow.

(21) Related Party Transactions

W.E. Sheriff, the Company’s chairman and chief executive officer, owned 50% of Maybrook Realty, Inc., which owned Freedom Plaza Care Center (FPCC), a 128-bed skilled nursing and 44-bed assisted living center, with approximately 7,000 square feet of office space subleased to a third party, in Peoria, Arizona. From October 1999 until June 2001, the Company managed FPCC pursuant to its management agreement for the Freedom Plaza CCRC in Peoria, Arizona. The Company also served as the developer of an expansion of FPCC, which was completed July 2001. Effective July 1, 2001, the Company entered into a long-term operating lease for FPCC in substitution of the prior management arrangement. Total lease payments during 2005 and 2004 under this lease were $1.1 and $2.2 million, respectively. On July 7, 2005, the Company acquired all of the real property interests underlying Freedom Plaza Care Center for $20.3 million.

During 2001 and 2000, the Company acquired leasehold interests in six free-standing assisted living communities owned by affiliates of John Morris, a director of the Company. The Company issued a $7.6 million, 9.625% fixed interest only note, due October 1, 2008. This note, and certain

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similar notes were secured by the Company's interest in a retirement center located in Richmond, Virginia and a free-standing assisted living community in San Antonio, Texas. The terms of this note and its related security instruments were identical to those issued to certain unaffiliated entities in connection with the simultaneous acquisition of certain other communities. This note was fully repaid by the Company with the proceeds of the January 2005 secondary offering.

(22) Subsequent Events

Secondary Equity Offering

On January 24, 2006, the Company completed a public offering of 3,450,000 shares of its common stock, including the underwriter's over-allotment of 450,000 shares. The shares were priced at $26.60. The net proceeds of the offering, after deducting underwriting discounts and commissions and estimated expenses, were approximately $89.8 million. The proceeds from this offering were used to repay approximately $29.0 million of outstanding debt, with the balance to be used to fund possible future acquisitions, to fund expansion activity, and for general corporate purposes, including working capital.

Acquisition of Independent Living Communities

On February 8, 2006, the Company announced that a joint venture in which it has an ownership interest had entered into a definitive asset purchase agreement with affiliates of Cypress Senior Living, Inc. to acquire four senior living communities located in two states for an aggregate purchase price of $146.3 million, subject to customary closing adjustments and transaction expenses. The communities have capacity of 896 independent living units and are located in Arlington, Dallas and Ft. Worth, Texas and Leawood, Kansas.

The acquisition will be accomplished through two joint ventures, which will be owned 20% by the Company and 80% by an institutional real estate investor. The joint venture has obtained a firm commitment from Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., to provide approximately $95.5 million of senior debt financing. The remainder of the purchase price will be funded by proportional capital contributions from the members of the joint venture entities. The Company will manage the portfolio pursuant to a long-term management agreement.

(Unaudited)

On April 1, 2006, the Company completed the acquisition of two retirement centers with a total of 204 units located in Shawnee, Kansas. The Company funded the aggregate cash purchase price of $29.5 million with cash.

(Unaudited)

On March 17, 2006, the Company announced that a joint venture in which it is a member entered into an asset purchase agreement to acquire a 760-unit entry-fee continuing care retirement community located in Bradenton, Florida. The joint venture, which will be owned 20% by the Company, will acquire the community for approximately $95 million plus the assumption of certain resident refunds. This transaction is expected to close in the second quarter of 2006.

(Unaudited)

On April 27, 2006, the Company announced that it had entered into an agreement to acquire the lessee's interest in a 237-unit retirement center located in Denver, Colorado that the Company currently operates pursuant to a management agreement. Upon the closing of the purchase, the community will convert from a managed community to a leased community, and its operating results will be included in the Company's consolidated financial statements. The expected purchase price of $1.2 million will be funded with cash. This transaction closed in the second quarter of 2006.

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Brookdale Senior Living Inc.

PROSPECTUS

17,215,000 Shares

Common Stock

Goldman, Sachs & Co.
Lehman Brothers
Citigroup
JPMorgan
Banc of America Securities LLC
Cohen & Steers

Until , 2006 (25 days after the date of this prospectus) all dealers that effect transactions in these securities, whether or not participating in this offering may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

, 2006.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the estimated fees and expenses payable by the registrant in connection with the distribution of the common stock:

Securities and Exchange Commission registration fee	$96,595

National Association of Securities Dealers, Inc. filing fee	$75,500
NYSE listing fee	$60,000
Printing and engraving costs	$180,000
Legal fees and expenses	$800,000
Accountants’ fees and expenses	$450,000
Transfer agent fees	$3,500
Miscellaneous	$334,405
Total	$2,000,000

Item 14. Indemnification of Directors and Officers

Section 102 of the Delaware General Corporation Law, as amended, or the DGCL, allows a corporation to eliminate the personal liability of directors to a corporation or its stockholders for monetary damages for a breach of a fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase or redemption in violation of Delaware corporate law or obtained an improper personal benefit.

Section 145 of the DGCL provides, among other things, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the corporation’s request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys’ fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding. The power to indemnify applies if (i) such person is successful on the merits or otherwise in defense of any action, suit or proceeding or (ii) such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the corporation as well, but only to the extent of defense expenses (including attorneys’ fees but excluding amounts paid in settlement) actually and reasonably incurred and not to any satisfaction of judgment or settlement of the claim itself, and with the further limitation that in such actions no indemnification shall be made in the event of any adjudication of negligence or misconduct in the performance of his duties to the corporation, unless a court believes that in light of all the circumstances indemnification should apply.

Section 174 of the DGCL provides, among other things, that a director who willfully and negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption may be held liable for such actions. A director who was either absent when the unlawful actions were approved or dissented at the time, may avoid liability by causing his or her dissent to such actions to be entered in the books containing the minutes of the meetings of the board of directors at the time the action occurred or immediately after the absent director receives notice of the unlawful acts.

The Company’s amended and restated certificate of incorporation states that no director shall be liable to us or any of our stockholders for monetary damages for breach of fiduciary duty as director,

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except for breaches of the duty of loyalty, and for acts or omissions in bad faith or involving intentional misconduct or knowing violation of law. A director is also not exempt from liability for any transaction from which he or she derived an improper personal benefit, or for violations of Section 174 of the DGCL. To the maximum extent permitted under Section 145 of the DGCL, our amended and restated certificate of incorporation authorizes us to indemnify any and all persons whom we have the power to indemnify under the law.

Our amended and restated by-laws provide that the Company will indemnify, to the fullest extent permitted by the DGCL, each person who was or is made a party or is threatened to be made a party in any legal proceeding by reason of the fact that he or she is or was a director or officer of the Company or a subsidiary. However, such indemnification is permitted only if such person acted in good faith, lawfully and not against our best interests. Indemnification is authorized on a case-by-case basis by (1) our board of directors by a majority vote of disinterested directors, (2) a committee of the disinterested directors, (3) independent legal counsel in a written opinion if (1) and (2) are not available, or if disinterested directors so direct, or (4) the stockholders. Indemnification of former directors or officers shall be determined by any person authorized to act on the matter on our behalf. Expenses incurred by a director or officer in defending against such legal proceedings are payable before the final disposition of the action, provided that the director or officer undertakes to repay us if it is later determined that he or she is not entitled to indemnification.

Prior to completion of our initial public offering, the Company entered into separate indemnification agreements with each of its directors and officers. Each indemnification agreement provides, among other things, for indemnification to the fullest extent permitted by law and our amended and restated certificate of incorporation and amended and restated by-laws against any and all expenses, judgments, fines, penalties and amounts paid in settlement of any claim. The indemnification agreements provide for the advancement or payment of all expenses to the indemnitee and for reimbursement to us if it is found that such indemnitee is not entitled to such indemnification under applicable law and our amended and restated certificate of incorporation and amended and restated by-laws.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that, in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

We maintain directors’ and officers’ liability insurance for our officers and directors.

Item 15. Recent Sales of Unregistered Securities

The following is a summary of transactions by us involving sales of our securities that were not registered under the Securities Act during the last three years preceding the date of this registration statement. Each of the following transactions were private transactions entered into in connection with the formation transactions described in ‘‘Business—History’’ and were exempt from registration under the Securities Act by virtue of the exemption provided under Section 4(2) of the Securities Act. In September 2005:

- A wholly-owned subsidiary of ours merged with and into BLC. In connection with the merger, FBA, an affiliate of Capital Z Partners, and certain members of our management, including our chief executive officer, received an aggregate of 20,000,000 shares of our common stock, representing 34.5% of our outstanding common stock prior to our initial public offering, for all of their outstanding common stock of BLC or membership interests in FBA, as applicable. As a result of the merger, BLC became our wholly-owned subsidiary.
- FEBC-ALT Investors purchased from Fortress Investment Trust II, a fund managed by an affiliate of Fortress, all of the outstanding membership interests of FIT REN, which had recently acquired certain senior living facilities from Prudential Financial, Inc., for an aggregate purchase price of approximately $282.4 million (including the assumption of approximately $171.0 million of debt). Immediately after the purchase, the membership

interests of FIT REN were contributed to Alterra. As a result FIT REN became a wholly-owned subsidiary of Alterra and Fortress

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Investment Trust II became a member of FEBC-ALT Investors, Alterra's indirect parent company. In connection with the merger of FEBC-ALT Investors described below, Fortress Investment Trust II received 11,750,000 shares of our common stock, representing 20.3% of our outstanding common stock prior to our initial public offering, for its interest in FIT REN.

- A wholly-owned subsidiary of ours merged with and into FEBC-ALT Investors, Alterra's indirect parent company. In the merger, FIT-ALT Investor, Fortress Investment Trust II, Emeritus, NW Select and certain members of our management, each of which was a member of FEBC-ALT Investors, received an aggregate of 29,750,000 shares of our common stock, representing 51.3% of our outstanding common stock prior to our initial public offering, for all of the outstanding membership interests of FEBC-ALT Investors. FIT-ALT Investor is a fund managed by an affiliate of Fortress. As a result of the merger, Alterra became our wholly-owned subsidiary.
- A wholly-owned subsidiary of ours merged with and into Fortress CCRC. In the merger, Fortress Investment Trust II received an aggregate of 8,250,000 shares of our common stock, representing 14.2% of our outstanding common stock prior to our initial public offering, for all of the outstanding membership interests of Fortress CCRC. Fortress CCRC owns, through its wholly-owned subsidiaries, six senior living facilities. As a result of the merger, Fortress CCRC became our wholly-owned subsidiary.

In addition, on August 5, 2005 and September 14, 2005, BLC granted an aggregate of 988 shares of its stock and FEBC-ALT Investors granted 3.33% of its membership interests, to certain members of our management, which shares, other than those shares described below, and percentage interests are subject to substantial risk of forfeiture until the occurrence of certain events, as specified in the applicable restricted stock or restricted securities award agreements. Of the 988 shares of BLC stock granted, 25 shares were granted to Paul Froning, a member of our management, in exchange for a cash payment to BLC by Mr. Froning of $500,000. These 25 shares are fully vested and are not subject to risk of forfeiture. In accordance with the terms of the plans, a portion of these securities will no longer be subject to a risk of forfeiture upon the consummation of this offering. In addition, the remaining securities will vest over a five-year period following the issuance if the executive remains continuously employed by the Company. Securities that are subject to a risk of forfeiture may not be sold or transferred. See ''Business —Equity Incentive Plans—Employee Restricted Stock Plans.'' In connection with the merger transactions described in above, these shares and membership interests were automatically converted into an aggregate of 2,575,405 shares of our common stock, representing 4.4% of our outstanding common stock prior to our initial public offering. A portion of these grants were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) and the remainder of these grants were exempt from the registration requirements of the Securities Act pursuant to Rule 701.

Item 15A.

On May 12, 2006, in connection with the ARC Merger, we entered into an Investment Agreement pursuant to which we will issue on the closing of the ARC Merger to the Investor up to 17,600,867 shares of our common stock for a purchase price up to $1.3 billion. We expect these shares to be issued in a private transaction exempt from registration under the Securities Act by virtue of the exemption provided under Section 4(2) of the Securities Act. For more details on the ARC Merger and the Investment Agreement, please see ''Business—ARC Merger.''

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Item 16. Exhibits and Financial Statement Schedules

A. Exhibits

Exhibit No.	Description
1.1*	Form of Underwriting Agreement
2.1.1	Asset Purchase Agreement, dated as of September 3, 2004, by and among Fortress CCRC Acquisition LLC, as purchaser, Fortress Investment Fund II LLC, as guarantor, and The National Benevolent Association of the Christian Church (Disciples of Christ) and certain of its affiliated entities, as sellers (incorporated by reference to Exhibit 2.2.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.2	Letter Agreement, dated March 9, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress CCRC Acquisition LLC and Fortress Investment Fund II LLC, regarding amendment of the Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.3	Letter Agreement dated April 6, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress CCRC Acquisition, LLC, and Fortress Investment Fund II LLC, regarding Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.4	Letter Agreement, dated April 14, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress NBA Acquisition LLC, and Fortress Investment Fund II LLC, regarding Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.5	Supplemental Agreement with Respect to the Asset Purchase Agreement, dated as of September 30, 2004, by and among Fortress CCRC Acquisition LLC, Fortress Investment Fund II LLC, The National Benevolent Association of the Christian Church (Disciples of Christ) and certain of its affiliated entities and the Official Committee of Residents appointed in Chapter 11 Case of The National Benevolent Association of the Christian Church (Disciples of Christ) (incorporated by reference to Exhibit 2.2.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.2.1	Purchase and Sale Agreement, dated March 16, 2005, by and among SHP Pacific Inn, LLC; SHP Nohl Ranch, LLC; SHP Gables, LLC; SHP Oak Tree Villa, LLC; SHP Lexington, LLC; SHP Inn at the Park, LLC; SHP Paulin Creek, LLC; SHP Mirage Inn, LLC; SHP Ocean House, LLC, as sellers, and FIT REN LLC, as purchaser ((incorporated by reference to Exhibit 2.3.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.2.2	First Amendment to Purchase and Sale Agreement, dated June 10, 2005, by and between SHP Pacific Inn, LLC; SHP Nohl Ranch, LLC; SHP Gables, LLC; SHP Oak Tree Villa, LLC;

	SHP Lexington, LLC; SHP Inn at the Park, LLC; SHP Paulin Creek, LLC; SHP Mirage Inn, LLC; and SHP Ocean House, LLC, as seller, and FIT REN LLC, as buyer (incorporated by reference to Exhibit 2.3.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.3	Membership Interest Purchase Agreement (Creve Coeur), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.7 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
2.4	Stock Purchase Agreement (Raleigh), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.8 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.5	Stock Purchase Agreement (Glen Ellyn), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.9 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.6	Membership Interest Purchase Agreement (Trillium Place), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.10 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.7	Membership Interest Purchase Agreement (Battery Park), dated as of December 1, 2005, between Brookdale Development, LLC and Alliance Holdings Inc. (incorporated by reference to Exhibit 2.7 to the Company's Annual Report on Form 10-K filed on March 31, 2006)
2.8	Membership Interest Purchase Agreement, dated June 29, 2005, by and among NW Select LLC, Emeritus Corporation, FIT-ALT Investor LLC and Brookdale Senior Living Inc. (incorporated by reference to Exhibit 2.11 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.9*	Conveyance Agreement, dated as of September 30, 2005, by and among Brookdale Senior Living Inc., Brookdale Living Communities, Inc., BSL Brookdale Merger Inc., BSL CCRC Merger Inc., BSL FEBC Merger Inc., Emeritus Corporation, FEBC-ALT Investors LLC, FIT-ALT Investor LLC, Fortress CCRC Acquisition LLC, Fortress Investment Trust II, Fortress Registered Investment Trust, Fortress Brookdale Acquisition LLC, Health Partners and NW Select LLC (incorporated by reference to Exhibit 2.12 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
2.10*	Amended and Restated Agreement and Plan of Merger, dated March 30,2 006, by and between BLC Acquisitions, Inc., SALI Merger Sub Inc., and Southern Assisted Living, Inc. (incorporated by reference to Exhibit 2.10 to the Company's Annual Report on Form 10-K filed on March 31, 2006.
2.11*	Stock Purchase Agreement, dated December 30, 2005, by and between Brookdale Communities, Inc. and Capstead Mortgage Corporation (incorporated by reference to Exhibit

	2.1 to the Company's Current Report on Form 8-K filed on December 30, 2005).
2.12*	Asset Purchase Agreement, dated January 11, 2006, by and between BLC Acquisitions, Inc., as buyer, and Health Care Properties I, LLC; Health Care Properties IV, LLC; Health Care Properties VI, LLC; Health Care Properties VII, LLC; Health Care Properties VIII, LLC; Health Care Properties IX, LLC; Health Care Properties X, LLC; Health Care Properties XI, LLC; Health Care Properties XII, LLC; Health Care Properties XIII, LLC; Health Care Properties XV, Ltd.; Health Care Properties XVI, LLC; Health Care Properties XVII, Ltd.; Health Care Properties XVIII, LLC; Health Care Properties XX, LLC; Health Care Properties XXIII, LLC; Health Care Properties XXIV, LLC; Health Care Properties XXV, LLC; Health Care Properties XXVII, LLC; Cleveland Health Care Investors, LLC; and Wellington SPE, LLC, as sellers (incorporated by reference to Exhibit 2.12 to the Company's Annual Report on Form 10-K filed on March 31, 2006).

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Exhibit No.	Description
2 .13*	Asset Purchase Agreement, dated January 12, 2006, by and between AHC Acquisitions, Inc., as buyer, and American Senior Living Limited Partnership; American Senior Living of Fort Walton Beach, FL, LLC; American Senior Living of Jacksonville, LLC; American Senior Living of Jacksonville-SNF, LLC; American Senior Living of Titusville, FL, LLC; ASL Senior Housing, LLC; American Senior Living of Destin, FL, LLC; and American Senior Living of New Port Richey, FL, LLC, as sellers. (incorporated by reference to Exhibit 2.13 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
2 .14*	Purchase and Sale Agreement, dated as of February 7, 2006, among BLC Acquisitions, Inc., as buyer, and PG Santa Monica Senior Housing, LP; PG Tarzana Senior Housing, LP; PG Chino Senior Housing, LP; The Fairways Senior Housing, LLC; AEW/Careage— Federal Way, LLC; AEW/Careage—Bakersfield, LLC; and AEW/Careage—Bakersfield SNF, LLC, as sellers (incorporated by reference to Exhibit 2.14 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
2 .15*	Agreement and Plan of Merger, dated as of May 12, 2006, by and among Brookdale Senior Living Inc., Beta Merger Sub Corporation, and American Retirement Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 12, 2006).
3 .1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
3 .2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
4 .1	Form of Certificate for common stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
4 .2	Stockholders Agreement, dated as of November 28, 2005, by and among Brookdale Senior Living Inc., FIT-ALT Investor LLC, Fortress Brookdale Acquisition LLC, Fortress Investment Trust II and Health Partners. (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on March 31, 2006).

5 .1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP relating to the validity of the common stock.
10.1.1	Agreement Regarding Leases, dated October 19, 2004, by and between Brookdale Provident Properties, LLC and PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.1.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.1.2	Letter Agreement, dated March 28, 2005, regarding the Agreement Regarding Leases, dated October 19, 2004, by and between Brookdale Provident Properties, LLC and PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.1.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.2	Guaranty of Agreement Regarding Leases, dated October 19, 2004, by Brookdale Living Communities, Inc., in favor of PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.3.1	Tax Matters Agreement, dated as of June 18, 2004, by and among Fortress Brookdale Acquisition LLC, Provident Senior Living Trust and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.3.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.3.2	Letter Agreement, dated March 28, 2005, amending the Tax Matters Agreement, dated as of June 18, 2004, by and among Fortress Brookdale Acquisition LLC, Provident Senior Living Trust and Brookdale Living Communities, Inc., related to the Brookdale Agreement Regarding Leases (incorporated by reference to Exhibit 10.3.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.1	Master Lease Agreement, dated January 28, 2004, between Ventas Realty, Limited Partnership, BLC Adrian-GC, LLC, BLC Albuquerque-GC, LLC, BLC Dayton-GC, LLC and BLC Fort Myers-GC, LLC (incorporated by reference to Exhibit 10.4.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.2	First Amendment to Master Lease Agreement, dated February 20, 2004, by and between Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC; BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; and BLC Tavares-GC, LLC (incorporated by reference to Exhibit 10.4.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.3	Second Amendment to Master Lease Agreement, dated March 30, 2004, by and between Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC; BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; BLC Tavares-GC, LLC; BLC Las Vegas-GC, LLC; BLC Lubbock-GC, L.P.; and BLC Overland Park-GC, LLC (incorporated by reference to Exhibit 10.4.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.4	Third Amendment to Master Lease Agreement, dated May 13, 2004, by and between Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC; BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; BLC Tavares-GC, LLC; BLC Las Vegas-GC, LLC; BLC Lubbock-GC, L.P.; BLC Overland Park-GC, LLC;

	and Brookdale Living Communities of Illinois-GV, LLC (incorporated by reference to Exhibit 10.4.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.5	Fourth Amendment to Master Lease Agreement, dated October 19, 2004, by and among Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC; BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; BLC Tavares-GC, LLC; BLC Las Vegas-GC, LLC; BLC Lubbock-GC, L.P.; BLC Overland Park-GC, LLC; and Brookdale Living Communities of Illinois-GV, LLC (incorporated by reference to Exhibit 10.4.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.6	Fifth Amendment to Master Lease Agreement, dated May 18, 2005, effective as of April 30, 2005, by and between Ventas Realty, Limited Partnership, BLC Adrian-GC, LLC, BLC Albuquerque-GC, LLC, BLC Dayton-GC, LLC, BLC Fort Myers-GC, LLC, BLC Bristol-GC, LLC, BLC Tavares-GC, LLC, BLC Las Vegas-GC, LLC, BLC Lubbock-GC, L.P., BLC Overland Park-GC, LLC, Brookdale Living Communities Of Illinois-GV, LLC, BLC Belleville-GC, LLC, BLC Findlay-GC, LLC, and BLC Springfield-GC, LLC (incorporated by reference to Exhibit 10.4.6 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.5	Form of Property Lease Agreement with respect to the Provident-Brookdale properties (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.6	Form of Lease Guaranty with respect to the Provident-Brookdale properties (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.7.1	Guaranty of Lease, dated as of January 28, 2004, by Brookdale Living Communities, Inc., for the benefit of Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.7.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.2	First Amendment to Guaranty of Lease, dated as of February 20, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.7.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.3	Second Amendment to Guaranty of Lease, dated as of February 26, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.7.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.4	Third Amendment to Guaranty of Lease, dated as of March 10, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership and Ventas Kansas City I, LLC (incorporated by reference to Exhibit 10.7.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.5	Fourth Amendment to Guaranty of Lease, dated as of March 30, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas

	City I, LLC; Ventas Belleville, LLC; and Ventas Springfield/Findlay, LLC (incorporated by reference to Exhibit 10.7.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.6	Fifth Amendment to Guaranty of Lease, dated as of May 13, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; Ventas Farmington Hills, LLC; and Ventas Springfield/Findlay, LLC (incorporated by reference to Exhibit 10.7.6 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.7	Sixth Amendment to Guaranty of Lease, dated as of June 18, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; Ventas Springfield/Findlay, LLC; and Ventas Farmington Hills, LLC (incorporated by reference to Exhibit 10.7.7 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.8	Seventh Amendment to Guaranty of Lease, dated as of April 30, 2005, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; Ventas Springfield/Findlay, LLC; and Ventas Farmington Hills, LLC (incorporated by reference to Exhibit 10.7.8 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.8	Amended and Restated Limited Liability Company Agreement of Brookdale Senior Housing, LLC, dated October 19, 2004, among The Northwestern Mutual Life Insurance Company, AH Michigan Owner Limited Partnership, and AH Pennsylvania Owner Limited Partnership (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.9	Master Agreement regarding Brookdale Senior Housing, LLC and related matters, dated September 30, 2003, by and among The Northwestern Mutual Life Insurance Company, Brookdale Senior Housing, LLC, AH Michigan Owner Limited Partnership, AH Pennsylvania Owner Limited Partnership, AH Texas Owner Limited Partnership and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.10	Guarantee, dated September 30, 2003, by Brookdale Living Communities, Inc. on behalf of AH Pennsylvania Owner Limited Partnership and AH Michigan Owner Limited Partnership (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.11	Guarantee, dated September 30, 2003, by AH Pennsylvania Owner Limited Partnership, in favor of Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.12	Southfield Guarantee of Recourse Obligations (Single Guarantor), dated September 30, 2003, by Brookdale Living Communities, Inc. in connection with the loan made by Northwestern Mutual Life Insurance Company to Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.13	

	Guarantee of Member Obligations, dated September 30, 2003, among The Northwestern Mutual Life Insurance Company, AH Michigan Owner Limited Partnership, and AH Pennsylvania Owner Limited Partnership for Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.14	Devonshire First Open-End Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.15	Devonshire Second Open-End Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.16	Southfield First Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.25 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.17	Southfield Second Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.26 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.18	Gaines Ranch First Deed of Trust and Security Agreement, dated September 30, 2003, between AH Texas Owner Limited Partnership, Henry F. Lange, and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.27 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.19	Gaines Ranch Second Deed of Trust and Security Agreement, dated September 30, 2003, among AH Texas Owner Limited Partnership, Henry F. Lange, and Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.28 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.20	Gaines Ranch Third Deed of Trust and Security Agreement, dated September 30, 2003, among AH Texas Owner Limited Partnership, Henry F. Lange and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.29 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.21	Loan Agreement, dated March 30, 2005, among AH Battery Park Owner, LLC, KG Missouri-CC Owner, LLC, AH Illinois Owner, LLC, AH North Carolina, Owner, LLC, AH Ohio-Columbus Owner, LLC, Guarantee Bank, GMAC Commercial Mortgage Corporation and GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.30 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.22	Guaranty, dated March 30, 2005, among Brookdale Living Communities, Inc., Guarantee Bank, GMAC Commercial Mortgage Corporation and GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.31 to the Company's Registration Statement on

	Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.1	Loan Agreement, dated October 19, 2004, between LaSalle Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.2	Amendment No. 1 to Loan Agreement, dated March 1, 2005, between LaSalle National Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.3	Amendment No. 2 to Loan Agreement, dated March 24, 2005, between LaSalle National Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.4	Amendment No. 3 to Loan Agreement, dated May 26, 2005, between LaSalle National Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.24	Agreement for Management Services, dated July 13, 2004, effective as of August 1, 2004 by and between Cyprus Senior Management Services Limited Partnership and Brookdale Cyprus Management LLC (incorporated by reference to Exhibit 10.33 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.25	Loan Agreement, dated as of April 6, 2005, among General Electric Capital Corporation, Merrill Lynch Capital, FIT NBA Cypress Village LLC, FIT NBA Foxwood Springs LLC, FIT NBA Kansas Christian LLC, FIT NBA Patriot Heights LP, FIT NBA Ramsey LLC, FIT NBA Robin Run LP, and FIT NBA Skyline LLC (incorporated by reference to Exhibit 10.34 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.26	Assumption Agreement, dated September 30, 2005, by FIT Cypress Village LLC (F/K/A FIT NBA Cypress Village LLC), FIT Foxwood Springs LLC (F/K/A FIT NBA Foxwood Springs LLC), FIT Patriot Heights LP (F/K/A FIT NBA Patriot Heights LP), FIT Ramsey LLC (F/K/A FIT NBA Ramsey LLC), FIT Robin Run LP (F/K/A FIT NBA Robin Run LP), and FIT Skyline LLC (F/K/A FIT NBA Skyline LLC), Fortress Investment Trust II, Brookdale Senior Living Inc., Fortress CCRC Acquisition LLC (F/K/A Fortress NBA Acquisition, LLC), FIT Patriot Heights GP, Inc. (F/K/A FIT NBA Patriot Heights GP, Inc.), FIT Robin Run GP, Inc. (F/K/A FIT NBA Robin Run GP, Inc.), BLC-Cypress Village, LLC, BLC-Foxwood Springs, LLC, BLC-Ramsey, LLC, BLC-Village At Skyline, LLC, BLC-Patriot Heights, L.P., BLC-Robin Run, L.P., General Electric Capital Corporation, and Merrill Lynch Capital (incorporated by reference to Exhibit 10.35 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.27	Loan Agreement, dated December 31, 2004, by and between AHC Purchaser, Inc. and Merrill Lynch Capital (incorporated by reference to Exhibit 10.36 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	
10.28	Guaranty, dated as of December 31, 2004, by Alterra Healthcare Corporation and AHC Purchaser Holding, Inc. for the benefit of Merrill Lynch Capital (incorporated by reference to Exhibit 10.37 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.29	Loan Agreement, dated as of December 31, 2004, by and between AHC Purchaser Holding II, Inc. and Merrill Lynch Capital (incorporated by reference to Exhibit 10.38 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.30	Guaranty, dated as of December 31, 2004, by Alterra Healthcare Corporation for the benefit of Merrill Lynch Capital (incorporated by reference to Exhibit 10.39 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.31	Cross-Collateralization, Cross-Default and Cross-Guaranty Agreement, dated May 31, 2005, among AHC Purchaser, Inc., AHC Purchaser Holding II, Inc., Alterra Healthcare Corp., Ithaca Bundy Tenant, Inc., Ithaca Sterling Cottage Operator, Inc., Niagara Sterling Cottage Operator, Inc., Niagara Nash Tenant, Inc., and Clinton Sterling Cottage Operator, Inc., AHC Purchaser Holding, Inc. and Alternative Living Services—New York, Inc., and Merrill Lynch Capital (incorporated by reference to Exhibit 10.40 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.32**	Second Amended and Restated Master Lease Agreement, dated as of April 7, 2006, among Health Care REIT, Inc., HCRI North Carolina Properties III, Limited Partnership, HCRI Tennessee Properties, INC., HCRI Indiana Properties, LLC, HCRI Wisconsin Properties, LLC, and HCRI Texas Properties, Ltd., and Alterra Healthcare Corporation.
10.33.1	Master Lease, dated as of April 9, 2002, by and between Alterra Healthcare Corporation and Nationwide Health Properties, Inc. and its affiliates (incorporated by reference to Exhibit 10.42.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.33.2	First Amendment to Master Lease and Consent to Transfer, dated as of December 2, 2003, by and among Alterra Healthcare Corporation; Nationwide Health Properties, Inc.; NHP Texas Properties Limited Partnership; MLD Delaware trust; MLD Properties, LLC; NHP Silverwood Investments, Inc.; and NHP Westwood Investments, Inc. (incorporated by reference to Exhibit 10.42.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.33.3	Second Amendment to Master Lease, dated as of June 28, 2005, by and among Alterra Healthcare Corporation and Nationwide Health Properties, Inc., NH Texas Properties Limited Partnership, MLD Delaware Trust, MLD Properties, LLC, NHP Silverwood Investments, Inc., and NHP Westwood Investments, Inc. (incorporated by reference to Exhibit 10.42.3 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.34.1	Master Lease, dated as of April 9, 2002, by and among JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, L.P., JER/NHP Senior Living Wisconsin, LLC, JER/NHP Senior Living Kansas, Inc., ALS Leasing, Inc. and Assisted Living Properties, Inc. (incorporated by reference to Exhibit 10.43.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.34.2	First Amendment to Master Lease, Affirmation of Guaranty and Consent to Transfer, dated as of September 12, 2003, by and among ALS Leasing, Inc., Assisted Living Properties, Inc., JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, LP, JER/NHP Senior Living Wisconsin, LLC, JER/NHP Senior Living Kansas, Inc., and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.43.2 to

the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.34.3	Second Amendment to Master Lease, dated as of February 23, 2004, by and among ALS Leasing, Inc., Assisted Living Properties, Inc., JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, LP, JER/NHP Senior Living Wisconsin, LLC, JER/NHP Senior Living Kansas, Inc., and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.43.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.35	Guaranty of Lease and Letter of Credit Agreement dated as of April 9, 2002 by and among Alterra Healthcare Corporation, JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, L.P., JER/NHP Senior Living Wisconsin, LLC, and JER/NHP Senior Living Kansas, Inc. (incorporated by reference to Exhibit 10.44 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.36.1	Master Lease (Alterra Pool 2), dated as of October 7, 2002, by and between JER/NHP Senior Living Acquisition, LLC and ALS Leasing, Inc. (incorporated by reference to Exhibit 10.45.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.36.2	First Amendment to Master Lease, Affirmation of Guaranty and Consent to Transfer, dated September 12, 2003, by and among ALS Leasing, Inc., JER/NHP Senior Living Acquisition, LLC and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.45.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.37	Guaranty of Lease and Letter of Credit Agreement, dated as of October 7, 2002, by and between Alterra Healthcare Corporation and JER/NHP Senior Living Acquisition, LLC (incorporated by reference to Exhibit 10.46 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.38	Amended and Restated Lease, dated December 15, 2002, between LTC-K1 Inc., as lessor and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.47 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.39	Amended and Restated Lease, dated December 15, 2002, between LTC-K2 Limited Partnership, as lessor and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.48 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.40	Master Lease Agreement, dated December 15, 2002, between Kansas-LTC Corporation, as lessor, and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.49 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.41	Master Lease Agreement, dated December 15, 2002 among LTC Properties, Inc., Texas-LTC Limited Partnership, and North Carolina Real Estate Investments, LLC, as lessor, and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.50 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on

	August 9, 2005).
10.42.1	Lease Agreement, dated as of February 28, 2003, by AHC Trailside, Inc. in favor of SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.51.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.42.2	First Amendment to Lease Agreement, dated as of December 4, 2003, by and between AHC Trailside, Inc., and SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.51.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.43.1	Guaranty Agreement, dated as of February 28, 2003, by Alterra Healthcare Corporation in favor of SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.52.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.43.2	First Amendment to Guaranty Agreement, dated as of December 4, 2003, by Alterra Healthcare Corporation in favor of SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.52.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.44	Tri-Party Agreement, dated December 4, 2003, by and among SNH ALT Mortgaged Properties Trust, SNH ALT Leased Properties Trust, FIT-ALT SNH Loan LLC, Pomacy Corporation, AHC Trailside, Inc., and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.53 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.45.1	Property Lease Agreement, dated October 20, 2004, by and between PSLT-ALS Properties I, LLC, and ALS Properties Tenant I, LLC (incorporated by reference to Exhibit 10.54.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.45.2	Amended and Restated Property Lease Agreement, dated as of December 16, 2004, by and between PSLT-ALS Properties II, LLC and ALS Properties Tenant II, LLC (incorporated by reference to Exhibit 10.54.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.46	Sublease Agreement, dated October 21, 2004, by and between ALS Properties Tenant I, LLC and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.55 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.47	Agreement Regarding Leases, dated October 20, 2004, by and between ALS Properties Holding Company, LLC and PSLT-ALS Properties Holdings, LLC (incorporated by reference to Exhibit 10.56 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.48	Guaranty of Agreement Regarding Leases, dated October 20, 2004, by Alterra Healthcare Corporation in favor of PSLT-ALS Properties Holdings, LLC (incorporated by reference to Exhibit 10.57 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

10.49	Form of Property Lease Agreement with respect to the Provident-Alterra properties (incorporated by reference to Exhibit 10.58 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.50	Form of Lease Guaranty with respect to the Provident-Alterra Properties (incorporated by reference to Exhibit 10.59 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.51.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Park LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.60.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.51.2	Multifamily Note in the amount of $22,545,000, dated June 21, 2005, from FIT REN Park, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.60.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.51.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.60.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.51.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Park LP and Fannie Mae (incorporated by reference to Exhibit 10.60.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.52.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Nohl Ranch LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.61.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.52.2	Multifamily Note in the amount of $7,920,000, dated June 21, 2005, from FIT REN Nohl Ranch, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.61.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.52.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.61.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.52.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Nohl Ranch LP and Fannie Mae (incorporated by reference to Exhibit 10.61.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).

10.53.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Mirage Inn LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.62.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.53.2	Multifamily Note in the amount of $15,000,000, dated June 21, 2005, from FIT REN Mirage Inn, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.62.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.53.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.62.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.53.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Mirage Inn LP and Fannie Mae (incorporated by reference to Exhibit 10.62.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).

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Exhibit No.	Description
10.54.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Pacific Inn LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.63.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.54.2	Multifamily Note in the amount of $25,775,000, dated June 21, 2005, from FIT REN Pacific Inn, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.63.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.54.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.63.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.54.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Pacific Inn LP and Fannie Mae (incorporated by reference to Exhibit 10.63.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.55.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN The Gables LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.64.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.55.2	

	Multifamily Note in the amount of $5,255,000, dated June 21, 2005, from FIT REN The Gables, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.64.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.55.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.64.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.55.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN The Gables LP and Fannie Mae (incorporated by reference to Exhibit 10.64.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.56.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN The Lexington LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.65.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.56.2	Multifamily Note in the amount of $10,867,974.00, dated June 21, 2005 from FIT REN The Lexington, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.65.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.56.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.65.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.56.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN The Lexington LP and Fannie Mae (incorporated by reference to Exhibit 10.65.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.57.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Oak Tree LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.66.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.57.2	Multifamily Note in the amount of $23,305,026, dated June 21, 2005, from FIT REN Oak Tree, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.66.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.57.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to

	Exhibit 10.66.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.57.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Oak Tree LP and Fannie Mae (incorporated by reference to Exhibit 10.66.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.58.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Paulin Creek LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.67.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.58.2	Multifamily Note in the amount of $40,732,000, dated June 21, 2005, from FIT REN Paulin Creek, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.67.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.58.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.67.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.58.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Paulin Creek LP and Fannie Mae (incorporated by reference to Exhibit 10.67.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).

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Exhibit No.	Description
10.59.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated July 22, 2005, by FIT REN Ocean House LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.68.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.59.2	Multifamily Note in the amount of $19,600,000, dated July 22, 2005, from FIT REN Ocean House, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.68.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.59.3	Exceptions to Non Recourse Guaranty, dated July 22, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.68.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.59.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Ocean House LP and Fannie Mae (incorporated by reference to Exhibit 10.68.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No.

	333-127372) filed on October 11, 2005).
10.60	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and Mark J. Schulte (incorporated by reference to Exhibit 10.69 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.61	Employment Agreement dated September 8, 2005, by and between Brookdale Senior Living Inc., Alterra Healthcare Corporation and Mark W. Ohlendorf (incorporated by reference to Exhibit 10.70 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.62	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and John P. Rijos (incorporated by reference to Exhibit 10.71 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.63	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and R. Stanley Young (incorporated by reference to Exhibit 10.72 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.64	Employment Agreement dated September 8, 2005, by and between Brookdale Senior Living Inc., a Delaware corporation, Alterra Healthcare Corporation and Kristin A. Ferge (incorporated by reference to Exhibit 10.73 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.65	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and Deborah C. Paskin (incorporated by reference to Exhibit 10.74 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.66	Brookdale Living Communities, Inc. Employee Restricted Stock Plan (incorporated by reference to Exhibit 10.75 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).

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Exhibit No.	Description
10.67	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and Mark J. Schulte (incorporated by reference to Exhibit 10.76 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.68	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and John P. Rijos (incorporated by reference to Exhibit 10.77 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.69	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and R. Stanley Young (incorporated by reference to Exhibit 10.78 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.70	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and Deborah C. Paskin (incorporated by reference to Exhibit 10.79 to the Company's

	Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.71	FEBC-ALT Investors LLC Employee Restricted Securities Plan (incorporated by reference to Exhibit 10.80 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.72	Award Agreement dated August 9, 2005, by and between FEBC-ALT Investors LLC and Mark W. Ohlendorf (incorporated by reference to Exhibit 10.81 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.73	Award Agreement dated August 9, 2005, by and between FEBC-ALT Investors LLC and Kristin A. Ferge (incorporated by reference to Exhibit 10.82 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.1	ISDA Master Agreement, dated as of December 3, 2004, between Merrill Lynch Capital Services, Inc. and Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.2	Confirmation Letter, dated December 3, 2004, from Merrill Lynch Capital Services, Inc. to Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.2 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.3	Confirmation Letter, dated December 3, 2004, from Merrill Lynch Capital Services, Inc. to Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.3 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.4	Confirmation Letter, dated December 8, 2004, from Merrill Lynch Capital Services, Inc. to Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.4 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.75.1	ISDA Master Agreement, dated as of March 18, 2005, between Merrill Lynch Capital Services, Inc. and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.84.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).

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Exhibit No.	Description
10.75.2	Confirmation Letter, dated March 28, 2005, from Merrill Lynch Capital Services, Inc. to Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.84.2 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.1	ISDA Master Agreement, dated as of March 18, 2005, between LaSalle Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.2	

	Confirmation Letter, dated March 18, 2005, from LaSalle Bank National Association to Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.2 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.3	Confirmation Letter, dated March 24, 2005, from LaSalle Bank National Association to Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.3 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.4	Confirmation Letter, dated March 24, 2005, from LaSalle Bank National Association to Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.4 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.77	Exchange and Stockholder Agreement, dated September 30, 2005, by and among Brookdale Senior Living Inc., Fortress Brookdale Acquisition LLC and Mark J. Schulte. (incorporated by reference to Exhibit 10.86 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.78	Brookdale Senior Living Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.87 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.79.1	Credit Agreement, dated as of February 10, 2006, among Brookdale Senior Living Inc., as Borrower, the several lenders from time to time parties thereto, Lehman Brothers Inc., as lead arranger, LaSalle Bank National Association, as syndication agent, Goldman Sachs Credit Partners L.P., Citigroup Global Markets Inc., and LaSalle Bank National Association, as co-arrangers, Goldman Sachs Credit Partners L.P. and Citicorp North America, Inc. as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 13, 2006).
10.79.2	Guarantee and Pledge Agreement, dated as of February 10, 2006, made by Brookdale Senior Living Inc. and certain of its Subsidiaries in favor of Lehman Commercial Paper Inc., as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 13, 2006).
10.79.3*	First Amendment, Consent and Waiver to Credit Agreement, dated May 10, 2006, among Brookdale Senior Living Inc., as Borrower, the several banks and other financial institutions or entities from time to time parties thereto, Lehman Brothers Inc, as lead arranger, Goldman Sachs Credit Partners L.P., Citigroup Global Markets Inc. and LaSalle Bank National Association, as co-arrangers, LaSalle Bank National Association, as syndication agent, Goldman Sachs Credit Partners L.P. and Citicorp North America, Inc., as co-documentation agents and Lehman Commercial Paper Inc., as administrative agent (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2006).

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Exhibit No.	Description
10.80*	Investment Agreement, dated as of May 12, 2006, by and among Brookdale Senior Living Inc. and RIC Coinvestment Fund LP (incorporated by reference to Exhibit 10.1 to the

	Company's Current Report on Form 8-K filed on May 12, 2006).
10.81*	Form of Option Agreement by and among Brookdale Senior Living Inc. and RIC Coinvestment Fund LP (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 12, 2006).
10.82*	Employment Agreement, dated May 12, 2006, by and between Brookdale Senior Living Inc. and W.E. Sheriff (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 12, 2006).
10.83*	Form of Employment Agreement for Gregory B. Richard, George T. Hicks, Bryan D. Richardson, H. Todd Kaestner and James T. Money (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on May 12, 2006).
10.84	Master Lease Agreement, dated March 29, 2002, between Health Care Property Investors Inc., and Texas HCP Holding, L.P., as Lessors, and ARC Shavano, L.P., ARC Richmond Heights, LLC, ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., and ARC Post Oak, L.P., as Lessees (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on May 15, 2002).
10.85	Second Amendment to Master Lease Agreement (Phase I), dated February 28, 2003, between Health Care Property Investors, Inc. and Texas HCP Holding, L.P., as Lessors, and ARC Richmond Heights, LLC, ARC Shavano, L.P., ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., ARC Post Oak, L.P., and ARC Boynton Beach, LLC, as Lessees (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on May 9, 2003).
10.86	Fourth Amendment to Master Lease Agreement (Phase I), dated July 15, 2004, between Health Care Property Investors, Inc. and Texas HCP Holding, L.P., as Lessors, and ARC Richmond Heights, LLC, ARC Shavano, L.P., ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., ARC Post Oak, L.P., and ARC Boynton Beach, LLC, as Lessees (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 11, 2004).
10.87	First Amendment to Master Lease Agreement (Phase III), dated July 15, 2004, between Health Care Property Investors, Inc., Texas HCP Holding, L.P., and Texas HCP Revx, L.P., ARC Richmond Place Real Estate Holdings, LLC, ARC Holland Real Estate Holdings, LLC, ARC Sun City Center Real Estate Holdings, LLC, and ARC Labarc Real Estate Holdings, LLC, as Lessors, and Fort Austin Limited Partnership, ARC Santa Catalina, Inc., ARC Richmond Place, Inc., Freedom Village of Holland, Michigan, Freedom Village of Sun City Center, Ltd., and Labarc L.P., as Lessees (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 11, 2004).
10.88	Second Amendment to Master Lease (Phase III), dated June 30, 2005, by and between Health Care Property Investors, Inc., Texas HCP Holding, L.P., for itself and as successor-by-merger to Texas HCP REVX, L.P., ARC Richmond Place Real Estate Holdings, LLC, ARC Holland Real Estate Holdings, LLC, ARC Sun City Center Real Estate Holdings, LLC, and ARC LaBARC Real Estate Holdings, LLC, as Lessors, and Fort Austin Limited Partnership, ARC Santa Catalina, Inc., ARC Richmond Place, Inc., Freedom Village of Holland, Michigan, Freedom Village of Sun City Center, Ltd., and LaBARC, L.P., as Lessees (incorporated by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 5, 2005).

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Exhibit No.	Description
10.89	Fifth Amendment to Master Lease (Phase I), dated June 30, 2005, between Health Care Property Investors, Inc. and Texas HCP Holding, L.P., as Lessors, and ARC Richmond Heights, LLC, ARC Shavano, L.P., ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., ARC Post Oak, L.P., and ARC Boynton Beach, LLC, as Lessees (incorporated by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 5, 2005).
21.1	Subsidiaries of the registrant (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
23.1	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 5.1)
23.2	Consent of Ernst & Young LLP—Chicago, Illinois
23.3	Consent of Ernst & Young LLP—Dallas, Texas
23.4	Consent of KPMG LLP—Milwaukee, Wisconsin
23.5	Consent of KPMG LLP—Nashville, Tennessee
24.1	Powers of Attorney (included on the signature pages hereto)

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*Schedules and exhibits omitted pursuant to Item 601(b)(2) of Reg. S-K. The Company agrees to furnish supplementally a copy of any omitted schedule to the Commission upon request.

**Previously filed.

B. Financial Statement Schedules

See Schedule II—Valuation and Qualification Accounts, included in the Combined Financial Statements in Part I of this Registration Statement.

Item 17. Undertakings

(1) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted against the registrant by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(2) The undersigned registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) The undersigned hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Amendment No. 1 to the Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago, State of Illinois, on July 10, 2006.

BROOKDALE SENIOR LIVING INC.
By: /s/ Mark J. Schulte
Name: Mark J. Schulte
Title: Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
* Wesley R. Edens	Chairman of the Board	July 10, 2006
/s/ Mark J. Schulte Mark J. Schulte	Chief Executive Officer	July 10, 2006
* R. Stanley Young	Executive Vice President, Chief Financial Officer and Chief Accounting Officer	July 10, 2006
* William B. Doniger	Director	July 10, 2006
* Bradley E. Cooper	Director	July 10, 2006
* Jackie M. Clegg	Director	July 10, 2006
*	Director	July 10, 2006

Jeffrey G. Edwards

* Jeffrey R. Leeds	Director	July 10, 2006
* Samuel Waxman	Director	July 10, 2006

* By/s/ Mark J. Schulte
Mark J. Schulte
Attorney-in-fact

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INDEX TO EXHIBITS

Item 16. Exhibits and Financial Statement Schedules

A. Exhibits

Exhibit No.	Description
1.1*	Form of Underwriting Agreement
2.1.1	Asset Purchase Agreement, dated as of September 3, 2004, by and among Fortress CCRC Acquisition LLC, as purchaser, Fortress Investment Fund II LLC, as guarantor, and The National Benevolent Association of the Christian Church (Disciples of Christ) and certain of its affiliated entities, as sellers (incorporated by reference to Exhibit 2.2.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.2	Letter Agreement, dated March 9, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress CCRC Acquisition LLC and Fortress Investment Fund II LLC, regarding amendment of the Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.3	Letter Agreement dated April 6, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress CCRC Acquisition, LLC, and Fortress Investment Fund II LLC, regarding Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.4	Letter Agreement, dated April 14, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress NBA Acquisition LLC, and Fortress Investment Fund II LLC, regarding Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.5	Supplemental Agreement with Respect to the Asset Purchase Agreement, dated as of

	September 30, 2004, by and among Fortress CCRC Acquisition LLC, Fortress Investment Fund II LLC, The National Benevolent Association of the Christian Church (Disciples of Christ) and certain of its affiliated entities and the Official Committee of Residents appointed in Chapter 11 Case of The National Benevolent Association of the Christian Church (Disciples of Christ) (incorporated by reference to Exhibit 2.2.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.2.1	Purchase and Sale Agreement, dated March 16, 2005, by and among SHP Pacific Inn, LLC; SHP Nohl Ranch, LLC; SHP Gables, LLC; SHP Oak Tree Villa, LLC; SHP Lexington, LLC; SHP Inn at the Park, LLC; SHP Paulin Creek, LLC; SHP Mirage Inn, LLC; SHP Ocean House, LLC, as sellers, and FIT REN LLC, as purchaser ((incorporated by reference to Exhibit 2.3.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.2.2	First Amendment to Purchase and Sale Agreement, dated June 10, 2005, by and between SHP Pacific Inn, LLC; SHP Nohl Ranch, LLC; SHP Gables, LLC; SHP Oak Tree Villa, LLC; SHP Lexington, LLC; SHP Inn at the Park, LLC; SHP Paulin Creek, LLC; SHP Mirage Inn, LLC; and SHP Ocean House, LLC, as seller, and FIT REN LLC, as buyer (incorporated by reference to Exhibit 2.3.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.3	Membership Interest Purchase Agreement (Creve Coeur), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.7 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
2.4	Stock Purchase Agreement (Raleigh), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.8 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.5	Stock Purchase Agreement (Glen Ellyn), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.9 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.6	Membership Interest Purchase Agreement (Trillium Place), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.10 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.7	Membership Interest Purchase Agreement (Battery Park), dated as of December 1, 2005, between Brookdale Development, LLC and Alliance Holdings Inc. (incorporated by reference to Exhibit 2.7 to the Company's Annual Report on Form 10-K filed on March 31, 2006)
2.8	Membership Interest Purchase Agreement, dated June 29, 2005, by and among NW Select LLC, Emeritus Corporation, FIT-ALT Investor LLC and Brookdale Senior Living Inc. (incorporated by reference to Exhibit 2.11 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.9*	Conveyance Agreement, dated as of September 30, 2005, by and among Brookdale Senior Living Inc., Brookdale Living Communities, Inc., BSL Brookdale Merger Inc., BSL CCRC

	Merger Inc., BSL FEBC Merger Inc., Emeritus Corporation, FEBC-ALT Investors LLC, FIT-ALT Investor LLC, Fortress CCRC Acquisition LLC, Fortress Investment Trust II, Fortress Registered Investment Trust, Fortress Brookdale Acquisition LLC, Health Partners and NW Select LLC (incorporated by reference to Exhibit 2.12 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
2.10*	Amended and Restated Agreement and Plan of Merger, dated March 30, 2006, by and between BLC Acquisitions, Inc., SALI Merger Sub Inc., and Southern Assisted Living, Inc. (incorporated by reference to Exhibit 2.10 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
2.11*	Stock Purchase Agreement, dated December 30, 2005, by and between Brookdale Communities, Inc. and Capstead Mortgage Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on December 30, 2005).
2.12*	Asset Purchase Agreement, dated January 11, 2006, by and between BLC Acquisitions, Inc., as buyer, and Health Care Properties I, LLC; Health Care Properties IV, LLC; Health Care Properties VI, LLC; Health Care Properties VII, LLC; Health Care Properties VIII, LLC; Health Care Properties IX, LLC; Health Care Properties X, LLC; Health Care Properties XI, LLC; Health Care Properties XII, LLC; Health Care Properties XIII, LLC; Health Care Properties XV, Ltd.; Health Care Properties XVI, LLC; Health Care Properties XVII, Ltd.; Health Care Properties XVIII, LLC; Health Care Properties XX, LLC; Health Care Properties XXIII, LLC; Health Care Properties XXIV, LLC; Health Care Properties XXV, LLC; Health Care Properties XXVII, LLC; Cleveland Health Care Investors, LLC; and Wellington SPE, LLC, as sellers (incorporated by reference to Exhibit 2.12 to the Company's Annual Report on Form 10-K filed on March 31, 2006).

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Exhibit No.	Description
2 .13*	Asset Purchase Agreement, dated January 12, 2006, by and between AHC Acquisitions, Inc., as buyer, and American Senior Living Limited Partnership; American Senior Living of Fort Walton Beach, FL, LLC; American Senior Living of Jacksonville, LLC; American Senior Living of Jacksonville-SNF, LLC; American Senior Living of Titusville, FL, LLC; ASL Senior Housing, LLC; American Senior Living of Destin, FL, LLC; and American Senior Living of New Port Richey, FL, LLC, as sellers. (incorporated by reference to Exhibit 2.13 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
2 .14*	Purchase and Sale Agreement, dated as of February 7, 2006, among BLC Acquisitions, Inc., as buyer, and PG Santa Monica Senior Housing, LP; PG Tarzana Senior Housing, LP; PG Chino Senior Housing, LP; The Fairways Senior Housing, LLC; AEW/Careage— Federal Way, LLC; AEW/Careage—Bakersfield, LLC; and AEW/Careage—Bakersfield SNF, LLC, as sellers (incorporated by reference to Exhibit 2.14 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
2 .15*	Agreement and Plan of Merger, dated as of May 12, 2006, by and among Brookdale Senior Living Inc., Beta Merger Sub Corporation, and American Retirement Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 12, 2006).
3 .1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).

3 .2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
4 .1	Form of Certificate for common stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
4 .2	Stockholders Agreement, dated as of November 28, 2005, by and among Brookdale Senior Living Inc., FIT-ALT Investor LLC, Fortress Brookdale Acquisition LLC, Fortress Investment Trust II and Health Partners. (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
5 .1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP relating to the validity of the common stock.
10.1.1	Agreement Regarding Leases, dated October 19, 2004, by and between Brookdale Provident Properties, LLC and PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.1.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.1.2	Letter Agreement, dated March 28, 2005, regarding the Agreement Regarding Leases, dated October 19, 2004, by and between Brookdale Provident Properties, LLC and PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.1.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.2	Guaranty of Agreement Regarding Leases, dated October 19, 2004, by Brookdale Living Communities, Inc., in favor of PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.3.1	Tax Matters Agreement, dated as of June 18, 2004, by and among Fortress Brookdale Acquisition LLC, Provident Senior Living Trust and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.3.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.3.2	Letter Agreement, dated March 28, 2005, amending the Tax Matters Agreement, dated as of June 18, 2004, by and among Fortress Brookdale Acquisition LLC, Provident Senior Living Trust and Brookdale Living Communities, Inc., related to the Brookdale Agreement Regarding Leases (incorporated by reference to Exhibit 10.3.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.1	Master Lease Agreement, dated January 28, 2004, between Ventas Realty, Limited Partnership, BLC Adrian-GC, LLC, BLC Albuquerque-GC, LLC, BLC Dayton-GC, LLC and BLC Fort Myers-GC, LLC (incorporated by reference to Exhibit 10.4.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.2	First Amendment to Master Lease Agreement, dated February 20, 2004, by and between Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC; BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; and BLC Tavares-GC, LLC (incorporated by reference to Exhibit 10.4.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.3	Second Amendment to Master Lease Agreement, dated March 30, 2004, by and between Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC;

	BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; BLC Tavares-GC, LLC; BLC Las Vegas-GC, LLC; BLC Lubbock-GC, L.P.; and BLC Overland Park-GC, LLC (incorporated by reference to Exhibit 10.4.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.4	Third Amendment to Master Lease Agreement, dated May 13, 2004, by and between Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC; BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; BLC Tavares-GC, LLC; BLC Las Vegas-GC, LLC; BLC Lubbock-GC, L.P.; BLC Overland Park-GC, LLC; and Brookdale Living Communities of Illinois-GV, LLC (incorporated by reference to Exhibit 10.4.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.5	Fourth Amendment to Master Lease Agreement, dated October 19, 2004, by and among Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC; BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; BLC Tavares-GC, LLC; BLC Las Vegas-GC, LLC; BLC Lubbock-GC, L.P.; BLC Overland Park-GC, LLC; and Brookdale Living Communities of Illinois-GV, LLC (incorporated by reference to Exhibit 10.4.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.6	Fifth Amendment to Master Lease Agreement, dated May 18, 2005, effective as of April 30, 2005, by and between Ventas Realty, Limited Partnership, BLC Adrian-GC, LLC, BLC Albuquerque-GC, LLC, BLC Dayton-GC, LLC, BLC Fort Myers-GC, LLC, BLC Bristol-GC, LLC, BLC Tavares-GC, LLC, BLC Las Vegas-GC, LLC, BLC Lubbock-GC, L.P., BLC Overland Park-GC, LLC, Brookdale Living Communities Of Illinois-GV, LLC, BLC Belleville-GC, LLC, BLC Findlay-GC, LLC, and BLC Springfield-GC, LLC (incorporated by reference to Exhibit 10.4.6 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.5	Form of Property Lease Agreement with respect to the Provident-Brookdale properties (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.6	Form of Lease Guaranty with respect to the Provident-Brookdale properties (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.7.1	Guaranty of Lease, dated as of January 28, 2004, by Brookdale Living Communities, Inc., for the benefit of Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.7.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.2	First Amendment to Guaranty of Lease, dated as of February 20, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.7.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.3	Second Amendment to Guaranty of Lease, dated as of February 26, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.7.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

10.7.4	Third Amendment to Guaranty of Lease, dated as of March 10, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership and Ventas Kansas City I, LLC (incorporated by reference to Exhibit 10.7.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.5	Fourth Amendment to Guaranty of Lease, dated as of March 30, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; and Ventas Springfield/Findlay, LLC (incorporated by reference to Exhibit 10.7.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.6	Fifth Amendment to Guaranty of Lease, dated as of May 13, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; Ventas Farmington Hills, LLC; and Ventas Springfield/Findlay, LLC (incorporated by reference to Exhibit 10.7.6 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.7	Sixth Amendment to Guaranty of Lease, dated as of June 18, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; Ventas Springfield/Findlay, LLC; and Ventas Farmington Hills, LLC (incorporated by reference to Exhibit 10.7.7 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.8	Seventh Amendment to Guaranty of Lease, dated as of April 30, 2005, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; Ventas Springfield/Findlay, LLC; and Ventas Farmington Hills, LLC (incorporated by reference to Exhibit 10.7.8 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.8	Amended and Restated Limited Liability Company Agreement of Brookdale Senior Housing, LLC, dated October 19, 2004, among The Northwestern Mutual Life Insurance Company, AH Michigan Owner Limited Partnership, and AH Pennsylvania Owner Limited Partnership (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.9	Master Agreement regarding Brookdale Senior Housing, LLC and related matters, dated September 30, 2003, by and among The Northwestern Mutual Life Insurance Company, Brookdale Senior Housing, LLC, AH Michigan Owner Limited Partnership, AH Pennsylvania Owner Limited Partnership, AH Texas Owner Limited Partnership and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.10	Guarantee, dated September 30, 2003, by Brookdale Living Communities, Inc. on behalf of AH Pennsylvania Owner Limited Partnership and AH Michigan Owner Limited Partnership (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.11	Guarantee, dated September 30, 2003, by AH Pennsylvania Owner Limited Partnership, in favor of Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.12	Southfield Guarantee of Recourse Obligations (Single Guarantor), dated September 30, 2003, by Brookdale Living Communities, Inc. in connection with the loan made by

	Northwestern Mutual Life Insurance Company to Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.13	Guarantee of Member Obligations, dated September 30, 2003, among The Northwestern Mutual Life Insurance Company, AH Michigan Owner Limited Partnership, and AH Pennsylvania Owner Limited Partnership for Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.14	Devonshire First Open-End Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.15	Devonshire Second Open-End Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.16	Southfield First Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.25 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.17	Southfield Second Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.26 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.18	Gaines Ranch First Deed of Trust and Security Agreement, dated September 30, 2003, between AH Texas Owner Limited Partnership, Henry F. Lange, and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.27 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.19	Gaines Ranch Second Deed of Trust and Security Agreement, dated September 30, 2003, among AH Texas Owner Limited Partnership, Henry F. Lange, and Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.28 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.20	Gaines Ranch Third Deed of Trust and Security Agreement, dated September 30, 2003, among AH Texas Owner Limited Partnership, Henry F. Lange and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.29 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.21	Loan Agreement, dated March 30, 2005, among AH Battery Park Owner, LLC, KG Missouri-CC Owner, LLC, AH Illinois Owner, LLC, AH North Carolina, Owner, LLC, AH Ohio-Columbus Owner, LLC, Guarantee Bank, GMAC Commercial Mortgage Corporation and GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.30 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.22	Guaranty, dated March 30, 2005, among Brookdale Living Communities, Inc., Guarantee Bank, GMAC Commercial Mortgage Corporation and GMAC Commercial Mortgage Bank

	(incorporated by reference to Exhibit 10.31 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.1	Loan Agreement, dated October 19, 2004, between LaSalle Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.2	Amendment No. 1 to Loan Agreement, dated March 1, 2005, between LaSalle National Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.3	Amendment No. 2 to Loan Agreement, dated March 24, 2005, between LaSalle National Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.4	Amendment No. 3 to Loan Agreement, dated May 26, 2005, between LaSalle National Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.24	Agreement for Management Services, dated July 13, 2004, effective as of August 1, 2004 by and between Cyprus Senior Management Services Limited Partnership and Brookdale Cyprus Management LLC (incorporated by reference to Exhibit 10.33 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.25	Loan Agreement, dated as of April 6, 2005, among General Electric Capital Corporation, Merrill Lynch Capital, FIT NBA Cypress Village LLC, FIT NBA Foxwood Springs LLC, FIT NBA Kansas Christian LLC, FIT NBA Patriot Heights LP, FIT NBA Ramsey LLC, FIT NBA Robin Run LP, and FIT NBA Skyline LLC (incorporated by reference to Exhibit 10.34 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.26	Assumption Agreement, dated September 30, 2005, by FIT Cypress Village LLC (F/K/A FIT NBA Cypress Village LLC), FIT Foxwood Springs LLC (F/K/A FIT NBA Foxwood Springs LLC), FIT Patriot Heights LP (F/K/A FIT NBA Patriot Heights LP), FIT Ramsey LLC (F/K/A FIT NBA Ramsey LLC), FIT Robin Run LP (F/K/A FIT NBA Robin Run LP), and FIT Skyline LLC (F/K/A FIT NBA Skyline LLC), Fortress Investment Trust II, Brookdale Senior Living Inc., Fortress CCRC Acquisition LLC (F/K/A Fortress NBA Acquisition, LLC), FIT Patriot Heights GP, Inc. (F/K/A FIT NBA Patriot Heights GP, Inc.), FIT Robin Run GP, Inc. (F/K/A FIT NBA Robin Run GP, Inc.), BLC-Cypress Village, LLC, BLC-Foxwood Springs, LLC, BLC-Ramsey, LLC, BLC-Village At Skyline, LLC, BLC-Patriot Heights, L.P., BLC-Robin Run, L.P., General Electric Capital Corporation, and Merrill Lynch Capital (incorporated by reference to Exhibit 10.35 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.27	Loan Agreement, dated December 31, 2004, by and between AHC Purchaser, Inc. and Merrill Lynch Capital (incorporated by reference to Exhibit 10.36 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description

10.28	Guaranty, dated as of December 31, 2004, by Alterra Healthcare Corporation and AHC Purchaser Holding, Inc. for the benefit of Merrill Lynch Capital (incorporated by reference to Exhibit 10.37 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.29	Loan Agreement, dated as of December 31, 2004, by and between AHC Purchaser Holding II, Inc. and Merrill Lynch Capital (incorporated by reference to Exhibit 10.38 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.30	Guaranty, dated as of December 31, 2004, by Alterra Healthcare Corporation for the benefit of Merrill Lynch Capital (incorporated by reference to Exhibit 10.39 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.31	Cross-Collateralization, Cross-Default and Cross-Guaranty Agreement, dated May 31, 2005, among AHC Purchaser, Inc., AHC Purchaser Holding II, Inc., Alterra Healthcare Corp., Ithaca Bundy Tenant, Inc., Ithaca Sterling Cottage Operator, Inc., Niagara Sterling Cottage Operator, Inc., Niagara Nash Tenant, Inc., and Clinton Sterling Cottage Operator, Inc., AHC Purchaser Holding, Inc. and Alternative Living Services—New York, Inc., and Merrill Lynch Capital (incorporated by reference to Exhibit 10.40 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.32**	Second Amended and Restated Master Lease Agreement, dated as of April 7, 2006, among Health Care REIT, Inc., HCRI North Carolina Properties III, Limited Partnership, HCRI Tennessee Properties, INC., HCRI Indiana Properties, LLC, HCRI Wisconsin Properties, LLC, and HCRI Texas Properties, Ltd., and Alterra Healthcare Corporation.
10.33.1	Master Lease, dated as of April 9, 2002, by and between Alterra Healthcare Corporation and Nationwide Health Properties, Inc. and its affiliates (incorporated by reference to Exhibit 10.42.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.33.2	First Amendment to Master Lease and Consent to Transfer, dated as of December 2, 2003, by and among Alterra Healthcare Corporation; Nationwide Health Properties, Inc.; NHP Texas Properties Limited Partnership; MLD Delaware trust; MLD Properties, LLC; NHP Silverwood Investments, Inc.; and NHP Westwood Investments, Inc. (incorporated by reference to Exhibit 10.42.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.33.3	Second Amendment to Master Lease, dated as of June 28, 2005, by and among Alterra Healthcare Corporation and Nationwide Health Properties, Inc., NH Texas Properties Limited Partnership, MLD Delaware Trust, MLD Properties, LLC, NHP Silverwood Investments, Inc., and NHP Westwood Investments, Inc. (incorporated by reference to Exhibit 10.42.3 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.34.1	Master Lease, dated as of April 9, 2002, by and among JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, L.P., JER/NHP Senior Living Wisconsin, LLC, JER/NHP Senior Living Kansas, Inc., ALS Leasing, Inc. and Assisted Living Properties, Inc. (incorporated by reference to Exhibit 10.43.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.34.2	First Amendment to Master Lease, Affirmation of Guaranty and Consent to Transfer, dated as of September 12, 2003, by and among ALS Leasing, Inc., Assisted Living Properties, Inc., JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, LP, JER/NHP Senior Living Wisconsin, LLC, JER/NHP Senior Living Kansas, Inc., and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.43.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.34.3	Second Amendment to Master Lease, dated as of February 23, 2004, by and among ALS Leasing, Inc., Assisted Living Properties, Inc., JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, LP, JER/NHP Senior Living Wisconsin, LLC, JER/NHP Senior Living Kansas, Inc., and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.43.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.35	Guaranty of Lease and Letter of Credit Agreement dated as of April 9, 2002 by and among Alterra Healthcare Corporation, JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, L.P., JER/NHP Senior Living Wisconsin, LLC, and JER/NHP Senior Living Kansas, Inc. (incorporated by reference to Exhibit 10.44 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.36.1	Master Lease (Alterra Pool 2), dated as of October 7, 2002, by and between JER/NHP Senior Living Acquisition, LLC and ALS Leasing, Inc. (incorporated by reference to Exhibit 10.45.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.36.2	First Amendment to Master Lease, Affirmation of Guaranty and Consent to Transfer, dated September 12, 2003, by and among ALS Leasing, Inc., JER/NHP Senior Living Acquisition, LLC and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.45.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.37	Guaranty of Lease and Letter of Credit Agreement, dated as of October 7, 2002, by and between Alterra Healthcare Corporation and JER/NHP Senior Living Acquisition, LLC (incorporated by reference to Exhibit 10.46 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.38	Amended and Restated Lease, dated December 15, 2002, between LTC-K1 Inc., as lessor and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.47 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.39	Amended and Restated Lease, dated December 15, 2002, between LTC-K2 Limited Partnership, as lessor and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.48 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.40	Master Lease Agreement, dated December 15, 2002, between Kansas-LTC Corporation, as lessor, and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.49 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.41	Master Lease Agreement, dated December 15, 2002 among LTC Properties, Inc., Texas-LTC Limited Partnership, and North Carolina Real Estate Investments, LLC, as lessor, and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.50 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.42.1	Lease Agreement, dated as of February 28, 2003, by AHC Trailside, Inc. in favor of SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.51.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9,

	2005).
10.42.2	First Amendment to Lease Agreement, dated as of December 4, 2003, by and between AHC Trailside, Inc., and SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.51.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.43.1	Guaranty Agreement, dated as of February 28, 2003, by Alterra Healthcare Corporation in favor of SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.52.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.43.2	First Amendment to Guaranty Agreement, dated as of December 4, 2003, by Alterra Healthcare Corporation in favor of SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.52.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.44	Tri-Party Agreement, dated December 4, 2003, by and among SNH ALT Mortgaged Properties Trust, SNH ALT Leased Properties Trust, FIT-ALT SNH Loan LLC, Pomacy Corporation, AHC Trailside, Inc., and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.53 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.45.1	Property Lease Agreement, dated October 20, 2004, by and between PSLT-ALS Properties I, LLC, and ALS Properties Tenant I, LLC (incorporated by reference to Exhibit 10.54.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.45.2	Amended and Restated Property Lease Agreement, dated as of December 16, 2004, by and between PSLT-ALS Properties II, LLC and ALS Properties Tenant II, LLC (incorporated by reference to Exhibit 10.54.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.46	Sublease Agreement, dated October 21, 2004, by and between ALS Properties Tenant I, LLC and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.55 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.47	Agreement Regarding Leases, dated October 20, 2004, by and between ALS Properties Holding Company, LLC and PSLT-ALS Properties Holdings, LLC (incorporated by reference to Exhibit 10.56 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.48	Guaranty of Agreement Regarding Leases, dated October 20, 2004, by Alterra Healthcare Corporation in favor of PSLT-ALS Properties Holdings, LLC (incorporated by reference to Exhibit 10.57 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.49	Form of Property Lease Agreement with respect to the Provident-Alterra properties (incorporated by reference to Exhibit 10.58 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.50	Form of Lease Guaranty with respect to the Provident-Alterra Properties (incorporated by reference to Exhibit 10.59 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

10.51.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Park LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.60.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.51.2	Multifamily Note in the amount of $22,545,000, dated June 21, 2005, from FIT REN Park, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.60.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.51.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.60.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.51.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Park LP and Fannie Mae (incorporated by reference to Exhibit 10.60.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.52.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Nohl Ranch LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.61.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.52.2	Multifamily Note in the amount of $7,920,000, dated June 21, 2005, from FIT REN Nohl Ranch, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.61.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.52.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.61.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.52.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Nohl Ranch LP and Fannie Mae (incorporated by reference to Exhibit 10.61.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.53.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Mirage Inn LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.62.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.53.2	Multifamily Note in the amount of $15,000,000, dated June 21, 2005, from FIT REN Mirage Inn, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.62.2 to the Company's Registration Statement on Form S-1 (No. 333-127372)

	filed on August 9, 2005).
10.53.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.62.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.53.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Mirage Inn LP and Fannie Mae (incorporated by reference to Exhibit 10.62.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).

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Exhibit No.	Description
10.54.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Pacific Inn LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.63.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.54.2	Multifamily Note in the amount of $25,775,000, dated June 21, 2005, from FIT REN Pacific Inn, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.63.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.54.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.63.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.54.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Pacific Inn LP and Fannie Mae (incorporated by reference to Exhibit 10.63.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.55.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN The Gables LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.64.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.55.2	Multifamily Note in the amount of $5,255,000, dated June 21, 2005, from FIT REN The Gables, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.64.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.55.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.64.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.55.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN The Gables LP and Fannie Mae (incorporated by reference to Exhibit 10.64.4 to

	the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.56.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN The Lexington LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.65.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.56.2	Multifamily Note in the amount of $10,867,974.00, dated June 21, 2005 from FIT REN The Lexington, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.65.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.56.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.65.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.56.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN The Lexington LP and Fannie Mae (incorporated by reference to Exhibit 10.65.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.57.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Oak Tree LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.66.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.57.2	Multifamily Note in the amount of $23,305,026, dated June 21, 2005, from FIT REN Oak Tree, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.66.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.57.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.66.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.57.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Oak Tree LP and Fannie Mae (incorporated by reference to Exhibit 10.66.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.58.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Paulin Creek LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.67.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.58.2	

	Multifamily Note in the amount of $40,732,000, dated June 21, 2005, from FIT REN Paulin Creek, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.67.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.58.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.67.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.58.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Paulin Creek LP and Fannie Mae (incorporated by reference to Exhibit 10.67.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.59.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated July 22, 2005, by FIT REN Ocean House LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.68.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.59.2	Multifamily Note in the amount of $19,600,000, dated July 22, 2005, from FIT REN Ocean House, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.68.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.59.3	Exceptions to Non Recourse Guaranty, dated July 22, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.68.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.59.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Ocean House LP and Fannie Mae (incorporated by reference to Exhibit 10.68.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.60	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and Mark J. Schulte (incorporated by reference to Exhibit 10.69 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.61	Employment Agreement dated September 8, 2005, by and between Brookdale Senior Living Inc., Alterra Healthcare Corporation and Mark W. Ohlendorf (incorporated by reference to Exhibit 10.70 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.62	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and John P. Rijos (incorporated by reference to Exhibit 10.71 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.63	

	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and R. Stanley Young (incorporated by reference to Exhibit 10.72 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.64	Employment Agreement dated September 8, 2005, by and between Brookdale Senior Living Inc., a Delaware corporation, Alterra Healthcare Corporation and Kristin A. Ferge (incorporated by reference to Exhibit 10.73 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.65	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and Deborah C. Paskin (incorporated by reference to Exhibit 10.74 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.66	Brookdale Living Communities, Inc. Employee Restricted Stock Plan (incorporated by reference to Exhibit 10.75 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.67	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and Mark J. Schulte (incorporated by reference to Exhibit 10.76 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.68	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and John P. Rijos (incorporated by reference to Exhibit 10.77 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).

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Exhibit No.	Description
10.69	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and R. Stanley Young (incorporated by reference to Exhibit 10.78 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.70	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and Deborah C. Paskin (incorporated by reference to Exhibit 10.79 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.71	FEBC-ALT Investors LLC Employee Restricted Securities Plan (incorporated by reference to Exhibit 10.80 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.72	Award Agreement dated August 9, 2005, by and between FEBC-ALT Investors LLC and Mark W. Ohlendorf (incorporated by reference to Exhibit 10.81 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.73	Award Agreement dated August 9, 2005, by and between FEBC-ALT Investors LLC and Kristin A. Ferge (incorporated by reference to Exhibit 10.82 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.1	ISDA Master Agreement, dated as of December 3, 2004, between Merrill Lynch Capital Services, Inc. and Fortress NBA Acquisition LLC (incorporated by reference to Exhibit

	10.83.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.2	Confirmation Letter, dated December 3, 2004, from Merrill Lynch Capital Services, Inc. to Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.2 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.3	Confirmation Letter, dated December 3, 2004, from Merrill Lynch Capital Services, Inc. to Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.3 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.4	Confirmation Letter, dated December 8, 2004, from Merrill Lynch Capital Services, Inc. to Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.4 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.75.1	ISDA Master Agreement, dated as of March 18, 2005, between Merrill Lynch Capital Services, Inc. and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.84.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.75.2	Confirmation Letter, dated March 28, 2005, from Merrill Lynch Capital Services, Inc. to Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.84.2 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.1	ISDA Master Agreement, dated as of March 18, 2005, between LaSalle Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).

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Exhibit No.	Description
10.76.2	Confirmation Letter, dated March 18, 2005, from LaSalle Bank National Association to Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.2 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.3	Confirmation Letter, dated March 24, 2005, from LaSalle Bank National Association to Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.3 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.4	Confirmation Letter, dated March 24, 2005, from LaSalle Bank National Association to Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.4 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.77	Exchange and Stockholder Agreement, dated September 30, 2005, by and among Brookdale Senior Living Inc., Fortress Brookdale Acquisition LLC and Mark J. Schulte. (incorporated by reference to Exhibit 10.86 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.78	Brookdale Senior Living Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.87 to the Company's Registration Statement on Form S-1 (Amendment No. 1)

	(No. 333-127372) filed on September 21, 2005).
10.79.1	Credit Agreement, dated as of February 10, 2006, among Brookdale Senior Living Inc., as Borrower, the several lenders from time to time parties thereto, Lehman Brothers Inc., as lead arranger, LaSalle Bank National Association, as syndication agent, Goldman Sachs Credit Partners L.P., Citigroup Global Markets Inc., and LaSalle Bank National Association, as co-arrangers, Goldman Sachs Credit Partners L.P. and Citicorp North America, Inc. as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 13, 2006).
10.79.2	Guarantee and Pledge Agreement, dated as of February 10, 2006, made by Brookdale Senior Living Inc. and certain of its Subsidiaries in favor of Lehman Commercial Paper Inc., as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 13, 2006).
10.79.3*	First Amendment, Consent and Waiver to Credit Agreement, dated May 10, 2006, among Brookdale Senior Living Inc., as Borrower, the several banks and other financial institutions or entities from time to time parties thereto, Lehman Brothers Inc, as lead arranger, Goldman Sachs Credit Partners L.P., Citigroup Global Markets Inc. and LaSalle Bank National Association, as co-arrangers, LaSalle Bank National Association, as syndication agent, Goldman Sachs Credit Partners L.P. and Citicorp North America, Inc., as co-documentation agents and Lehman Commercial Paper Inc., as administrative agent (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2006).
10.80*	Investment Agreement, dated as of May 12, 2006, by and among Brookdale Senior Living Inc. and RIC Coinvestment Fund LP (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 12, 2006).
10.81*	Form of Option Agreement by and among Brookdale Senior Living Inc. and RIC Coinvestment Fund LP (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 12, 2006).
10.82*	Employment Agreement, dated May 12, 2006, by and between Brookdale Senior Living Inc. and W.E. Sheriff (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 12, 2006).

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Exhibit No.	Description
10.83*	Form of Employment Agreement for Gregory B. Richard, George T. Hicks, Bryan D. Richardson, H. Todd Kaestner and James T. Money (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on May 12, 2006).
10.84	Master Lease Agreement, dated March 29, 2002, between Health Care Property Investors Inc., and Texas HCP Holding, L.P., as Lessors, and ARC Shavano, L.P., ARC Richmond Heights, LLC, ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., and ARC Post Oak, L.P., as Lessees (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on May 15, 2002).
10.85	Second Amendment to Master Lease Agreement (Phase I), dated February 28, 2003, between Health Care Property Investors, Inc. and Texas HCP Holding, L.P., as Lessors, and ARC Richmond Heights, LLC, ARC Shavano, L.P., ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., ARC Post Oak, L.P., and ARC

	Boynton Beach, LLC, as Lessees (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on May 9, 2003).
10.86	Fourth Amendment to Master Lease Agreement (Phase I), dated July 15, 2004, between Health Care Property Investors, Inc. and Texas HCP Holding, L.P., as Lessors, and ARC Richmond Heights, LLC, ARC Shavano, L.P., ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., ARC Post Oak, L.P., and ARC Boynton Beach, LLC, as Lessees (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 11, 2004).
10.87	First Amendment to Master Lease Agreement (Phase III), dated July 15, 2004, between Health Care Property Investors, Inc., Texas HCP Holding, L.P., and Texas HCP Revx, L.P., ARC Richmond Place Real Estate Holdings, LLC, ARC Holland Real Estate Holdings, LLC, ARC Sun City Center Real Estate Holdings, LLC, and ARC Labarc Real Estate Holdings, LLC, as Lessors, and Fort Austin Limited Partnership, ARC Santa Catalina, Inc., ARC Richmond Place, Inc., Freedom Village of Holland, Michigan, Freedom Village of Sun City Center, Ltd., and Labarc L.P., as Lessees (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 11, 2004).
10.88	Second Amendment to Master Lease (Phase III), dated June 30, 2005, by and between Health Care Property Investors, Inc., Texas HCP Holding, L.P., for itself and as successor-by-merger to Texas HCP REVX, L.P., ARC Richmond Place Real Estate Holdings, LLC, ARC Holland Real Estate Holdings, LLC, ARC Sun City Center Real Estate Holdings, LLC, and ARC LaBARC Real Estate Holdings, LLC, as Lessors, and Fort Austin Limited Partnership, ARC Santa Catalina, Inc., ARC Richmond Place, Inc., Freedom Village of Holland, Michigan, Freedom Village of Sun City Center, Ltd., and LaBARC, L.P., as Lessees (incorporated by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 5, 2005).
10.89	Fifth Amendment to Master Lease (Phase I), dated June 30, 2005, between Health Care Property Investors, Inc. and Texas HCP Holding, L.P., as Lessors, and ARC Richmond Heights, LLC, ARC Shavano, L.P., ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., ARC Post Oak, L.P., and ARC Boynton Beach, LLC, as Lessees (incorporated by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 5, 2005).
21.1	Subsidiaries of the registrant (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
23.1	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 5.1)
23.2	Consent of Ernst & Young LLP—Chicago, Illinois

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Exhibit No.	Description
23 .3	Consent of Ernst & Young LLP—Dallas, Texas
23 .4	Consent of KPMG LLP—Milwaukee, Wisconsin
23 .5	Consent of KPMG LLP—Nashville, Tennessee
24 .1	Powers of Attorney (included on the signature pages hereto)

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Schedules and exhibits omitted pursuant to Item 601(b)(2) of Reg. S-K. The Company agrees to furnish supplementally a copy of any omitted schedule to the Commission upon request.

**Previously filed.

B. Financial Statement Schedules

See Schedule II—Valuation and Qualification Accounts, included in the Combined Financial Statements in Part I of this Registration Statement.

Item 17. Undertakings

(1) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted against the registrant by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(2) The undersigned registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) The undersigned hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery thereof.