

Brookdale Senior Living Inc.  
Form 10-Q  
November 09, 2011

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the quarterly period ended September 30, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-32641

BROOKDALE SENIOR LIVING INC.  
(Exact name of registrant as specified in its charter)

Delaware 20-3068069  
(State or other jurisdiction (I.R.S. Employer Identification No.)  
of incorporation or organization)

111 Westwood Place, Suite 400, Brentwood,  
Tennessee 37027  
(Address of principal executive offices) (Zip Code)

(615) 221-2250  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T ☒

Edgar Filing: Brookdale Senior Living Inc. - Form 10-Q

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ T No ☐ F

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

Large accelerated filer ☒ T

Accelerated  
filer ☐ F

Non-accelerated filer ☒ F (Do not check if a smaller  
reporting company)

Smaller reporting  
company ☐ F

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ F No ☒ T

---

As of November 4, 2011, 120,911,943 shares of the registrant's common stock, \$0.01 par value, were outstanding (excluding unvested restricted shares).

---

---

TABLE OF CONTENTS  
BROOKDALE SENIOR LIVING INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	PAGE
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Condensed Consolidated Balance Sheets -</u> <u>As of September 30, 2011 (Unaudited) and December 31, 2010</u>
	4
	<u>Condensed Consolidated Statements of Operations -</u> <u>Three and nine months ended September 30, 2011 and 2010</u> <u>(Unaudited)</u>
	5
	<u>Condensed Consolidated Statement of Equity -</u> <u>Nine months ended September 30, 2011 (Unaudited)</u>
	6
	<u>Condensed Consolidated Statements of Cash Flows -</u> <u>Nine months ended September 30, 2011 and 2010 (Unaudited)</u>
	7
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>
	8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and</u> <u>Results of Operations</u>
	28
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	52
<u>Item 4.</u>	<u>Controls and Procedures</u>
	53
<u>PART II.</u>	<u>OTHER INFORMATION</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>
	53
<u>Item 1A.</u>	<u>Risk Factors</u>
	53
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	53
<u>Item 6.</u>	<u>Exhibits</u>
	54
<u>Signatures</u>	55



Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 39,195	\$ 81,827
Cash and escrow deposits — restricted	50,143	81,558
Accounts receivable, net	93,447	88,033
Deferred tax asset	15,526	15,529
Prepaid expenses and other current assets, net	74,980	61,162
Total current assets	273,291	328,109
Property, plant and equipment and leasehold intangibles, net	3,681,280	3,736,842
Cash and escrow deposits — restricted	51,189	65,316
Marketable securities — restricted	30,550	—
Investment in unconsolidated ventures	32,414	20,196
Goodwill	109,553	109,693
Other intangible assets, net	155,065	171,341
Other assets, net	105,099	98,973
Total assets	\$ 4,438,441	\$ 4,530,470
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 45,363	\$ 71,676
Trade accounts payable	40,367	36,302
Accrued expenses	184,256	171,537
Refundable entrance fees and deferred revenue	329,526	318,814
Tenant security deposits	7,675	8,029
Total current liabilities	607,187	606,358
Long-term debt, less current portion	2,365,990	2,498,620
Line of credit	35,000	—
Deferred entrance fee revenue	71,221	69,075
Deferred liabilities	155,744	153,199
Deferred tax liability	115,536	113,956
Other liabilities	38,377	29,265
Total liabilities	3,389,055	3,470,473
Stockholders' Equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized at September 30, 2011 and December 31, 2010; no shares issued and outstanding	— 1,264	— 1,243

Edgar Filing: Brookdale Senior Living Inc. - Form 10-Q

Common stock, \$0.01 par value, 200,000,000 shares authorized at September 30, 2011 and December 31, 2010; 127,650,083 and 125,527,846 shares issued and 125,221,682 and 124,316,545 shares outstanding (including 4,310,364 and 3,539,751 unvested restricted shares), respectively

Additional paid-in-capital	1,965,705	1,904,144
Treasury stock, at cost; 2,428,401 and 1,211,301 shares at September 30, 2011 and December 31, 2010, respectively	(46,800 )	(29,187 )
Accumulated deficit	(869,176 )	(815,876 )
Accumulated other comprehensive loss	(1,607 )	(327 )
Total stockholders' equity	1,049,386	1,059,997
Total liabilities and stockholders' equity	\$ 4,438,441	\$ 4,530,470

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**BROOKDALE SENIOR LIVING INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue				
Resident fees	\$ 575,159	\$ 557,125	\$ 1,707,117	\$ 1,647,714
Management fees	3,336	1,339	6,246	4,146
Reimbursed costs incurred on behalf of managed communities	37,233	17,325	72,584	50,451
Total revenue	615,728	575,789	1,785,947	1,702,311
Expense				
Facility operating expense (excluding depreciation and amortization of \$54,227, \$54,070, \$155,206 and \$158,277, respectively)	381,414	368,936	1,118,610	1,077,311
General and administrative expense (including non-cash stock-based compensation expense of \$5,221, \$5,823, \$14,316 and \$15,799, respectively)	38,711	33,231	105,935	97,017
Facility lease expense	68,314	68,090	200,694	203,514
Depreciation and amortization	64,071	74,951	206,430	221,180
Asset impairment	—	—	14,846	—
Gain on acquisition	(3,520 )	—	(3,520 )	—
Costs incurred on behalf of managed communities	37,233	17,325	72,584	50,451
Facility lease termination expense	—	4,616	—	4,616
Total operating expense	586,223	567,149	1,715,579	1,654,089
Income from operations	29,505	8,640	70,368	48,222
Interest income	1,171	441	2,569	1,521
Interest expense:				
Debt	(30,433 )	(33,357 )	(92,667 )	(100,540 )
Amortization of deferred financing costs and debt discount	(4,310 )	(2,244 )	(9,024 )	(7,250 )
Change in fair value of derivatives and amortization	(1,508 )	(176 )	(4,151 )	(5,023 )
Loss on extinguishment of debt, net	(715 )	(856 )	(18,863 )	(1,557 )
	(117 )	272	295	788



Edgar Filing: Brookdale Senior Living Inc. - Form 10-Q

Equity in (loss) earnings of  
unconsolidated ventures

Other non-operating (expense)				
income	(116 )	(1,454 )	260	(1,454 )
Loss before income taxes	(6,523 )	(28,734 )	(51,213 )	(65,293 )
(Provision) benefit for income taxes	(513 )	11,821	(2,087 )	24,528
Net loss	\$ (7,036 )	\$ (16,913 )	\$ (53,300 )	\$ (40,765 )

Basic and diluted net loss per share	\$ (0.06 )	\$ (0.14 )	\$ (0.44 )	\$ (0.34 )
--------------------------------------	------------	------------	------------	------------

Weighted average shares used in computing basic and diluted net loss per share	121,616	120,404	121,232	119,817
--	---------	---------	---------	---------

See accompanying notes to condensed consolidated financial statements.

Table of Contents

BROOKDALE SENIOR LIVING INC.  
CONDENSED CONSOLIDATED STATEMENT OF EQUITY  
(Unaudited, in thousands)

	Common Shares	Stock Amount	Additional Paid-In- Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balances at January 1, 2011	124,317	\$ 1,243	\$1,904,144	\$(29,187 )	\$(815,876 )	\$ (327 )	\$1,059,997
Compensation expense related to restricted stock and restricted stock unit grants			14,316				14,316
Net loss					(53,300 )		(53,300 )
Common stock issued in connection with an acquisition	97	1	1,537				1,538
Equity component of convertible notes, net			76,801				76,801
Purchase of bond hedge			(77,007 )				(77,007 )
Issuance of warrants			45,066				45,066
Issuance of common stock under Associate Stock Purchase Plan	50		868				868
Restricted stock, net	1,975	20	(20 )				
Unrealized loss on marketable securities - restricted						(1,581 )	(1,581 )
Reclassification of net gains on derivatives into earnings						213	213
Purchase of treasury stock	(1,217 )	—		(17,613 )			(17,613 )
Amortization of payments from settlement of forward interest rate swaps						282	282
Other						(194 )	(194 )
Balances at September 30, 2011	125,222	\$ 1,264	\$1,965,705	\$(46,800 )	\$(869,176 )	\$ (1,607 )	\$1,049,386

See accompanying notes to condensed consolidated financial statements.

Table of Contents

BROOKDALE SENIOR LIVING INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities		
Net loss	\$ (53,300 )	\$ (40,765 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on extinguishment of debt	18,863	1,557
Depreciation and amortization	215,454	228,430
Asset impairment	14,846	
Equity in earnings of unconsolidated ventures	(295 )	(788 )
Distributions from unconsolidated ventures from cumulative share of net earnings	700	375
Amortization of deferred gain	(3,280 )	(3,258 )
Amortization of entrance fees	(18,865 )	(18,160 )
Proceeds from deferred entrance fee revenue	26,475	27,716
Deferred income tax benefit	—	(26,544 )
Change in deferred lease liability	5,006	8,109
Change in fair value of derivatives and amortization	4,151	5,023
(Gain) loss on sale of assets	(1,180 )	1,548
Gain on acquisition	(3,520 )	
Change in future service obligation		(1,064 )
Non-cash stock-based compensation	14,316	15,799
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,375 )	(6,480 )
Prepaid expenses and other assets, net	(17,065 )	(4,007 )
Accounts payable and accrued expenses	2,826	5,721
Tenant refundable fees and security deposits	(1,941 )	(2,720 )
Deferred revenue	3,609	(5 )
Other	7,577	(11,332 )
Net cash provided by operating activities	212,002	179,155
Cash Flows from Investing Activities		
(Increase) decrease in lease security deposits and lease acquisition deposits, net	(1,591 )	2,067
Decrease (increase) in cash and escrow deposits — restricted	56,244	(2,567 )
Net proceeds from the sale of assets	30,817	1,487
Additions to property, plant and equipment and leasehold intangibles, net of related payables	(114,588 )	(70,604 )
Purchase of marketable securities — restricted	(32,724 )	
Sale of marketable securities — restricted	1,415	
Acquisition of assets, net of related payables and cash received	(54,597 )	(26,116 )
Purchase of Horizon Bay Realty, L.L.C., net of cash acquired	5,516	—
Receipt of notes receivable, net	1,674	1,013
Investment in unconsolidated ventures	(13,711 )	(659 )

Edgar Filing: Brookdale Senior Living Inc. - Form 10-Q

Distributions received from unconsolidated ventures	156	77
Proceeds from sale of unconsolidated venture		675
Other	(821 )	(638 )
Net cash used in investing activities	(122,210 )	(95,265 )
Cash Flows from Financing Activities		
Proceeds from debt	477,525	382,076
Proceeds from issuance of convertible notes, net	308,233	
Issuance of warrants	45,066	
Purchase of bond hedge	(77,007 )	
Repayment of debt and capital lease obligations	(879,573 )	(444,940 )
Proceeds from line of credit	120,000	60,000
Repayment of line of credit	(85,000 )	(60,000 )
Payment of financing costs, net of related payables	(8,170 )	(8,436 )
Other	(454 )	(590 )
Refundable entrance fees:		
Proceeds from refundable entrance fees	18,594	27,303
Refunds of entrance fees	(16,886 )	(16,106 )
Cash portion of loss on extinguishment of debt	(17,040 )	(179 )
Recouping and payment of swap termination	(99 )	(20,427 )
Purchase of treasury stock	(17,613 )	
Net cash used in financing activities	(132,424 )	(81,299 )
Net (decrease) increase in cash and cash equivalents	(42,632 )	2,591
Cash and cash equivalents at beginning of period	81,827	66,370
Cash and cash equivalents at end of period	\$ 39,195	\$ 68,961

See accompanying notes to condensed consolidated financial statements.

Table of Contents

BROOKDALE SENIOR LIVING INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Description of Business

Brookdale Senior Living Inc. (“Brookdale” or the “Company”) is a leading owner and operator of senior living communities throughout the United States. The Company provides an exceptional living experience through properties that are designed, purpose-built and operated to provide the highest quality service, care and living accommodations for residents. The Company owns, leases and operates retirement centers, assisted living and dementia-care communities and continuing care retirement centers (“CCRCs”).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q. In the opinion of management, these financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows of the Company as of September 30, 2011, and for all periods presented. The condensed consolidated financial statements are prepared on the accrual basis of accounting. All adjustments made have been of a normal and recurring nature. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures included are adequate and provide a fair presentation of interim period results. Interim financial statements are not necessarily indicative of the financial position or operating results for an entire year. It is suggested that these interim financial statements be read in conjunction with the audited financial statements and the notes thereto, together with management’s discussion and analysis of financial condition and results of operations, included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as filed with the Securities and Exchange Commission.

Revenue Recognition

Resident Fees

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, with resident fees billed monthly in advance. Revenue for certain skilled nursing services and ancillary charges is recognized as services are provided and is billed monthly in arrears.

Entrance Fees

Certain of the Company’s communities have residency agreements which require the resident to pay an upfront fee prior to occupying the community. The non-refundable portion of the entrance fee is recorded as deferred revenue and amortized over the estimated stay of the resident based on an actuarial valuation. The refundable portion of a resident’s entrance fee is generally refundable within a certain number of months or days following contract termination. Refundable fees with respect to such contracts are not amortized and are reflected as current liabilities on the consolidated balance sheet. Certain contracts provide for refundable entrance fees that are refundable only upon

resale of a comparable unit. Such fees are deemed "contingently refundable." Refundable fees related to such contracts are recorded as deferred revenue. The deferred revenue is amortized over the life of the community into rental income and was approximately \$51.8 million and \$52.9 million at September 30, 2011 and December 31, 2010, respectively. In certain instances the Company replaces contingently refundable entrance fee units with non-refundable entrance fee units. In such cases the Company estimates the portion of the "contingently refundable" entrance fee which will be refunded with proceeds from non-refundable entrance fees receipts and includes such amount in deferred revenue to be amortized over the life of the community. All remaining contingently refundable fees not recorded as deferred revenue and amortized are classified as a current liability and included in refundable

## Table of Contents

entrance fees and deferred revenue and not amortized. All refundable amounts due to residents at any time in the future, including those recorded as deferred revenue, are classified as current liabilities. The amount of entrance fees reflected as long term liabilities on the consolidated balance sheet represent only the non-refundable entrance fees to be amortized to rental revenue. In addition, in connection with the Company's MyChoice program, new and existing residents are allowed to pay additional entrance fee amounts in return for a reduced monthly service fee.

### Community Fees

Substantially all community fees received are non-refundable and are recorded initially as deferred revenue. The deferred amounts, including both the deferred revenue and the related direct resident lease origination costs, are amortized over the estimated stay of the resident which is consistent with the implied contractual terms of the resident lease.

### Management Fees

Management fee revenue is recorded as services are provided to the owners of the communities. Revenues are determined by an agreed upon percentage of gross revenues (as defined). Incentives and penalties receivable or payable under management contracts containing such provisions (other than contractual termination fees) are recorded based on the amounts that would be due pursuant to the contractual arrangements if the contracts were terminated on the reporting date.

### Reimbursed Costs Incurred on Behalf of Managed Communities

The Company manages certain communities under contracts which provide for payment to the Company of a monthly management fee plus reimbursement of certain operating expenses. Where the Company is the primary obligor with respect to any such operating expenses, the Company recognizes revenue when the goods have been delivered or the service has been rendered and the Company is due reimbursement. Such revenue is included in "reimbursed costs incurred on behalf of managed communities" on the condensed consolidated statements of operations. The related costs are included in "costs incurred on behalf of managed communities" on the condensed consolidated statements of operations.

### Fair Value of Financial Instruments

Derivative financial instruments and marketable securities - restricted are reflected in the accompanying condensed consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding debt with a carrying value of approximately \$2.4 billion and \$2.6 billion as of September 30, 2011 and December 31, 2010, respectively. As of September 30, 2011 and December 31, 2010, the estimated fair value of debt was approximately \$2.4 billion and \$2.5 billion, respectively.

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

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.



## Table of Contents

The Company's marketable securities - restricted are valued based primarily on quoted market prices and are classified within Level 1 of the valuation hierarchy.

The Company's derivative positions are valued using models developed internally by the respective counterparty that use as their basis readily observable market parameters (such as forward yield curves) and are classified within Level 2 of the valuation hierarchy.

The Company considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives. Any adjustments resulting from credit risk are recorded as a change in fair value of derivatives and amortization in the current period statement of operations (Note 15).

The Company's fair value of debt disclosure is determined based primarily on market interest rate assumptions of similar debt applied to future cash flows under the debt agreements and is classified within Level 2 of the valuation hierarchy.

### Self-Insurance Liability Accruals

The Company is subject to various legal proceedings and claims that arise in the ordinary course of its business. Although the Company maintains general liability and professional liability insurance policies for its owned, leased and managed communities under a master insurance program, the Company's current policy provides for deductibles for each and every claim (\$150,000 effective January 1, 2010). As a result, the Company is, in effect, self-insured for claims that are less than \$150,000. In addition, the Company maintains a self-insured workers compensation program and a self-insured employee medical program for amounts below excess loss coverage amounts, as defined. The Company reviews the adequacy of its accruals related to these liabilities on an ongoing basis, using historical claims, actuarial valuations, third party administrator estimates, consultants, advice from legal counsel and industry data, and adjusts 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.

### Treasury Stock

The Company accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders' equity.

### Marketable Securities - Restricted

Marketable securities - restricted include amounts required to be held in reserve related to the Company's entrance fee CCRCs pursuant to various state insurance regulations. Marketable securities - restricted consist of mutual funds holding equities and bonds. The Company classifies its marketable securities - restricted as available-for-sale. Accordingly, these investments are carried at their estimated fair value with the unrealized gain and losses, net of tax, reported in other comprehensive income. Realized gains and losses from the available-for-sale securities are determined on the specific identification method and are included in other non-operating (expense) income on the trade date.

A decline in the market value of any security below cost that is deemed to be other than temporary results in a reduction in the carrying amount of the security to fair market value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized

when earned.

The amortized cost basis of the marketable securities – restricted as of September 30, 2011 was \$32.1 million.

#### Convertible Debt Instruments

Convertible debt instruments are accounted for under FASB ASC Topic 470-20, Debt – Debt with Conversion and Other Options. This guidance requires the issuer of certain convertible debt instruments that may be settled in cash

Table of Contents

(or other assets) on conversion, including partial cash settlement, to separately account for the liability (debt) and equity (conversion option) components of the instruments in a manner that reflects the issuer's non-convertible debt borrowing rate.

New Accounting Pronouncements

In December 2010, FASB issued Accounting Standards Update ("ASU") No. 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This ASU specifies that when financial statements are presented, the revenue and earnings of the combined entity should be disclosed as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 is effective for business combinations with acquisition dates on or after January 1, 2011. The adoption of this update did not have an impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, Intangibles-Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. This ASU requires that reporting units with zero or negative carrying amounts perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. ASU 2010-28 is effective for the Company beginning with this interim period. The adoption of this update did not have an impact on the Company's financial condition or results of operations.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements ("ASU 2010-06"), which expands required disclosures related to an entity's fair value measurements. Certain provisions of ASU 2010-06 were effective for interim and annual reporting periods beginning after December 15, 2009, and the Company adopted those provisions as of January 1, 2010. The remaining provisions, which were effective for interim and annual reporting periods beginning after December 15, 2010, require additional disclosures related to purchases, sales, issuances and settlements in an entity's reconciliation of recurring level three investments. The Company adopted the final provisions of ASU 2010-06 as of January 1, 2011. The adoption of ASU 2010-06 did not impact the Company's consolidated financial statements.

In January 2011, the FASB issued ASU 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations ("ASU 2010-29"), affecting public entities who enter into business combinations that are material on an individual or aggregate basis. ASU 2010-29 specifies that a public entity presenting comparative financial statements should disclose revenues and earnings of the combined entity as though the business combination that occurred during the year occurred at the beginning of the prior annual reporting period when preparing the pro forma financial information for both the current and prior reporting periods. This guidance, which is effective for business combinations consummated in reporting periods beginning after December 15, 2010, also requires that pro forma disclosures be accompanied by a narrative description regarding the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the pro forma revenues and earnings. The adoption of this update did not have an impact on the Company's consolidated financial condition or results of operations.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income ("ASU 2011-05"). The guidance in ASU 2011-05 is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011 and requires the components of net income and other comprehensive income and total comprehensive income for each interim period. The Company has not yet adopted this pronouncement, but does not believe it will have an impact on the Company's consolidated financial statements other than additional disclosure.

In September 2011, the FASB issued ASU 2011-08, Intangibles — Goodwill and Other (“ASU 2011-08”). ASU 2011-08 amends current guidance to allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this amendment an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 applies to all companies that have goodwill reported in their financial statements. The provisions of ASU 2011-08 are

Table of Contents

effective for reporting periods beginning after December 15, 2011. The Company has not yet adopted this pronouncement, but does not believe it will have an impact on the Company's consolidated financial statements.

## Reclassifications

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

During the three months ended June 30, 2011, the Company determined that certain revenues and expenses associated with transactions with managed communities were understated in prior periods. The Company manages certain communities under contracts which provide for payment to the Company of a monthly management fee plus reimbursement of certain operating expenses. The Company considered the indicators in ASC Topic 605-45, Principal Agent Considerations, in making its determination that these reimbursed operating expenses should be reported gross versus net as had been reported in prior periods. The Company is the primary obligor for certain expenses incurred at its managed communities including payroll and payroll-related costs of the Company's employees, food, insurance, utilities, medical and other supplies purchased under national contracts entered into by the Company. Consequently, such expenses incurred by the Company as the primary obligor on behalf of managed communities operated by it under long-term management agreements should be reported as costs incurred on behalf of managed communities and included in total operating expense in the Company's condensed consolidated statements of operations with a corresponding amount of revenue recognized in the same period in which the expense is incurred and the Company is due reimbursement.

The related corrections will be made to the applicable prior periods as such financial information is included in future filings with the SEC, but no later than the filing of the Company's Annual Report on Form 10-K for the year ending December 31, 2011. Refer to the Company's Form 10-Q for the quarterly period ended June 30, 2011 for the impact on the prior annual periods. The prior period financial statements included in this filing have been revised to reflect this correction, the effects of which have been summarized below (dollars in thousands):

	Three Months Ended September 30, 2010		
	As Reported	Adjustment	As Revised
Reimbursed costs incurred on behalf of managed communities	\$ —	\$ 17,325	\$ 17,325
Total revenue	558,464	17,325	575,789
Costs incurred on behalf of managed communities	—	17,325	17,325
Total operating expense	549,824	17,325	567,149

	Nine Months Ended September 30, 2010		
	As Reported	Adjustment	As Revised
Reimbursed costs incurred on behalf of managed communities	\$ —	\$ 50,451	\$ 50,451
Total revenue	1,651,860	50,451	1,702,311
Costs incurred on behalf of managed communities	—	50,451	50,451
Total operating expense	1,603,638	50,451	1,654,089

These corrections had no impact on the Company's total consolidated assets, liabilities and stockholders' equity, net loss or cash flows.



## Table of Contents

### 3. Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of shares of common stock outstanding. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common stock equivalents. For purposes of calculating basic and diluted earnings per share, vested restricted stock awards are considered outstanding. Under the treasury stock method, diluted EPS reflects the potential dilution that could occur if securities or other instruments that are convertible into common stock were exercised or could result in the issuance of common stock. Potentially dilutive common stock equivalents include unvested restricted stock, restricted stock units and convertible debt instruments and warrants (Note 8).

During the three and nine months ended September 30, 2011 and 2010, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock, restricted stock unit awards and convertible debt instruments and warrants were antidilutive for each period and were not included in the computation of diluted weighted average shares. The weighted average restricted stock and restricted stock unit grants excluded from the calculations of diluted net loss per share were 0.9 million and 1.1 million for the three months ended September 30, 2011 and 2010, respectively, and 1.4 million and 1.5 million for the nine months ended September 30, 2011 and 2010, respectively.

### 4. Acquisitions and Dispositions

Effective January 13, 2011, the Company acquired the underlying real estate interest in 12 assisted living communities that the Company previously leased for an aggregate purchase price of \$31.3 million, which was paid from cash on hand. The results of operations of the previously leased communities are included in the condensed consolidated financial statements from the effective date of the lease agreement and are reported in the Assisted Living segment.

Effective February 1, 2011, the Company acquired the underlying real estate interest in one assisted living community that the Company previously leased for an aggregate purchase price of \$9.8 million, which was paid from cash on hand. The results of operations of the previously leased community are included in the condensed consolidated financial statements from the effective date of the lease agreement and are reported in the Assisted Living segment.

Effective February 1, 2011, the Company acquired one assisted living community for an aggregate purchase price of \$9.2 million, which was paid from cash on hand. The results of operations of the acquired community is included in the condensed consolidated financial statement from the effective date of the acquisition and are reported in the Assisted Living segment.

During the nine months ended September 30, 2011, the Company purchased three home health agencies for an aggregate purchase price of approximately \$4.2 million. The entire purchase price of the acquisitions has been ascribed to an indefinite useful life intangible asset and recorded on the condensed consolidated balance sheet under other intangible assets, net.

During the nine months ended September 30, 2011, the Company sold four communities for an aggregate selling price of \$30.8 million. The results of operations of the communities were previously reported in the Retirement Centers and Assisted Living segments.

### Horizon Bay/HCP Transactions

On September 1, 2011, the Company acquired 100% of the equity and voting interests in Horizon Bay Realty, L.L.C. ("Horizon Bay"). The results of Horizon Bay's operations have been included in the condensed consolidated financial

statements since that date. Horizon Bay is a seniors housing management company primarily focused on managing large portfolios of retirement communities across the United States for institutional real estate investors. In connection with the acquisition, the Company also restructured Horizon Bay's existing relationship with HCP, Inc. ("HCP") relating to 33 communities that Horizon Bay leased from HCP. In particular, the Company (i) formed a joint venture with HCP to own and operate 21 communities (the "HCP RIDEA JV"), and (ii) leased the remaining



Table of Contents

12 communities from HCP under long-term, triple net leases. Of these 12 communities, the Company assumed the pre-existing lease for eight communities and entered into a new lease for the remaining four communities. The joint venture with HCP utilizes a RIDEA structure with the Company having acquired a 10% non-controlling interest in the joint venture. The Company also manages the communities under a ten-year management agreement with four five-year renewal options and retains all ancillary services operations.

Horizon Bay provides management services to the remaining 58 Horizon Bay communities. Horizon Bay's primary third party management relationships are with Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell") (45 communities) and AEW Capital Management (three communities). As part of the transactions, the Company entered into an agreement to restructure Horizon Bay's management arrangements with Chartwell.

Certain elements of the Chartwell management arrangement restructuring are subject to lender and other third party approvals. Until such approvals are received, the Company will operate Chartwell's properties under the existing management contracts.

The aggregate acquisition-date fair value of the purchase consideration transferred for the acquisition of Horizon Bay was approximately \$10.7 million which consisted of the following (dollars in thousands):

Fair value of consideration transferred	
Cash	\$ 6,500
Common stock (96,862 shares)	1,538
Contingent consideration	2,708
Total	\$ 10,746

The fair value of the 96,862 common shares issued was determined based on the closing market price of the Company's common shares on the acquisition date.

The contingent consideration arrangement requires the Company to pay up to a maximum of approximately \$3.4 million to Horizon Bay's former members. The estimated fair value of this contingent consideration arrangement at the acquisition date was \$2.7 million. The Company estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820. The key assumption in applying the income approach was the assignment of probabilities to the various possible outcomes. As of September 30, 2011, there were no significant changes in the range of outcomes for the contingent consideration recognized as a result of the acquisition of Horizon Bay.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The Company is in the process of obtaining third-party valuations of certain intangible assets and/or self-insured liabilities; thus the provisional measurements of intangible assets, accrued expenses and other liabilities are subject to change (dollars in thousands):

Purchase price allocation	
Current assets	\$ 24,774
Property and equipment	2,236
Acquired lease intangibles	5,965
Current liabilities	(14,876 )
Long-term debt	(1,821 )
Other liabilities	(625 )

Deferred tax liability	(1,387 )
Gain on acquisition	(3,520 )
Total	\$ 10,746

The Company purchased 100% of Horizon Bay in a transaction that involved the restructuring of certain leases and other elements of Horizon Bay's capital structure. The fair value of identifiable assets acquired and liabilities assumed exceeded the fair value of the consideration transferred. Consequently, the Company reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that all acquired

Table of Contents

assets and assumed liabilities were recognized and that the valuation procedures and resulting measures were appropriate. As a result, the Company recognized a non-cash gain of \$3.5 million. The gain is included in the line item “gain on acquisition” in the condensed consolidated statements of operations.

The Company recognized \$5.5 million of direct and indirect acquisition related costs that were expensed in the current period. These costs are included in the condensed consolidated statements of operations in the line item entitled “general and administrative expenses.”

In connection with the formation of the HCP RIDEA JV, the Company contributed cash of \$13.7 million for a 10% interest in the joint venture. The Company has accounted for this interest under the equity method of accounting.

## 5. Stock-Based Compensation

The Company recorded \$5.2 million and \$5.8 million of compensation expense in connection with grants of restricted stock and restricted stock units for the three months ended September 30, 2011 and 2010, respectively, and \$14.3 million and \$15.8 million of compensation expense in connection with grants of restricted stock and restricted stock units for the nine months ended September 30, 2011 and 2010, respectively. For the nine months ended September 30, 2011 and 2010, compensation expense was calculated net of forfeitures estimated from 0% to 10% and 0% to 5%, respectively, of the shares granted.

For all awards with graded vesting other than awards with performance-based vesting conditions, the Company records compensation expense for the entire award on a straight-line basis over the requisite service period. For graded-vesting awards with performance-based vesting conditions, total compensation expense is recognized over the requisite service period for each separately vesting tranche of the award as if the award is, in substance, multiple awards once the performance target is deemed probable of achievement. Performance goals are evaluated quarterly. If such goals are not ultimately met or it is not probable the goals will be achieved, no compensation expense is recognized and any previously recognized compensation expense is reversed.

Current year grants of restricted shares under the Company’s Omnibus Stock Incentive Plan were as follows (amounts in thousands except for value per share):

	Shares Granted	Value Per Share	Total Value
Three months ended March 31, 2011	70	\$21.41 – \$23.45	\$1,637
Three months ended September 30, 2011	1,957	\$13.75 – \$24.60	\$31,173

The Company has an employee stock purchase plan for all eligible employees. The plan became effective on October 1, 2008. Under the plan, eligible employees of the Company can purchase shares of the Company’s common stock on a quarterly basis at a discounted price through accumulated payroll deductions. Each eligible employee may elect to deduct up to 15% of his or her base pay each quarter. Subject to certain limitations specified in the plan, on the last trading date of each calendar quarter, the amount deducted from each participant’s pay over the course of the quarter will be used to purchase whole shares of the Company’s common stock at a purchase price equal to 90% of the closing market price on the New York Stock Exchange on such date. Initially, the Company reserved 1,000,000 shares of common stock for issuance under the plan. The employee stock purchase plan also contains an “evergreen” provision that automatically increases the number of shares reserved for issuance under the plan by 200,000 shares on the first day of each calendar year beginning January 1, 2010. The impact on the Company’s current year condensed consolidated financial statements is not material.

6. Goodwill and Other Intangible Assets, Net

Following is a summary of changes in the carrying amount of goodwill for the nine months ended September 30, 2011 and the year ended December 31, 2010 presented on an operating segment basis (dollars in thousands):

15

---

Table of Contents

	September 30, 2011				December 31, 2010			
	Gross Carrying Amount	Adjustments	Accumulated Impairment and Other Charges	Net	Gross Carrying Amount	Adjustments	Accumulated Impairment and Other Charges	Net
<b>R e t i r e m e n t</b>								
Centers	\$7,642	\$ (34 )	\$ (487 )	\$7,121	\$7,642	\$ —	\$ (487 )	\$7,155
Assisted Living	102,680	(106 )	(142 )	102,432	102,680	(142 )	—	102,538
CCRCs	214,999	—	(214,999 )	—	214,999	—	(214,999 )	—
Total	\$325,321	\$ (140 )	\$ (215,628 )	\$109,553	\$325,321	\$ (142 )	\$ (215,486 )	\$109,693

Goodwill is tested for impairment annually with a test date of October 1 or sooner if indicators of impairment are present. No indicators of impairment were present during the nine months ended September 30, 2011.

Intangible assets with definite useful lives are amortized over their estimated lives and are tested for impairment whenever indicators of impairment arise. No indicators of impairment were present during the nine months ended September 30, 2011. The following is a summary of other intangible assets at September 30, 2011 and December 31, 2010 (dollars in thousands):

	September 30, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Community purchase options	\$ 147,610	\$ (16,641 )	\$ 130,969	\$ 147,782	\$ (13,867 )	\$ 133,915
Management contracts and other	158,041	(158,041 )	—	158,041	(140,463 )	17,578
Home health licenses	24,096	—	24,096	19,848	—	19,848
Total	\$ 329,747	\$ (174,682 )	\$ 155,065	\$ 325,671	\$ (154,330 )	\$ 171,341

Amortization expense related to definite-lived intangible assets for the three months ended September 30, 2011 and 2010 was \$2.9 million and \$8.7 million, respectively, and for the nine months September 30, 2011 and 2010 was \$20.4 million and \$26.1 million, respectively. Home health licenses were determined to be indefinite-lived intangible assets and are not subject to amortization.

## 7. Property, Plant and Equipment and Leasehold Intangibles, Net

Property, plant and equipment and leasehold intangibles, net, which include assets under capital leases, consist of the following (dollars in thousands):

	September 30, 2011	December 31, 2010
Land	\$ 272,865	\$ 273,214
Buildings and improvements	3,035,239	3,003,788
Furniture and equipment	429,966	382,488
Resident and leasehold operating intangibles	592,593	588,633

Edgar Filing: Brookdale Senior Living Inc. - Form 10-Q

Construction in progress	44,545	16,463
Assets under capital and financing leases	657,677	650,174
	5,032,885	4,914,760
Accumulated depreciation and amortization	(1,351,605 )	(1,177,918 )
Property, plant and equipment and leasehold intangibles, net	\$ 3,681,280	\$ 3,736,842

Table of Contents

During the nine months ended September 30, 2011, there were indicators of impairment on certain long-lived assets. The Company compared the estimated fair value of the assets (a Level 3 valuation) to their carrying value and recorded an impairment charge for the excess of carrying value over fair value. A non-cash charge of \$14.8 million within the Retirement Centers and Assisted Living segments was recorded in the Company's operating results and reflected as asset impairment in the accompanying condensed consolidated statements of operations. These charges are reflected as a decrease to the gross carrying value of the asset. The impairment charges are primarily due to the amount by which the carrying values of the assets exceed the estimated selling prices.

## 8. Debt

## Long-Term Debt, Capital Leases and Financing Obligations

Long-term debt, capital leases and financing obligations consist of the following (dollars in thousands):

	September 30, 2011	December 31, 2010
Mortgage notes payable due 2013 through 2020; weighted average interest rate of 5.04% for the nine months ended September 30, 2011, net of debt discount of \$0.7 million (weighted average interest rate of 5.32% in 2010)	\$ 1,481,589	\$ 1,342,931
\$150,000 Series A notes payable, secured by five communities and by a \$3.0 million letter of credit, bearing interest at LIBOR plus 0.88%, payable in monthly installments of interest only until August 2011 and payable thereafter in monthly installments of principal and interest through maturity in August 2013	149,651	150,000
Mortgages payable due 2012; weighted average interest rate of 5.57% for the nine months ended September 30, 2011 (weighted average interest rate of 5.64% in 2010), payable interest only through July 2010 and payable in monthly installments of principal and interest through maturity in July 2012, secured by the underlying assets of the portfolio	—	210,897
Discount mortgage note payable due 2013, weighted average interest rate of 2.51% for the nine months ended September 30, 2011, net of debt discount of \$3.4 million (weighted average interest rate of 2.55% in 2010)	79,754	79,275
Variable rate tax-exempt bonds credit-enhanced by Fannie Mae; weighted average interest rate of 1.69% for the nine months ended September 30, 2011 (weighted average interest rate of 1.73% in 2010), due 2032, payable interest only until maturity, secured by the underlying assets of the portfolio	100,572	100,841





Table of Contents

Capital and financing lease obligations payable through 2026; weighted average interest rate of 8.61% for the nine months ended September 30, 2011 (weighted average interest rate of 8.60% in 2010)	353,976	371,172
Mortgage note, bearing interest at a variable rate of LIBOR plus 0.70%, payable interest only through maturity in August 2012. The note was secured by 15 of the Company's communities and an \$11.5 million guaranty by the Company	—	315,180
Convertible notes payable in aggregate principal amount of \$316.3 million, less debt discount of \$76.6 million, interest at 2.75% per annum, due June 2018.	239,649	—
Construction financing due 2023 through 2024; weighted average interest rate of 7.15% for the nine months ended September 30, 2011	6,162	—
Total debt	2,411,353	2,570,296
Less current portion	45,363	71,676
Total long-term debt	\$2,365,990	\$2,498,620

## 2010 Credit Facility

Effective February 23, 2010, the Company entered into a credit agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The facility had an initial commitment of \$100.0 million, with an option to increase the commitment to \$120.0 million (which the Company exercised on May 5, 2010), and was scheduled to mature on June 30, 2013.

The revolving line of credit could be used to finance acquisitions and fund working capital and capital expenditures and for other general corporate purposes.

The facility was secured by a first priority lien on certain of the Company's communities. The availability under the line could vary from time to time as it was based on borrowing base calculations related to the value and performance of the communities securing the facility.

Amounts drawn under the facility bore interest at 90-day LIBOR plus an applicable margin, as described below. For purposes of determining the interest rate, in no event would LIBOR be less than 2.0%. The applicable margin varied with the percentage of the total commitment drawn, with a 4.5% margin at 35% or lower utilization, a 5.0% margin at utilization greater than 35% but less than or equal to 50%, and a 5.5% margin at greater than 50% utilization. The Company was also required to pay a quarterly commitment fee of 1.0% per annum on the unused portion of the facility.

The credit agreement contained typical affirmative and negative covenants, including financial covenants with respect to minimum consolidated fixed charge coverage and minimum consolidated tangible net worth. A violation of any of these covenants could have resulted in a default under the credit agreement, which would have resulted in termination of all commitments under the credit agreement and all amounts owing under the credit agreement and certain other loan agreements becoming immediately due and payable.

## 2011 Credit Facility

On January 31, 2011, the Company entered into an Amended and Restated Credit Agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The amended credit agreement amended and restated in its entirety the Company's previous Credit Agreement dated as of February 23, 2010, as previously amended. The amended credit agreement increased the commitment under the

## Table of Contents

credit facility from \$120.0 million to \$200.0 million and extended the maturity date to January 31, 2016. Other than the expansion of the commitment and the extension of the maturity date, no other material terms of the previous Credit Agreement (as described above) were amended. Effective February 23, 2011, the commitment under the Amended and Restated Credit Agreement was further increased to \$230.0 million.

As of September 30, 2011, the Company had an available secured line of credit with a \$230.0 million commitment and separate secured and unsecured letter of credit facilities of up to \$82.5 million in the aggregate. As of September 30, 2011, \$35.0 million was outstanding under the credit facility and \$71.8 million of letters of credit had been issued under the letter of credit facilities.

### Convertible Debt Offering

In June 2011, the Company completed a registered offering of \$316.3 million aggregate principal amount of 2.75% convertible senior notes (the "Notes"). The Company received net proceeds of approximately \$308.2 million after the deduction of underwriting commissions and offering expenses. The Company used a portion of the net proceeds to pay the Company's cost of the convertible note hedge transactions described below, taking into account the proceeds to the Company of the warrant transactions described below, and used the balance of the net proceeds to repay existing outstanding debt.

The Notes are senior unsecured obligations and rank equally in right of payment to all of the Company's other senior unsecured debt, if any. The Notes will be senior in right of payment to any of the Company's debt which is subordinated by its terms to the Notes (if any). The Notes are also structurally subordinated to all debt and other liabilities and commitments (including trade payables) of the Company's subsidiaries. The Notes are also effectively subordinated to the Company's secured debt to the extent of the assets securing such debt.

The Notes bear interest at 2.75% per annum, payable semi-annually in cash. The Notes are convertible at an initial conversion rate of 34.1006 shares of Company common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$29.325 per share), subject to adjustment. Holders may convert their Notes at their option prior to the close of business on the second trading day immediately preceding the stated maturity date only under the following circumstances: (i) during any fiscal quarter commencing after the fiscal quarter ending September 30, 2011, if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (ii) during the five business day period after any five consecutive trading day period (the "measurement period"), in which the trading price per \$1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such day; or (iii) upon the occurrence of specified corporate events. On and after March 15, 2018, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances. Unconverted Notes mature at par in June 2018.

Upon conversion, the Company will satisfy its conversion obligation by paying or delivering, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock at the Company's election. It is the Company's current intent and policy to settle the principal amount of the Notes (or, if less, the amount of the conversion obligation) in cash upon conversion.

In addition, following certain corporate transactions, the Company will increase the conversion rate for a holder who elects to convert in connection with such transaction by a number of additional shares of common stock as set forth in

the supplemental indenture governing the Notes.

The Notes were issued in an offering registered under the Securities Act of 1933, as amended (Securities Act).

In accordance with FASB guidance on the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial settlement), the liability and equity components are separated in a manner that will reflect the entity's non-convertible debt borrowing rate when interest expense is recognized in subsequent periods.

Table of Contents

The following represents the long-term debt and equity components of the Notes as of September 30, 2011 (dollars in thousands):

	September 30, 2011
Long-term debt	
Principal	\$ 316,250
Unamortized discount	(76,601 )
Net carrying amount	\$ 239,649
Equity component	\$ 78,806

The Company is accreting the carrying value to the principal amount at maturity using an imputed interest rate of 7.5% (the estimated effective borrowing rate for nonconvertible debt at the time of issuance, Level 2) over its expected life of seven years.

As of September 30, 2011, the "if converted" value of the Notes does not exceed its principal amount.

The interest expense associated with the Notes (excluding amortization of the associated deferred financing costs) was as follows (dollars in thousands):

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Coupon interest	\$ 2,174	\$ 2,566
Amortization of discount	2,205	2,205
Interest expense related to convertible notes	\$ 4,379	\$ 4,771

In connection with the offering of the Notes, in June 2011, the Company entered into convertible note hedge transactions (the "Convertible Note Hedges") with certain financial institutions (the "Hedge Counterparties"). The Convertible Note Hedges cover, subject to customary anti-dilution adjustments, 10,784,315 shares of common stock. The Company also entered into warrant transactions with the Hedge Counterparties whereby the Company sold to the Hedge Counterparties warrants to acquire, subject to customary anti-dilution adjustments, up to 10,784,315 shares of common stock (the "Sold Warrant Transactions"). The warrants have a strike price of \$40.25 per share, subject to customary anti-dilution adjustments.

The Convertible Note Hedges are expected to reduce the potential dilution with respect to common stock upon conversion of the Notes in the event that the price per share of common stock at the time of exercise is greater than the strike price of the Convertible Note Hedges, which corresponds to the initial conversion price of the Notes and is similarly subject to customary anti-dilution adjustments. If, however, the price per share of common stock exceeds the strike price of the Sold Warrant Transactions when they expire, there would be additional dilution from the issuance of common stock pursuant to the warrants.

The Convertible Note Hedges and Sold Warrant Transactions are separate transactions (in each case entered into by the Company and Hedge Counterparties), are not part of the terms of the Notes and will not affect the holders' rights under the Notes. Holders of the Notes do not have any rights with respect to the Convertible Note Hedges or the Sold Warrant Transactions.

These hedging transactions had a net cost of approximately \$31.9 million, which was paid from the proceeds of the Notes and recorded as a reduction of additional paid-in capital. The Company has contractual rights, and, at execution of the related agreements, had the ability to settle its obligations under the conversion feature of the Notes, the Convertible Note Hedges and Sold Warrant Transactions, with the Company's common stock. Accordingly,

## Table of Contents

these transactions are accounted for as equity, with no subsequent adjustment for changes in the value of these obligations.

### Financings

On March 29, 2011, the Company obtained a \$28.0 million first mortgage loan, secured by the underlying community. The loan bears interest at a rate that has been effectively fixed at 5.49% by means of a swap instrument issued by the lender and matures in March 2016. In connection with the transaction, the Company repaid \$28.0 million of existing variable rate debt.

During the nine months ended September 30, 2011, the Company repaid approximately \$37.9 million of mortgage debt in connection with the release of entrance fee escrows on a newly opened entrance fee CCRC. Additionally, during the nine months ended September 30, 2011, the Company repaid \$48.7 million of mortgage debt and moved the related assets into the credit line borrowing base and repaid \$274.9 million of mortgage debt from the net proceeds of the convertible debt offering. The Company recognized a loss on extinguishment of debt of \$0.7 million and \$18.9 million for the three and nine months ended September 30, 2011, respectively, in connection with the early repayment of first and second mortgage notes.

On July 29, 2011, the Company obtained \$437.8 million in loans pursuant to the terms of a Master Credit Facility Agreement. The loans are secured by first mortgages on 44 communities, and 75% of the loans bear interest at a fixed rate of 4.25% while the remaining 25% of the loans bear interest at a variable rate equal to the 30-day LIBOR plus a margin of 182 basis points. The loans mature on August 1, 2018 and require amortization of principal over a 30 year period. Proceeds of the loans, together with cash on hand, were used to refinance or prepay \$445.2 million of mortgage debt which was scheduled to mature in February and August 2012.

The Master Credit Facility Agreement permits additional loans and substitution or release of mortgaged communities subject to loan-to-value and debt service coverage requirements. The Master Credit Facility Agreement also provides flexibility for expansion of, and repositioning of services provided at, the mortgaged communities subject to lender approval.

As of September 30, 2011, the Company is in compliance with the financial covenants of its outstanding debt and lease agreements.

### Interest Rate Swaps and Caps

In the normal course of business, a variety of financial instruments are used to manage or hedge interest rate risk. Interest rate protection and swap agreements were entered into to effectively cap or convert floating rate debt to a fixed rate basis, as well as to hedge anticipated future financing transactions. Pursuant to the hedge agreements, the Company may be required to secure its obligation to the counterparty if the fair value liability exceeds a specified threshold. Cash collateral pledged to the Company's counterparties was \$1.6 million as of September 30, 2011. No cash collateral was pledged as of December 31, 2010.

All derivative instruments are recognized as either assets or liabilities in the condensed consolidated balance sheets 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 loss depending on whether it has been designated and qualifies as an accounting hedge.

Derivative contracts are not entered into for trading or speculative purposes. Furthermore, the Company has a policy of only entering into contracts with major financial institutions based upon their credit rating and other factors. Under

certain circumstances, the Company may be required to replace a counterparty in the event that the counterparty does not maintain a specified credit rating.

The following table summarizes the Company's swap instruments at September 30, 2011 (dollars in thousands):

21

---



Table of Contents

Current notional balance	\$	177,851	
Highest possible notional	\$	177,851	
Lowest interest rate		0.87	%
Highest interest rate		5.49	%
Average fixed rate		1.60	%
Earliest maturity date		2013	
Latest maturity date		2016	
Weighted average original maturity		3.2 years	
Estimated liability fair value (included in other liabilities, net at September 30, 2011)	\$	(3,105	)
Estimated asset fair value (included in other assets, net at December 31, 2010)	\$	281	

The following table summarizes the Company's cap instruments at September 30, 2011 (dollars in thousands):

Current notional balance	\$	248,768	
Highest possible notional	\$	248,768	
Lowest interest rate		5.50	%
Highest interest rate		6.00	%
Average fixed rate		5.74	%
Earliest maturity date		2012	
Latest maturity date		2013	
Weighted average original maturity		2.6 years	
Estimated asset fair value (included in other assets, net at September 30, 2011)	\$	—	
Estimated asset fair value (included in other assets, net at December 31, 2010)	\$	157	

The fair value of the Company's interest rate swaps and caps decreased \$1.5 million and \$0.2 million for the three months ended September 30, 2011 and 2010, respectively, and decreased \$4.2 million and \$5.0 million for the nine months ended September 30, 2011 and 2010, respectively. This is included as a component of interest expense in the condensed consolidated statements of operations.

During the nine months ended September 30, 2011, five cap agreements with an aggregate notional amount of \$303.1 million matured and the Company terminated two cap agreements with an aggregate notional amount of \$445.2 million. The Company also extended the maturity of 12 cap agreements with an aggregate notional amount of \$83.8 million, entered into a new cap agreement with a notional amount of \$64.1 million and entered into a new swap agreement with a notional amount of \$28.0 million.

Table of Contents

## 9. Litigation

The Company has been and is currently involved in litigation and claims incidental to the conduct of its business which are comparable to other companies in the senior living industry. Certain claims and lawsuits allege large damage amounts and may require significant costs to defend and resolve. Similarly, the senior living industry is continuously subject to scrutiny by governmental regulators, which could result in litigation related to regulatory compliance matters. As a result, the Company maintains insurance policies in amounts and with coverage and deductibles the Company believes are adequate, based on the nature and risks of its business, historical experience and industry standards. Effective January 1, 2010, the Company's current policies provide for deductibles of \$150,000 for each claim. Accordingly, the Company is, in effect, self-insured for claims that are less than \$150,000.

## 10. Supplemental Disclosure of Cash Flow Information

(dollars in thousands):

	Nine Months Ended September 30,	
	2011	2010
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$90,581	\$99,898
Income taxes paid	\$2,283	\$1,122
Write-off of deferred costs	\$2,080	\$2,878
Supplemental Schedule of Non-cash Operating, Investing and Financing Activities:		
Acquisition of assets, net of related payables and cash received:		
Property, plant and equipment and leasehold intangibles, net	\$50,350	\$19,900
Other intangible assets, net	4,247	6,310
Accrued expenses	—	(94 )
Net cash paid	\$54,597	\$26,116
Purchase of Horizon Bay Realty, L.L.C., net of cash acquired:		
Property, plant and equipment and leasehold intangibles, net	\$8,201	\$—
Cash and escrow deposits—restricted	10,702	—
Accounts receivable, net	2,065	—
Long-term debt, less current portion	(1,821 )	—
Trade accounts payable	(142 )	—
Refundable entrance fees and deferred revenue	(237 )	—
Tenant security deposits	(157 )	—
Deferred entrance fee revenue	(870 )	—
Deferred liabilities	(503 )	—
Accrued expenses	(13,157 )	—
Deferred tax liability	(1,387 )	—
Other long-term liabilities	(3,152 )	—
Common Stock	(1 )	—
Additional paid-in capital	(1,537 )	—
Accumulated earnings	(3,520 )	—
Net cash received	\$ (5,516 )	\$—

11. Facility Operating Leases

A summary of facility lease expense and the impact of straight-line adjustment and amortization of deferred gains is as follows (dollars in thousands):

23

---

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cash basis payment	\$ 67,584	\$ 66,364	\$ 198,968	\$ 198,663
Straight-line expense	1,824	2,812	5,006	8,109
Amortization of deferred gain	(1,094 )	(1,086 )	(3,280 )	(3,258 )
Facility lease expense	\$ 68,314	\$ 68,090	\$ 200,694	\$ 203,514

## 12. Other Comprehensive Loss, Net

The following table presents the after-tax components of the Company's other comprehensive loss for the periods presented (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net loss	\$ (7,036 )	\$ (16,913 )	\$ (53,300 )	\$ (40,765 )
Unrealized loss on marketable securities - restricted	(1,802 )	—	(1,581 )	—
Reclassification of net loss on derivatives (into) out of earnings	(15 )	124	213	391
Amortization of payments from settlement of forward interest rate swaps	94	94	282	282
Other	56	(85 )	(194 )	(263 )
Total comprehensive loss	\$ (8,703 )	\$ (16,780 )	\$ (54,580 )	\$ (40,355 )

## 13. Income Taxes

The Company's effective tax rates for the three months ended September 30, 2011 and 2010 were (7.9%) and 41.1%, respectively, and for the nine months ended September 30, 2011 and 2010 were (4.1%) and 37.6%, respectively. The difference in the effective tax rate between these periods was primarily due to the Company's decision to record a valuation allowance against the deferred tax benefit generated during the nine month period ended September 30, 2011. The Company concluded that the additional benefits generated during the period did not meet the more likely than not criteria for realization. The conclusion was determined solely based on the reversal of current timing differences and did not consider future taxable income to be generated by the Company. The Company continues to maintain that the deferred tax assets recorded as of December 31, 2010, primarily related to net operating losses generated prior to December 31, 2010, are more likely than not to be realized based on the reversal of deferred tax liabilities also recorded as of December 31, 2010.

The Company recorded additional interest charges related to its tax contingency reserve for the nine months ended September 30, 2011. Additionally, uncertain tax positions recorded in prior periods were reduced due to a change in estimate. Tax returns for years 2008, 2009 and 2010 are subject to future examination by tax authorities. In addition, certain tax returns are open from 2000 through 2007 to the extent of the net operating losses generated during those periods.

## 14. Share Repurchase Program

On August 11, 2011, the Company's board of directors approved a share repurchase program that authorizes the Company to purchase up to \$100.0 million in the aggregate of the Company's common stock. Purchases may be made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or by any combination of these methods, in accordance with applicable insider trading and other securities laws and regulations. The size, scope and timing of any purchases will be based on business, market and other conditions and factors, including price, regulatory and contractual requirements or consents, and capital availability. The repurchase program does not obligate the Company to acquire any particular amount of

Table of Contents

common stock and the program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice. Shares of stock repurchased under the program will be held as treasury shares.

Pursuant to this authorization, during the three and nine months ended September 30, 2011 the Company purchased 1,217,100 shares at a cost of approximately \$17.6 million. As of September 30, 2011, approximately \$82.4 million remains available under this share repurchase authorization.

## 15. Fair Value Measurements

The following table provides the Company's derivative liabilities and marketable securities - restricted carried at fair value as measured on a recurring basis as of September 30, 2011 (dollars in thousands):

	Total Carrying Value at September 30, 2011	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Marketable securities - restricted	\$ 30,550	\$ 30,550	\$ —	\$ —
Derivative liabilities	(3,105 )	—	(3,105 )	—
	\$ 27,445	\$ 30,550	\$ (3,105 )	\$ —

The Company's marketable securities - restricted include marketable securities that are recorded in the financial statements at fair value. The fair value is based primarily on quoted market prices and is classified within Level 1 of the valuation hierarchy. Changes in fair value are recorded, net of tax, as other comprehensive income and included as a component of stockholders' equity. The change in fair value recorded in other comprehensive income for the three and nine months ended September 30, 2011 was not material.

The Company's derivative liabilities include interest rate swaps and caps that effectively convert a portion of the Company's variable rate debt to fixed rate debt. The derivative positions are valued using models developed internally by the respective counterparty that use as their basis readily observable market parameters (such as forward yield curves) and are classified within Level 2 of the valuation hierarchy.

The Company considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives. Any adjustments resulting from credit risk are recorded as a change in fair value of derivatives and amortization in the current period statement of operations.

## 16. Segment Information

The Company currently has four reportable segments: retirement centers; assisted living; CCRCs; and management services. These segments were determined based on the way that the Company's chief operating decision makers organize the Company's business activities for making operating decisions and assessing performance.

During the nine months ended September 30, 2011, four communities moved between segments to more accurately reflect the underlying product offering of each segment. The movement did not change the Company's reportable segments, but it did impact the revenues and cost reported within each segment.

**Retirement Centers.** Retirement center communities are primarily designed for middle to upper income senior citizens age 70 and older who desire an upscale residential environment providing the highest quality of service. The majority of the Company's retirement center communities consist of both independent living and assisted living units in a single

community, which allows residents to “age-in-place” by providing them with a continuum of senior independent and assisted living services.

**Assisted Living.** Assisted living communities offer housing and 24-hour assistance with activities of daily life to mid-acuity frail and elderly residents. The Company’s assisted living communities include both freestanding, multi-story communities and freestanding single story communities. The Company also operates memory care

Table of Contents

communities, which are freestanding assisted living communities specially designed for residents with Alzheimer's disease and other dementias.

CCRCs. CCRCs are large communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of the Company's CCRCs have retirement centers, assisted living and skilled nursing available on one campus, and some also include memory care and Alzheimer's units.

Management Services. The Company's management services segment includes communities operated by the Company pursuant to management agreements, where the controlling financial interest in the community is held by others. Under the management agreements for these communities, the Company receives management fees as well as reimbursed expenses, which represent the reimbursement of certain expenses it incurs on behalf of the owners.

The accounting policies of reportable 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 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue(1)				
Retirement Centers	\$ 132,058	\$ 133,663	\$ 389,458	\$ 397,455
Assisted Living	266,142	259,572	793,052	765,816
CCRCs	176,959	163,890	524,607	484,443
Management Services(2)	40,569	18,664	78,830	54,597
	\$ 615,728	\$ 575,789	\$ 1,785,947	\$ 1,702,311
Segment operating income(3)				
Retirement Centers	\$ 53,171	\$ 54,199	\$ 158,067	\$ 162,347
Assisted Living	89,360	89,141	275,281	269,740
CCRCs	51,214	44,849	155,159	138,316
Management Services	2,335	937	4,372	2,902
	\$ 196,080	\$ 189,126	\$ 592,879	\$ 573,305
General and administrative (including non-cash stock-based compensation expense)(4)	\$ 37,710	\$ 32,829	\$ 104,061	\$ 95,773
Facility lease expense	68,314	68,090	200,694	203,514
Depreciation and amortization	64,071	74,951	206,430	221,180
Asset impairment	—	—	14,846	—
Gain on acquisition	(3,520 )	—	(3,520 )	—
Facility lease termination expense	—	4,616	—	4,616
Income from operations	\$ 29,505	\$ 8,640	\$ 70,368	\$ 48,222
			As of	
			September 30,	December 31,
			2011	2010
Total assets				
Retirement Centers	\$	1,072,632	\$	1,132,934



Edgar Filing: Brookdale Senior Living Inc. - Form 10-Q

Assisted Living	1,442,265	1,433,123
CCRCs	1,574,421	1,632,755
Corporate and Management Services	349,123	331,658
Total assets	\$ 4,438,441	\$ 4,530,470

(1) All revenue is earned from external third parties in the United States.

Table of Contents

- (2) Management services segment revenue includes reimbursements for which the Company is the primary obligor of costs incurred on behalf of managed communities.
- (3) Segment operating income is defined as segment revenues less segment operating expenses (excluding depreciation and amortization).
- (4) Net of general and administrative costs allocated to management services reporting segment.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements in this Quarterly Report on Form 10-Q and other information we provide from time to time may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, statements relating to the consummation of the restructuring of the management agreements with Chartwell Seniors Housing Real Estate Investment Trust; statements relating to our operational initiatives and our expectations regarding their effect on our results; our expectations regarding occupancy, revenue, cash flow, expenses, capital expenditures, Program Max opportunities, cost savings, the demand for senior housing, expansion and development activity, acquisition opportunities, asset dispositions, our share repurchase program and taxes; our belief regarding the value of our common stock and our growth prospects; our ability to secure financing or repay, replace or extend existing debt at or prior to maturity; our ability to remain in compliance with all of our debt and lease agreements (including the financial covenants contained therein); our expectations regarding liquidity; our plans to deleverage; our expectations regarding financings and refinancings of assets (including the timing thereof) and their effect on our results; our expectations regarding changes in government reimbursement programs and their effect on our results; our plans to generate growth organically through occupancy improvements, increases in annual rental rates and the achievement of operating efficiencies and cost savings; our plans to expand our offering of ancillary services (therapy, home health and hospice); our plans to expand, redevelop and reposition existing communities; our plans to acquire additional communities, asset portfolios, operating companies and home health agencies; the expected project costs for our expansion, redevelopment and repositioning program; our expected levels of expenditures and reimbursements (and the timing thereof); our expectations for the performance of our entrance fee communities; our ability to anticipate, manage and address industry trends and their effect on our business; our expectations regarding the payment of dividends; and our ability to increase revenues, earnings, Adjusted EBITDA, Cash From Facility Operations, and/or Facility Operating Income (as such terms are defined herein). Words such as "anticipate(s)", "expect(s)", "intend(s)", "plan(s)", "target(s)", "project(s)", "predict(s)", "believe(s)", "may", "will", "would", "could", "should", "seek(s)", "estimate(s)" and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of risks and uncertainties that could lead to actual results differing materially from those projected, forecasted or expected. Although we believe that the assumptions underlying the forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors which could have a material adverse effect on our operations and future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to, the risk that we may not be able to satisfy the conditions and successfully complete the Chartwell management agreement restructuring; the risk that we may not be able to successfully integrate the new Horizon Bay communities into our operations; our determination from time to time to purchase any shares under the repurchase program; our ability to fund any repurchases; the risk associated with the current global economic crisis and its impact upon capital markets and liquidity; our inability to extend (or refinance) debt (including our credit and letter of credit facilities) as it matures; the risk that we may not be able to satisfy the conditions precedent to exercising the extension options associated with certain of our debt agreements; events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees; the conditions of housing markets in certain geographic areas; our ability to generate sufficient cash flow to cover required interest and long-term operating lease payments; the effect of our indebtedness and long-term operating leases on our liquidity; the risk of loss of property pursuant to our mortgage debt and long-term lease obligations; the possibilities that changes in the capital markets, including changes in interest rates and/or credit spreads, or other factors could make financing more expensive or unavailable to us; changes in governmental reimbursement programs; our ability to effectively manage our growth; our ability to maintain consistent quality control; delays in obtaining regulatory approvals; our ability to complete acquisitions and integrate them into our operations; competition for the acquisition of assets; our

ability to obtain additional capital on terms acceptable to us; a decrease in the overall demand for senior housing; our vulnerability to economic downturns; acts of nature in certain geographic areas; terminations of our resident agreements and vacancies in the living spaces we lease; increased competition for skilled personnel; increased union activity; departure of our key officers; increases in market interest rates; environmental contamination at any of our facilities; failure to comply with existing environmental laws; an adverse determination or resolution of complaints filed against us; the cost and difficulty of complying with increasing and

Table of Contents

evolving regulation; and other risks detailed from time to time in our filings with the Securities and Exchange Commission, press releases and other communications, including those set forth under “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2010 and in this Quarterly Report. Such forward-looking statements speak only as of the date of this Quarterly Report. We expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

## Executive Overview

During the third quarter of 2011, we continued to make progress in implementing our long-term growth strategy, integrating previous acquisitions, and building a platform for future growth. Our primary long-term growth objectives are to grow our revenues, Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income primarily through a combination of: (i) organic growth in our core business, including expense control and the realization of economies of scale; (ii) continued expansion of our ancillary services programs (including therapy, home health and hospice services); (iii) expansion, redevelopment and repositioning of existing communities; and (iv) acquisition and consolidation of asset portfolios and other senior living companies. To that end, as described below under “Horizon Bay/HCP Transactions”, during the quarter, we acquired 100% of the equity interests in Horizon Bay Realty, L.L.C. (“Horizon Bay”), the ninth largest operator of senior living communities in the United States.

Our operating results for the three and nine months ended September 30, 2011 were favorably impacted by an increase in our total revenues, primarily driven by an increase in average monthly revenue per unit, including an increase in our ancillary services revenue, as well as the inclusion of revenue from recent acquisitions. Although we have made significant progress in many areas of our business, the difficult operating environment has continued to result in occupancy rates that are lower than historical levels and diminished growth in the rates we charge our residents.

During the nine months ended September 30, 2011, we also continued our efforts to strengthen our financial position. For example, on January 31, 2011, we entered into an amended and restated credit agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The amended credit agreement amended and restated our previous credit agreement. The amended credit agreement increased the commitment under the credit facility to \$200.0 million and extended the maturity date to January 31, 2016. Effective February 23, 2011, the commitment under the amended credit agreement was further increased to \$230.0 million. In addition, as described below under “Recent Financing Transactions”, during the second quarter we completed a registered offering of \$316.3 million aggregate principal amount of 2.75% convertible senior notes due 2018. The net proceeds from the offering were used to repay a portion of our outstanding mortgage debt. As a result of our recent operating performance and the steps we have recently taken to strengthen our financial position, we ended the quarter with \$39.2 million of unrestricted cash and cash equivalents on our consolidated balance sheet and \$195.0 million of undrawn capacity on our revolving credit facility.

The tables below present a summary of our operating results and certain other financial metrics for the three and nine months ended September 30, 2011 and 2010 and the amount and percentage of increase or decrease of each applicable item (dollars in millions).

	Three Months Ended September 30,		Increase (Decrease)	
	2011	2010	Amount	Percent
Total revenues	\$ 615.7	\$ 575.8	\$ 39.9	6.9 %
Net loss	(7.0 )	(16.9 )	(9.9 )	(58.4 %)

Edgar Filing: Brookdale Senior Living Inc. - Form 10-Q

Adjusted EBITDA	99.8	103.3	(3.5 )	(3.4 %)
Cash From Facility Operations	60.1	59.7	0.4	0.7 %
Facility Operating Income	187.2	181.6	5.7	3.1 %

29

---

Table of Contents

	Nine Months Ended September 30,		Increase (Decrease)		
	2011	2010	Amount	Percent	
Total revenues	\$ 1,785.9	\$ 1,702.3	\$ 83.6	4.9	%
Net loss	(53.3 )	(40.8 )	12.5	30.7	%
Adjusted EBITDA	306.3	299.9	6.4	2.2	%
Cash From Facility Operations	183.2	171.1	12.1	7.1	%
Facility Operating Income	569.6	551.2	18.5	3.3	%

Adjusted EBITDA and Facility Operating Income are non-GAAP financial measures we use in evaluating our operating performance. Cash From Facility Operations is a non-GAAP financial measure we use in evaluating our liquidity. See “Non-GAAP Financial Measures” below for an explanation of how we define each of these measures, a detailed description of why we believe such measures are useful and the limitations of each measure, a reconciliation of net loss to each of Adjusted EBITDA and Facility Operating Income and a reconciliation of net cash provided by operating activities to Cash From Facility Operations.

Our revenues for the nine months ended September 30, 2011 increased to \$1.8 billion, an increase of \$83.6 million, or 4.9%, over our revenues for the nine months ended September 30, 2010. The increase in revenues in the current year period was primarily a result of an increase in the average monthly revenue per unit compared to the prior year period, including growing revenues from our ancillary services programs, as well as the inclusion of revenue from acquisitions that occurred during the current year period. Our weighted average occupancy rate for the nine months ended September 30, 2011 and 2010 was 87.1% and 86.9%, respectively.

During the three months ended September 30, 2011, our Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income (decreased) increased by (3.4%), 0.7% and 3.1%, respectively, when compared to the three months ended September 30, 2010. During the nine months ended September 30, 2011, our Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income increased by 2.2%, 7.1% and 3.3%, respectively, when compared to the nine months ended September 30, 2010.

In addition to the Horizon Bay transaction described below, during the nine months ended September 30, 2011, we acquired the underlying real estate in 12 assisted living communities that we previously leased for an aggregate purchase price of \$31.3 million. Additionally, during the nine months ended September 30, 2011, we acquired two assisted living communities, one of which we previously leased, for an aggregate purchase price of approximately \$19.0 million. During the nine months ended September 30, 2011, we also purchased three home health agencies for an aggregate purchase price of approximately \$4.2 million.

During the nine months ended September 30, 2011, we continued to expand our ancillary services offerings. As of September 30, 2011, we offered therapy services to almost 38,800 of our units and home health services to over 28,000 of our units. We also continued to see positive results from the maturation of previously-opened therapy and home health clinics. We expect to continue to expand our ancillary services programs to additional units and to open or acquire additional home health agencies.

We believe that the deteriorating housing market and general economic uncertainty have caused some potential customers (or their adult children) to delay or reconsider moving into our communities, resulting in a decrease in occupancy rates and occupancy levels when compared to historical levels. We remain cautious about the economy and its effect on our customers and our business. In addition, we continue to experience volatility in the entrance fee portion of our business. The timing of entrance fee sales is subject to a number of different factors (including the ability of potential customers to sell their existing homes) and is also inherently subject to variability (positively or

negatively) when measured over the short-term. These factors also impact our potential independent living customers to a significant extent. We expect occupancy and entrance fee sales to normalize over the longer term.



## Table of Contents

### Horizon Bay/HCP Transactions

On September 1, 2011, we completed our previously announced acquisition of 100% of the equity interests in Horizon Bay. As a result of the transaction, we added to our portfolio 91 communities with over 16,200 units in 19 states.

In connection with the acquisition, we restructured Horizon Bay's existing relationship with HCP, Inc. ("HCP") relating to 33 communities that Horizon Bay leased from HCP. First, we formed a joint venture with HCP to own and operate 21 of the communities utilizing a RIDEA structure. We acquired a 10% interest in the joint venture. We also manage the communities under a ten-year management agreement with four five-year renewal options and will retain all ancillary services operations. The 21-community portfolio has a total of 5,000 units (approximately 4,206 independent living, 721 assisted living, and 73 Alzheimer's/dementia care units) and is primarily located in Florida, Texas, Illinois and Rhode Island.

Second, we entered into long term, triple net leases with HCP relating to 12 communities with a total of 1,546 units (approximately 578 independent living, 595 assisted living, 217 Alzheimer's/dementia care and 156 skilled nursing units). The leased portfolio is primarily located in Texas and Rhode Island. Horizon Bay leases an additional community from HCP pursuant to a triple net lease and subleases that community to a third-party operator.

We also provide management services to the remaining 58 Horizon Bay communities, which contain approximately 9,667 units, consisting of 5,527 independent living units, 3,174 assisted living units, 477 Alzheimer's/dementia care units and 489 skilled nursing beds in 15 states. The management contracts are generally long-term agreements with base management fees and potential incentive fees. In conjunction with the acquisition, we entered into an agreement to restructure the management agreements with Chartwell Seniors Housing Real Estate Investment Trust ("Chartwell") relating to 45 of these communities (with a total of 6,359 units). As part of the restructuring of the management agreements, Chartwell granted us an option through 2013 to acquire a 20% interest in Chartwell's U.S. real estate assets that we manage. We also have a right of first offer to acquire any of Chartwell's assets that we manage.

Certain elements of the Chartwell management arrangement restructuring are subject to lender and other third party approvals. Until such approvals are received, we will operate Chartwell's properties under the existing management contracts.

### Recent Financing Transactions

In June 2011, we completed a registered offering of \$316.3 million aggregate principal amount of 2.75% convertible senior notes due 2018. We received net proceeds of approximately \$276.4 million after the deduction of underwriting commissions, offering expenses and the net cost of the convertible note hedge and warrant transactions described in Note 8. We used the net proceeds to repay \$274.9 million of outstanding mortgage debt.

On July 29, 2011, we obtained \$437.8 million in loans pursuant to the terms of a Master Credit Facility Agreement. The loans are secured by first mortgages on 44 communities, and 75% of such loans bear interest at a fixed rate of 4.25% while the remaining 25% of such loans bear interest at a variable rate equal to the 30-day LIBOR plus a margin of 182 basis points. The loans mature on August 1, 2018 and require amortization of principal over a 30 year period. Proceeds of the loans, together with cash on hand, were used to refinance or prepay \$445.2 million of mortgage debt which was scheduled to mature in February and August 2012.

### Consolidated Results of Operations

Three Months Ended September 30, 2011 and 2010

The following table sets forth, for the periods indicated, statements of operations items and the amount and percentage of increase or decrease of these items. The results of operations for any particular period are not necessarily indicative of results for any future period. The following data should be read in conjunction with our condensed consolidated financial statements and the related notes, which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Table of Contents

(dollars in thousands, except average monthly revenue per unit)

	Three Months Ended September 30,		Increase (Decrease)	% Increase (Decrease)
	2011	2010		
Statement of Operations Data:				
Revenue				
Resident fees				
Retirement Centers	\$ 132,058	\$ 133,663	\$ (1,605 )	(1.2 %)
Assisted Living	266,142	259,572	6,570	2.5 %
CCRCs	176,959	163,890	13,069	8.0 %
Total resident fees	575,159	557,125	18,034	3.2 %
Management services (1)	40,569	18,664	21,905	117.4 %
Total revenue	615,728	575,789	39,939	6.9 %
Expense				
Facility operating expense				
Retirement Centers	78,887	79,464	(577 )	(0.7 %)
Assisted Living	176,782	170,431	6,351	3.7 %
CCRCs	125,745	119,041	6,704	5.6 %
Total facility operating expense	381,414	368,936	12,478	3.4 %
General and administrative expense				
Facility lease expense	38,711	33,231	5,480	16.5 %
Facility lease expense	68,314	68,090	224	0.3 %
Depreciation and amortization	64,071	74,951	(10,880 )	(14.5 %)
Gain on acquisition	(3,520 )	—	3,520	100.0 %
Costs incurred on behalf of managed communities				
Facility lease termination expense	37,233	17,325	19,908	114.9 %
Facility lease termination expense	—	4,616	(4,616 )	(100.0 %)
Total operating expense	586,223	567,149	19,074	3.4 %
Income from operations	29,505	8,640	20,865	241.5 %
Interest income	1,171	441	730	165.5 %
Interest expense				
Debt	(30,433 )	(33,357 )	(2,924 )	(8.8 %)
Amortization of deferred financing costs and debt discount				
Change in fair value of derivatives and amortization	(4,310 )	(2,244 )	2,066	92.1 %
Change in fair value of derivatives and amortization	(1,508 )	(176 )	1,332	756.8 %
Equity in (loss) earnings of unconsolidated ventures				
Equity in (loss) earnings of unconsolidated ventures	(117 )	272	(389 )	(143.0 %)
Loss on extinguishment of debt, net				
Loss on extinguishment of debt, net	(715 )	(856 )	(141 )	(16.5 %)
Other non-operating expense				
Other non-operating expense	(116 )	(1,454 )	(1,338 )	(92.0 %)
Loss before income taxes				
Loss before income taxes	(6,523 )	(28,734 )	(22,211 )	(77.3 %)
(Provision) benefit for income taxes				
(Provision) benefit for income taxes	(513 )	11,821	(12,334 )	(104.3 %)
Net loss	\$ (7,036 )	\$ (16,913 )	\$ (9,877 )	(58.4 %)

Selected Operating and Other Data:					
Total number of communities (at end of period)	647	564	83	14.7	%
Total units operated					
Period end	66,178	50,900	15,278	30.0	%
Weighted average (2)	55,440	50,903	4,537	8.9	%
Owned/leased communities units					
Period end	47,752	47,114	638	1.4	%
Weighted average (2)	46,791	47,117	(326 )	(0.7	%)
Owned/leased communities occupancy rate (weighted average)					
	87.4	%	87.4	%	—
Average monthly revenue per unit					
(3)	\$ 4,700	\$ 4,457	\$ 243	5.5	%

Table of ContentsSelected Segment Operating and  
Other Data:

## Retirement Centers

Number of communities (period end)	76	80	(4 )	(5.0 %)
Total units				
Period end	14,464	14,734	(270 )	(1.8 %)
Weighted average (2)	14,131	14,734	(603 )	(4.1 %)
Occupancy rate (weighted average)	88.4 %	87.4 %	1.0 %	1.1 %
Average monthly revenue per unit (3)	\$ 3,524	\$ 3,461	\$ 63	1.8 %

## Assisted Living

Number of communities (period end)	433	429	4	0.9 %
Total units				
Period end	21,524	21,114	410	1.9 %
Weighted average (2)	21,265	21,114	151	0.7 %
Occupancy rate (weighted average)	88.4 %	89.0 %	(0.6 %)	(0.7 %)
Average monthly revenue per unit (3)	\$ 4,772	\$ 4,606	\$ 166	3.6 %

## CCRCs

Number of communities (period end)	40	36	4	11.1 %
Total units				
Period end	11,764	11,266	498	4.4 %
Weighted average (2)	11,395	11,269	126	1.1 %
Occupancy rate (weighted average)	84.4 %	84.4 %	—	—
Average monthly revenue per unit (3)	\$ 6,087	\$ 5,509	\$ 578	10.5 %

## Management Services

Number of communities (period end)	98	19	79	NM
Total units				
Period end	18,426	3,786	14,640	NM
Weighted average (2)	8,649	3,786	4,863	NM
Occupancy rate (weighted average)	84.3 %	83.7 %	0.6 %	0.7 %

## Selected Entrance Fee Data:

Non-refundable entrance fees sales	\$ 10,815	\$ 9,812		
Refundable entrance fees sales(4)	7,204	12,242		
Total entrance fee receipts(5)	18,019	22,054		
Refunds	(5,475 )	(4,984 )		
Net entrance fees	\$ 12,544	\$ 17,070		

(1) Management services segment revenue includes reimbursements for which we are the primary obligor of costs incurred on behalf of managed communities.

- (2) Total units operated represent the average units operated during the period, excluding equity homes.
- (3) Average monthly revenue per unit represents the average of the total monthly revenues, excluding amortization of entrance fees, divided by average occupied units.
- (4) Refundable entrance fee sales for the three months ended September 30, 2011 and 2010 include amounts received from residents participating in the MyChoice program, which allows new and existing residents the option to pay additional refundable entrance fee amounts in return for a reduced monthly service fee. MyChoice amounts received from residents totaled \$2.3 million and \$6.5 million for the three months ended September 30, 2011 and 2010, respectively.
- (5) Includes \$2.3 million and \$2.9 million of first generation entrance fee receipts (which represent initial entrance fees received from the sale of units at a newly opened entrance fee CCRC) during the three months ended September 30, 2011 and 2010, respectively.

As of September 30, 2011, our total operations included 647 communities with a capacity of 67,092 units.

#### Resident Fees

Resident fees increased over the prior-year third quarter mainly due to an increase in average monthly revenue per unit during the current period, including an increase in our ancillary services revenue as we continued to roll out therapy and home health services to many of our communities, as well as the inclusion of revenue from communities acquired in the current period. During the current period, revenues grew 2.7% at the 532 communities

Table of Contents

we operated during both periods with a 3.2% increase in the average monthly revenue per unit (excluding amortization of entrance fees in both instances). Occupancy decreased 0.5% in these communities period over period.

Retirement Centers revenue decreased \$1.6 million, or 1.2%, primarily due to the reclassification of three communities out of this segment during the first quarter of the current year as well as the sale of one community subsequent to the end of the prior year period. The decrease in revenue was partially offset by increases in occupancy at the communities we operated during both periods and in the average monthly revenue per unit, as well as by the inclusion of revenue from communities acquired in the current period.

Assisted Living revenue increased \$6.6 million, or 2.5%, primarily due to the reclassification of three communities into this segment during the first quarter of this year, as well as from increases in the average monthly revenue per unit and the inclusion of revenue from recently acquired communities. This increase was partially offset by a decrease in occupancy at the communities we operated during both periods.

CCRCs revenue increased \$13.1 million, or 8.0%, primarily due to increases in the average monthly revenue per unit, including an increase in our ancillary services revenue, as well as the inclusion of revenue from communities acquired in the current period. This increase was partially offset by a decrease in occupancy at the communities we operated during both periods.

Management Services

Management services revenue, including reimbursed costs incurred on behalf of managed communities, increased \$21.9 million, or 117.4%, primarily due to the management agreements entered into or acquired in conjunction with the Horizon Bay/HCP transactions where we act as the primary obligor on the agreements and recognize revenue when due reimbursement. In the current quarter, we added 79 new managed communities in connection with these transactions.

Facility Operating Expense

Facility operating expense increased over the prior-year period primarily due to an increase in salaries and wages, additional current year expense incurred in connection with the continued expansion of our ancillary services programs during 2010 and 2011, and the inclusion of expenses from communities acquired during the current period. These increases were partially offset by decreases in real estate tax expense and lighting retrofit costs.

Retirement Centers operating expenses decreased \$0.6 million, or 0.7%, primarily due to the reclassification of three communities out of this segment and into the Assisted Living segment during the first quarter of the current year as well as a decrease in real estate tax expense. These decreases were partially offset by an increase in expenses incurred in connection with the continued expansion of our ancillary services programs, increases in salaries and wages due to wage rate increases and an increase in hours worked period over period as well as the inclusion of expenses from communities acquired during the current period.

Assisted Living operating expenses increased \$6.4 million, or 3.7%, primarily due to an increase in expenses incurred in connection with the continued expansion of our ancillary services programs, increased salaries and wages due to wage rate increases and an increase in hours worked period over period and the reclassification of three communities from the Retirement Centers segment into this segment during the first quarter of the current year. Assisted Living operating expenses were also impacted by the inclusion of expenses from communities acquired during the current period. These increases were partially offset by decreases in utilities and repairs and maintenance expense.

CCRCs operating expenses increased \$6.7 million, or 5.6%, primarily due to an increase in expenses incurred in connection with the continued expansion of our ancillary services programs, increased salaries and wages due to wage rate increases and an increase in hours worked period over period as well as the inclusion of expenses from communities acquired during the current period. These increases were partially offset by decreases in real estate tax expense and lighting retrofit costs.



Table of Contents

## General and Administrative Expense

General and administrative expense increased \$5.5 million, or 16.5%, as a result of increased salaries and wages, employee benefits and integration and transaction-related expenses, slightly offset by decreases in non-cash stock-based compensation expense and insurance expense related to a change in estimate. General and administrative expense as a percentage of total revenue, including revenue generated by the communities we manage and excluding non-cash stock-based compensation expense and integration and transaction-related costs, was 4.3% and 4.6% for the three months ended September 30, 2011 and 2010, respectively, calculated as follows (dollars in thousands):

		Three Months Ended September 30,					
		2011			2010		
Resident fee revenues	\$ 575,159	88.3	%	\$ 557,125	94.1	%	
Resident fee revenues under management	76,187	11.7	%	34,662	5.9	%	
Total	\$ 651,346	100.0	%	\$ 591,787	100.0	%	
General and administrative expenses (excluding non-cash stock-based compensation expense and integration and transaction-related costs)	\$ 28,022	4.3	%	\$ 27,408	4.6	%	
Non-cash stock-based compensation expense	5,221	0.8	%	5,823	1.0	%	
Integration and transaction-related costs	5,468	0.8	%	—	—		
General and administrative expenses (including non-cash stock-based compensation expense and integration and transaction-related costs)	\$ 38,711	5.9	%	\$ 33,231	5.6	%	

## Facility Lease Expense

Facility lease expense remained relatively constant period over period.

## Depreciation and Amortization

Depreciation and amortization expense decreased \$10.9 million, or 14.5%, primarily as a result of the management contract and therapy services intangibles related to a 2006 acquisition becoming fully amortized during the current period, as well as in-place lease intangibles related to a 2006 acquisition and furniture and equipment becoming fully amortized subsequent to the prior period.

## Gain on Acquisition

During the three months ended September 30, 2011, we recognized \$3.5 million as a gain on acquisition related to the acquisition of Horizon Bay. See Note 4 to the condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for further detail.

#### Costs Incurred on Behalf of Managed Communities

Costs incurred on behalf of managed communities increased \$19.9 million, or 114.9%, primarily due to management agreements entered into or acquired in conjunction with the Horizon Bay/HCP transactions where we act as the primary obligor on the agreements and recognize operating expenses when we incur expenses on their behalf. We added 79 new managed communities in connection with these transactions.

#### Facility Lease Termination Expense

During the three months ended September 30, 2010, we recognized \$4.6 million of facility lease termination expense related to the accrual of costs recorded in connection with the termination of an operating lease agreement with respect to one community.

Table of Contents

## Interest Income

Interest income increased \$0.7 million, or 165.5%, primarily due to interest income earned on our restricted marketable securities as well as interest received on a lease security deposit.

## Interest Expense

Interest expense increased \$0.5 million, or 1.3%, primarily due to additional interest expense recorded from the change in the fair value of interest rate swaps and caps due to unfavorable changes in the LIBOR yield curve period over period, as well as additional expense from the amortization of debt discount. This amount was partially offset by a decrease in interest expense on our mortgage debt due to lower average outstanding debt period over period.

## Income Taxes

Our effective tax rates for the three months ended September 30, 2011 and 2010 were (7.9%) and 41.1%, respectively. The difference in the effective tax rate between these periods was primarily due to our decision to record a valuation allowance against the deferred tax benefit generated during the three month period ended September 30, 2011. We concluded that the additional benefits generated during the period did not meet the more likely than not criteria for realization. The conclusion was determined solely based on the reversal of current timing differences and did not consider future taxable income to be generated. We continue to maintain that the deferred tax assets recorded as of December 31, 2010, primarily related to net operating losses generated prior to December 31, 2010, are more likely than not to be realized based on the reversal of deferred tax liabilities also recorded as of December 31, 2010.

An additional interest charge related to our tax contingency reserve was recorded during the three months ended September 30, 2011. Tax returns for years 2008, 2009 and 2010 are subject to future examination by tax authorities. In addition, certain tax returns are open from 2000 through 2007 to the extent of the net operating losses generated during those periods.

## Nine Months Ended September 30, 2011 and 2010

The following table sets forth, for the periods indicated, statements of operations items and the amount and percentage of increase or decrease of these items. The results of operations for any particular period are not necessarily indicative of results for any future period. The following data should be read in conjunction with our condensed consolidated financial statements and the related notes, which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

(dollars in thousands, except average monthly revenue per unit)

		Nine Months Ended September 30,			
		2011	2010	Increase (Decrease)	% Increase (Decrease)
<b>Statement of Operations Data:</b>					
Revenue					
Resident fees					
Retirement Centers	\$	389,458	\$ 397,455	\$ (7,997 )	(2.0 %)
Assisted Living		793,052	765,816	27,236	3.6 %
CCRCs		524,607	484,443	40,164	8.3 %

Edgar Filing: Brookdale Senior Living Inc. - Form 10-Q

Total resident fees	1,707,117	1,647,714	59,403	3.6	%
Management services (1)	78,830	54,597	24,233	44.4	%
Total revenue	1,785,947	1,702,311	83,636	4.9	%

36

---

Table of Contents

## Expense

Facility operating expense						
Retirement Centers	231,391	235,108	(3,717 )	(1.6	%)	
Assisted Living	517,771	496,076	21,695	4.4	%)	
CCRCs	369,448	346,127	23,321	6.7	%)	
Total facility operating expense	1,118,610	1,077,311	41,299	3.8	%)	
General and administrative expense						
	105,935	97,017	8,918	9.2	%)	
Facility lease expense	200,694	203,514	(2,820 )	(1.4	%)	
Depreciation and amortization	206,430	221,180	(14,750 )	(6.7	%)	
Asset impairment	14,846	—	14,846	100.0	%)	
Gain on acquisition	(3,520 )	—	3,520	100.0	%)	
Costs incurred on behalf of managed communities						
	72,584	50,451	22,133	43.9	%)	
Facility lease termination expense	—	4,616	(4,616 )	(100.0	%)	
Total operating expense	1,715,579	1,654,089	61,490	3.7	%)	
Income from operations	70,368	48,222	22,146	45.9	%)	
Interest income	2,569	1,521	1,048	68.9	%)	
Interest expense						
Debt	(92,667 )	(100,540 )	(7,873 )	(7.8	%)	
Amortization of deferred financing costs and debt discount						
	(9,024 )	(7,250 )	1,774	24.5	%)	
Change in fair value of derivatives and amortization						
	(4,151 )	(5,023 )	(872 )	(17.4	%)	
Equity in earnings of unconsolidated ventures						
	295	788	(493 )	(62.6	%)	
Loss on extinguishment of debt, net						
	(18,863 )	(1,557 )	17,306	NM		
Other non-operating income (expense)						
	260	(1,454 )	1,714	117.9	%)	
Loss before income taxes	(51,213 )	(65,293 )	(14,080 )	(21.6	%)	
(Provision) benefit for income taxes						
	(2,087 )	24,528	(26,615 )	(108.5	%)	
Net loss	\$ (53,300 )	\$ (40,765 )	\$ 12,535	30.7	%)	

## Selected Operating and Other Data:

Total number of communities (at end of period)						
	647	564	83	14.7	%)	
Total units operated						
Period end	66,178	50,900	15,278	30.0	%)	
Weighted average (2)	52,009	50,927	1,082	2.1	%)	
Owned/leased communities units						
Period end	47,752	47,114	638	1.4	%)	
Weighted average (2)	46,603	47,140	(537 )	(1.1	%)	
Owned/leased communities occupancy rate (weighted average)						
	87.1 %	86.9 %	0.2 %	0.2	%)	
	\$ 4,644	\$ 4,419	\$ 225	5.1	%)	

Edgar Filing: Brookdale Senior Living Inc. - Form 10-Q

Average monthly revenue per unit  
(3)

Selected Segment Operating and  
Other Data:

Retirement Centers

Number of communities (period end)	76	80	(4 )	(5.0 %)
Total units				
Period end	14,464	14,734	(270 )	(1.8 %)
Weighted average (2)	14,095	14,736	(641 )	(4.3 %)
Occupancy rate (weighted average)	87.7 %	87.2 %	0.5 %	0.6 %
Average monthly revenue per unit (3)	\$ 3,502	\$ 3,438	\$ 64	1.9 %

Assisted Living

Number of communities (period end)	433	429	4	0.9 %
Total units				
Period end	21,524	21,114	410	1.9 %
Weighted average (2)	21,235	21,127	108	0.5 %
Occupancy rate (weighted average)	88.0 %	88.2 %	(0.2 %)	(0.2 %)
Average monthly revenue per unit (3)	\$ 4,733	\$ 4,568	\$ 165	3.6 %

CCRCs

Number of communities (period end)	40	36	4	11.1 %
Total units				
Period end	11,764	11,266	498	4.4 %
Weighted average (2)	11,273	11,277	(4 )	—
Occupancy rate (weighted average)	84.7 %	84.2 %	0.5 %	0.6 %

Table of Contents

Average monthly revenue per unit (3)	\$5,945	\$5,456	\$489	9.0	%			
Management Services								
Number of communities (period end)	98	19	79	NM				
Total units								
Period end	18,426	3,786	14,640	NM				
Weighted average (2)	5,406	3,787	1,619	42.8	%			
Occupancy rate (weighted average)	84.5	%	83.5	%	1.0	%	1.2	%

## Selected Entrance Fee Data:

Non-refundable entrance fees sales	\$26,475	\$27,716
Refundable entrance fees sales(4)	18,594	27,303
Total entrance fee receipts(5)	45,069	55,019
Refunds	(16,886 )	(16,106 )
Net entrance fees	\$28,183	\$38,913

(1) Management services segment revenue includes reimbursements for which we are the primary obligor of costs incurred on behalf of managed communities.

(2) Total units operated represent the average units operated during the period, excluding equity homes.

(3) Average monthly revenue per unit represents the average of the total monthly revenues, excluding amortization of entrance fees, divided by average occupied units.

(4) Refundable entrance fee sales for the nine months ended September 30, 2011 and 2010 include amounts received from residents participating in the MyChoice program, which allows new and existing residents the option to pay additional refundable entrance fee amounts in return for a reduced monthly service fee. MyChoice amounts received from residents totaled \$5.0 million and \$6.8 million for the nine months ended September 30, 2011 and 2010, respectively.

(5) Includes \$7.2 million and \$14.5 million of first generation entrance fee receipts (which represent initial entrance fees received from the sale of units at a newly opened entrance fee CCRC) during the nine months ended September 30, 2011 and 2010, respectively.

## Resident Fees

Resident fees increased over the prior-year period mainly due to an increase in average monthly revenue per unit during the current period, including an increase in our ancillary services revenue as we continued to roll out therapy and home health services to many of our communities, as well as the inclusion of revenue from communities acquired in the current period. During the current period, revenues grew 3.4% at the 532 communities we operated during both periods with a 3.9% increase in the average monthly revenue per unit (excluding amortization of entrance fees in both instances). Occupancy decreased 0.4% in these communities period over period.

Retirement Centers revenue decreased \$8.0 million, or 2.0%, primarily due to the reclassification of three communities out of this segment during the first quarter of the current year as well as the sale of one community subsequent to the end of the prior year period. The decrease in revenue was partially offset by increases in average monthly revenue per unit, including an increase in ancillary services revenue, and occupancy at the communities we

operated during both periods, as well as the inclusion of revenue from communities acquired in the current period.

Assisted Living revenue increased \$27.2 million, or 3.6%, primarily due to an increase in the average monthly revenue per unit, including an increase in ancillary services revenue, as well as the reclassification of three communities from the Retirement Centers segment into this segment during the current period and the inclusion of revenue from communities acquired in the current period. This increase was partially offset by a decrease in occupancy at the communities we operated during both periods.

CCRCs revenue increased \$40.2 million, or 8.3%, primarily due to an increase in the average monthly revenue per unit, including an increase in our ancillary services revenue, and an increase in revenue from newly opened units as well as the inclusion of revenue from communities acquired in the current period. This increase was partially offset by a decrease in occupancy at the communities we operated during both periods.



Table of Contents

Management Services

Management services revenue, including reimbursed costs incurred on behalf of managed communities, increased \$24.2 million, or 44.4%, primarily due to the management agreements entered into or acquired in conjunction with the Horizon Bay/HCP transactions where we act as the primary obligor on the agreements and recognize revenue when due reimbursement. In the current period, we added 79 new managed communities in connection with these transactions.

Facility Operating Expense

Facility operating expense increased over the prior-year period primarily due to an increase in salaries and wages, additional current year expense incurred in connection with the continued expansion of our ancillary services programs during 2010 and 2011, increased payroll taxes and workers compensation expense, as well as the inclusion of expenses from communities acquired during the current period. These increases were partially offset by a decrease in real estate tax expense related to changes in estimates and lighting retrofit costs.

Retirement Centers operating expenses decreased \$3.7 million, or 1.6%, primarily due to the reclassification of three communities out of this segment and into the Assisted Living segment during the current period as well as decreases in real estate tax expense related to changes in estimates and lighting retrofit costs. These decreases were partially offset by an increase in expenses incurred in connection with the continued expansion of our ancillary services programs, increases in salaries and wages due to wage rate increases and an increase in hours worked period over period, increases in payroll taxes and workers compensation expense and the inclusion of expenses from communities acquired in the current period.

Assisted Living operating expenses increased \$21.7 million, or 4.4%, primarily due to an increase in expenses incurred in connection with the continued expansion of our ancillary services programs, increased salaries and wages due to wage rate increases and an increase in hours worked period over period as well as the reclassification of three communities from the Retirement Centers segment into this segment during the current period. Assisted Living operating expenses were also impacted by increases in payroll taxes and workers compensation expense and the inclusion of expenses from communities acquired in the current period. These increases were partially offset by decreases in real estate tax expense and insurance expense related to changes in estimates.

CCRCs operating expenses increased \$23.3 million, or 6.7%, primarily due to an increase in expenses incurred in connection with the continued expansion of our ancillary services programs, increased salaries and wages due to wage rate increases and an increase in hours worked period over period and the inclusion of expenses from communities acquired in the current period. CCRCs operating expenses were also impacted by increases in payroll taxes, health care supply expense, employee benefits and workers compensation expenses. These increases were partially offset by decreases in real estate tax expense and lighting retrofit costs.

General and Administrative Expense

General and administrative expense increased \$8.9 million, or 9.2%, as a result of increased salaries and wages, payroll taxes, employee benefits, travel expenses and integration and transaction-related costs, slightly offset by a decrease in corporate expense allocations and insurance expense related to a change in estimate. General and administrative expense as a percentage of total revenue, including revenue generated by the communities we manage and excluding non-cash stock-based compensation expense and integration and transaction-related costs, was 4.6% for both the nine months ended September 30, 2011 and 2010, calculated as follows (dollars in thousands):



Table of Contents

		Nine Months Ended September 30,					
		2011			2010		
Resident fee revenues	\$ 1,707,117	91.9	%	\$ 1,647,714	94.1	%	
Resident fee revenues under management	149,461	8.1	%	103,358	5.9	%	
Total	\$ 1,856,578	100.0	%	\$ 1,751,072	100.0	%	
General and administrative expenses (excluding non-cash stock-based compensation expense and integration and transaction-related costs)	\$ 85,257	4.6	%	\$ 81,218	4.6	%	
Non-cash stock-based compensation expense	14,316	0.8	%	15,799	0.9	%	
Integration and transaction-related costs	6,362	0.3	%	—	—		
General and administrative expenses (including non-cash stock-based compensation expense and integration and transaction-related costs)	\$ 105,935	5.7	%	\$ 97,017	5.5	%	

## Facility Lease Expense

Facility lease expense decreased \$2.8 million, or 1.4%, primarily due to the purchase of previously leased communities and the non-renewal of two leased communities that occurred in late 2010 and early 2011.

## Depreciation and Amortization

Depreciation and amortization expense decreased \$14.8 million, or 6.7%, primarily as a result of the management contract and therapy services intangibles related to a 2006 acquisition becoming fully amortized during the current period, as well as in-place lease intangibles from a 2006 acquisition and furniture and equipment becoming fully amortized subsequent to the prior period.

## Asset Impairment

During the nine months ended September 30, 2011, we recognized \$14.8 million of non-cash impairment charges related to asset impairments for property, plant and equipment and leasehold intangibles for certain communities within the Retirement Centers and Assisted Living segments. We compared the estimated fair value of the assets to their carrying value and recorded an impairment charge for the excess of carrying value over estimated fair value.

## Gain on Acquisition

During the nine months ended September 30, 2011, we recognized \$3.5 million as a gain on acquisition related to the acquisition of Horizon Bay. See Note 4 to the condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for further detail.

## Costs Incurred on Behalf of Managed Communities

Costs incurred on behalf of managed communities increased \$22.1 million, or 43.9%, primarily due to management agreements entered into or acquired in conjunction with the Horizon Bay/HCP transactions where we act as the primary obligor on the agreements and recognize operating expenses when we incur expenses on their behalf. We added 79 new managed communities in connection with these transactions.

#### Interest Income

Interest income increased \$1.0 million, or 68.9%, primarily due to interest income earned on our restricted marketable securities.

Table of Contents

## Interest Expense

Interest expense decreased \$7.0 million, or 6.2%, primarily due to a decrease in interest expense on our mortgage debt due to lower average outstanding debt period over period, partially offset by additional expense from the amortization of debt discount.

## Loss on Extinguishment of Debt, net

During the nine months ended September 30, 2011, we recognized \$18.9 million as a loss on extinguishment of debt, related to costs incurred in connection with the early repayment of first and second mortgage notes.

## Income Taxes

Our effective tax rates for the nine months ended September 30, 2011 and 2010 were (4.1%) and 37.6% respectively. The difference in the effective tax rate between these periods was primarily due to our decision to record a valuation allowance against the deferred tax benefit generated during the nine month period ended September 30, 2011. We concluded that the additional benefits generated during the period did not meet the more likely than not criteria for realization. The conclusion was determined solely based on the reversal of current timing differences and did not consider future taxable income to be generated. We continue to maintain that the deferred tax assets recorded as of December 31, 2010, primarily related to net operating losses generated prior to December 31, 2010, are more likely than not to be realized based on the reversal of deferred tax liabilities also recorded as of December 31, 2010.

An additional interest charge related to our tax contingency reserve was recorded during the nine months ended September 30, 2011. Additionally, uncertain tax positions recorded in prior periods were reduced due to a change in estimate. Tax returns for years 2008, 2009 and 2010 are subject to future examination by tax authorities. In addition, certain tax returns are open from 2000 through 2007 to the extent of the net operating losses generated during those periods.

## Liquidity and Capital Resources

The following is a summary of cash flows from operating, investing and financing activities, as reflected in the condensed consolidated statements of cash flows (dollars in thousands):

	Nine Months Ended September 30,	
	2011	2010
Cash provided by operating activities	\$ 212,002	\$ 179,155
Cash used in investing activities	(122,210 )	(95,265 )
Cash used in financing activities	(132,424 )	(81,299 )
Net (decrease) increase in cash and cash equivalents	(42,632 )	2,591
Cash and cash equivalents at beginning of period	81,827	66,370
Cash and cash equivalents at end of period	\$ 39,195	\$ 68,961

The increase in cash provided by operating activities was attributable primarily to increased cash provided by changes in working capital and, to a lesser extent, improved operating results.

The increase in cash used in investing activities was primarily attributable to an increase in spending on property, plant, equipment and leasehold intangibles and cash paid for acquisitions. In the current period, we also invested cash

to gain a non-controlling interest in a joint venture. The increase was partially offset by an increase in cash received from the proceeds from the sale of assets as well as a decrease in cash related to the release of escrow on a newly opened entrance fee CCRC. The escrowed funds were used to repay debt outstanding on the community.

The increase in cash used in financing activities was primarily attributable to an increase in net repayments of debt period over period including the repayment of debt on a newly opened CCRC when entrance fees originally escrowed were released in accordance with state regulations as well as repayments of debt from proceeds received in

## Table of Contents

connection with the convertible debt offering in June 2011. Additionally, there was an increase in the cash portion of the loss on extinguishment of debt in the current period and we repurchased 1,217,100 shares of our common stock at an aggregate cost of \$17.6 million. The increase was partially offset by net cash received from the current period convertible debt offering.

Our principal sources of liquidity have historically been from:

- cash balances on hand;
- cash flows from operations;
- proceeds from our credit facilities;
- proceeds from mortgage financing or refinancing of various assets;
- funds generated through joint venture arrangements or sale-leaseback transactions; and
- with somewhat lesser frequency, funds raised in the debt or equity markets and proceeds from the selective disposition of underperforming assets.

Over the longer-term, we expect to continue to fund our business through these principal sources of liquidity.

Our liquidity requirements have historically arisen from:

- working capital;
- operating costs such as employee compensation and related benefits, general and administrative expense and supply costs;
- debt service and lease payments;
- acquisition consideration and transaction costs;
- cash collateral required to be posted in connection with our interest rate swaps and related financial instruments;
- capital expenditures and improvements, including the expansion of our current communities and the development of new communities;
- dividend payments;
- purchases of common stock under our share repurchase authorizations; and
- other corporate initiatives (including integration and branding).

Over the near-term, we expect that our liquidity requirements will primarily arise from:

- working capital;
- operating costs such as employee compensation and related benefits, general and administrative expense and supply costs;
- debt service and lease payments;
- capital expenditures and improvements, including the expansion, redevelopment and repositioning of our current communities and the development of new communities;
- other corporate initiatives (including information systems);
- acquisition consideration and transaction costs;
- purchases of common stock under our share repurchase authorization; and
- to a lesser extent, cash collateral required to be posted in connection with our interest rate swaps and related financial instruments.

We are highly leveraged and have significant debt and lease obligations. We have three principal corporate-level debt obligations: our \$230.0 million revolving credit facility, our \$316.3 million convertible senior notes due 2018 and separate secured and unsecured letter of credit facilities providing for up to \$82.5 million of letters of credit in the

aggregate. The remainder of our indebtedness is generally comprised of non-recourse property-level mortgage financings.

At September 30, 2011, we had \$2.1 billion of debt outstanding, excluding capital lease obligations and our line of credit, at a weighted-average interest rate of 4.23%. At September 30, 2011, we had \$354.0 million of capital and



Table of Contents

financing lease obligations, \$35.0 million was drawn on our revolving loan facility, and \$71.8 million of letters of credit had been issued under our letter of credit facilities. Approximately \$45.4 million of our debt and capital lease obligations are due on or before September 30, 2012. We also have substantial operating lease obligations and capital expenditure requirements. For the year ending September 30, 2012, we will be required to make approximately \$287.6 million of payments in connection with our existing operating leases.

We had \$39.2 million of cash and cash equivalents at September 30, 2011, excluding cash and escrow deposits-restricted and lease security deposits of \$136.6 million.

In 2009, we began replacing some of our outstanding letters of credit with restricted cash in order to reduce our letter of credit needs.

At September 30, 2011, we had \$333.9 million of negative working capital, which includes the classification of \$240.0 million of refundable entrance fees and \$7.7 million in tenant deposits as current liabilities. Based upon our historical operating experience, we anticipate that only 9.0% to 12.0% of those entrance fee liabilities will actually come due, and be required to be settled in cash, during the next 12 months. We expect that any entrance fee liabilities due within the next 12 months will be fully offset by the proceeds generated by subsequent entrance fee sales. Entrance fee sales, net of refunds paid, provided \$12.5 million and \$28.2 million of cash for the three and nine months ended September 30, 2011, respectively.

For the year ending December 31, 2011, we anticipate that we will make investments of approximately \$100.0 million to \$115.0 million for capital expenditures, comprised of approximately \$30.0 million to \$35.0 million of net recurring capital expenditures and approximately \$70.0 million to \$80.0 million of expenditures relating to other major projects (including corporate initiatives). These major projects include unusual or non-recurring capital projects, projects which create new or enhanced economics, such as major renovations or repositioning projects at our communities, integration related expenditures (including the cost of developing information systems), and expenditures supporting the expansion of our ancillary services programs. For the nine months ended September 30, 2011, we spent approximately \$25.0 million for net recurring capital expenditures and approximately \$55.5 million for expenditures relating to other major projects and corporate initiatives.

In addition, during 2011, we have increased our efforts with respect to the expansion, redevelopment and repositioning of our communities through our Program Max initiative. We anticipate making net investments of approximately \$70.0 million to \$100.0 million over the next 12 to 18 months in connection with recently initiated or currently planned projects. For the nine months ended September 30, 2011, we spent approximately \$28.6 million in connection with our Program Max initiative.

During 2011, we anticipate that our capital expenditures will be funded from cash on hand, cash flows from operations, and amounts drawn on our credit facility.

As opportunities arise, we plan to continue to take advantage of the fragmented senior housing and care sectors by selectively purchasing existing operating companies, asset portfolios, home health agencies and communities. We may also seek to acquire the fee interest in communities that we currently lease or manage.

In the normal course of business, we use a variety of financial instruments to mitigate 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. Pursuant to certain of our hedge agreements, we are required to secure our obligation to the counterparty by posting cash or other collateral if the fair value liability exceeds specified thresholds. In periods of significant volatility in the credit markets, the value of these swaps can change significantly and as a result, the

amount of collateral we are required to post can change significantly. We have taken a number of steps to reduce our collateral posting risk. In particular, we terminated a number of interest rate swaps and purchased and assumed a number of interest rate caps, which do not require the posting of cash collateral. Furthermore, we obtained a number of swaps that were secured by underlying mortgaged assets and, hence, did not require cash collateralization. As of September 30, 2011, we have \$248.8 million in aggregate notional amount of interest rate caps and a \$27.9 million notional amount swap that do not require cash collateralization and a \$150.0 million notional amount swap which does require cash collateralization. \$421.7 million of our variable rate debt, excluding our secured line of credit and capital lease obligations, is currently subject to a cap or swap agreement.

## Table of Contents

We expect to continue to assess our financing alternatives periodically and access the capital markets opportunistically. If our existing resources are insufficient to satisfy our liquidity requirements, or if we enter into an acquisition or strategic arrangement with another company, we may need to sell additional equity or debt securities. Any such sale of additional equity securities will dilute the interests of our existing stockholders, and we cannot be certain that additional public or private financing will be available in amounts or on terms acceptable to us, if at all (particularly given current market conditions). If we are unable to obtain this additional financing, we may be required to delay, reduce the scope of, or eliminate one or more aspects of our business development activities, any of which could reduce the growth of our business.

We currently estimate that our existing cash flows from operations, together with existing working capital, amounts available under our credit facility and, to a lesser extent, proceeds from anticipated financings and refinancings of various assets, will be sufficient to fund our liquidity needs for at least the next 12 months, assuming that the overall economy does not substantially deteriorate further.

Our actual liquidity and capital funding requirements depend on numerous factors, including our operating results, the actual level of capital expenditures, our expansion, development and acquisition activity, general economic conditions and the cost of capital. Shortfalls in cash flows from operating results or other principal sources of liquidity may have an adverse impact on our ability to execute our business and growth strategies. The current volatility in the credit and financial markets may also have an adverse impact on our liquidity by making it more difficult for us to obtain financing or refinancing. As a result, this may impact our ability to grow our business, maintain capital spending levels, expand certain communities, or execute other aspects of our business strategy. In order to continue some of these activities at historical or planned levels, we may incur additional indebtedness or lease financing to provide additional funding. There can be no assurance that any such additional financing will be available or on terms that are acceptable to us (particularly in light of current adverse conditions in the credit market).

As of September 30, 2011, we are in compliance with the financial covenants of our outstanding debt and lease agreements.

### Credit Facilities

#### 2010 Credit Facility

Effective February 23, 2010, we entered into a credit agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The facility had an initial commitment of \$100.0 million, with an option to increase the commitment to \$120.0 million (which we exercised on May 5, 2010), and was scheduled to mature on June 30, 2013.

The revolving line of credit could be used to finance acquisitions and fund working capital and capital expenditures and for other general corporate purposes.

The facility was secured by a first priority lien on certain of our communities. The availability under the line could vary from time to time as it was based on borrowing base calculations related to the value and performance of the communities securing the facility.

Amounts drawn under the facility bore interest at 90-day LIBOR plus an applicable margin, as described below. For purposes of determining the interest rate, in no event would LIBOR be less than 2.0%. The applicable margin varied with the percentage of the total commitment drawn, with a 4.5% margin at 35% or lower utilization, a 5.0% margin at utilization greater than 35% but less than or equal to 50%, and a 5.5% margin at greater than 50% utilization. We

were also required to pay a quarterly commitment fee of 1.0% per annum on the unused portion of the facility.

The credit agreement contained typical affirmative and negative covenants, including financial covenants with respect to minimum consolidated fixed charge coverage and minimum consolidated tangible net worth. A violation of any of these covenants could have resulted in a default under the credit agreement, which would have resulted in

## Table of Contents

termination of all commitments under the credit agreement and all amounts owing under the credit agreement and certain other loan agreements becoming immediately due and payable.

### 2011 Credit Facility

On January 31, 2011, we entered into an amended and restated credit agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The amended credit agreement amended and restated in its entirety our existing credit agreement dated as of February 23, 2010, as previously amended. The amended credit agreement increased the commitment under the credit facility from \$120.0 million to \$200.0 million and extended the maturity date to January 31, 2016. Other than the expansion of the commitment and the extension of the maturity date, no other material terms of the previous credit agreement (as described above) were amended. Effective February 23, 2011, the commitment under the amended and restated credit agreement was further increased to \$230.0 million.

As of September 30, 2011, we had an available secured line of credit with a \$230.0 million commitment and separate secured and unsecured letter of credit facilities of up to \$82.5 million in the aggregate. As of September 30, 2011, \$35.0 million was drawn on our revolving loan facility and \$71.8 million of letters of credit had been issued under the letter of credit facilities.

### Contractual Commitments

Significant ongoing commitments consist primarily of leases, debt, purchase commitments and certain other long-term liabilities. For a summary and complete presentation and description of our ongoing commitments and contractual obligations, see the "Contractual Commitments" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

There have been no material changes in our contractual commitments during the nine months ended September 30, 2011 other than with respect to the repayment of mortgage debt, the issuance of convertible notes, the change in maturity dates related to the refinancing transactions that were completed during the period (Note 8) and the change in our operating lease obligations related to the Horizon Bay/HCP transactions (Note 4). Our total long-term debt obligations increased by \$154.0 million to \$2,761.5 million at September 30, 2011 from \$2,607.5 million at December 31, 2010. As a result of the Horizon Bay/HCP transactions, our operating lease obligations increased by \$4.8 million, \$19.5 million, \$20.2 million, \$20.9 million, \$21.5 million and \$185.2 million in 2011, 2012, 2013, 2014, 2015 and thereafter, respectively.

### Off-Balance Sheet Arrangements

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 variable interest entities as we do not possess a controlling financial interest. We do not believe these off-balance sheet arrangements have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### Non-GAAP Financial Measures

A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the

most comparable GAAP measure. In this report, we define and use the non-GAAP financial measures Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income, as set forth below.

#### Adjusted EBITDA

#### Definition of Adjusted EBITDA

We define Adjusted EBITDA as follows:

Net income (loss) before:

## Table of Contents

- provision (benefit) for income taxes;
- non-operating (income) expense items;
- (gain) loss on sale or acquisition of communities (including facility lease termination expense);
- depreciation and amortization (including non-cash impairment charges);
- straight-line lease expense (income);
- amortization of deferred gain;
- amortization of deferred entrance fees;
- non-cash stock-based compensation expense; and
- change in future service obligation;

and including:

- entrance fee receipts and refunds (excluding first generation entrance fee receipts on a newly opened entrance fee CCRC).

### Management's Use of Adjusted EBITDA

We use Adjusted EBITDA to assess our overall financial and operating performance. We believe this non-GAAP measure, as we have defined it, is helpful in identifying trends in our day-to-day performance because the items excluded have little or no significance on our day-to-day operations. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieve optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

Adjusted EBITDA provides us with a measure of financial performance, independent of items that are beyond the control of management in the short-term, such as the change in the liability for the obligation to provide future services under existing lifecare contracts, depreciation and amortization (including non-cash impairment charges), straight-line lease expense (income), taxation and interest expense associated with our capital structure. This metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. Adjusted EBITDA is one of the metrics used by senior management and the board of directors to review the financial performance of the business on a monthly basis. Adjusted EBITDA is also used by research analysts and investors to evaluate the performance of and value companies in our industry.

### Limitations of Adjusted EBITDA

Adjusted EBITDA has limitations as an analytical tool. It should not be viewed in isolation or as a substitute for GAAP measures of earnings. Material limitations in making the adjustments to our earnings to calculate Adjusted EBITDA, and using this non-GAAP financial measure as compared to GAAP net income (loss), include:

- the cash portion of interest expense, income tax (benefit) provision and non-recurring charges related to gain (loss) on sale of communities and extinguishment of debt activities generally represent charges (gains), which may significantly affect our financial results; and
- depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our communities, which affects the services we provide to our residents and may be indicative of future needs for capital expenditures.



Table of Contents

An investor or potential investor may find this item important in evaluating our performance, results of operations and financial position. We use non-GAAP financial measures to supplement our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

Adjusted EBITDA is not an alternative to net income, income from operations or cash flows provided by or used in operations as calculated and presented in accordance with GAAP. You should not rely on Adjusted EBITDA as a substitute for any such GAAP financial measure. We strongly urge you to review the reconciliation of Adjusted EBITDA to GAAP net income (loss), along with our consolidated financial statements included herein. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because Adjusted EBITDA is not a measure of financial performance under GAAP and is susceptible to varying calculations, the Adjusted EBITDA measure, as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies.

The table below shows the reconciliation of net loss to Adjusted EBITDA for the three and nine months ended September 30, 2011 and 2010 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011(1)	2010	2011(1)	2010
Net loss	\$ (7,036 )	\$ (16,913 )	\$ (53,300 )	\$ (40,765 )
Provision (benefit) for income taxes	513	(11,821 )	2,087	(24,528 )
Equity in loss (earnings) of unconsolidated ventures	117	(272 )	(295 )	(788 )
Loss on extinguishment of debt, net	715	856	18,863	1,557
Other non-operating expense (income)	116	1,454	(260 )	1,454
Interest expense:				
Debt	22,602	25,817	68,762	77,786
Capitalized lease obligation	7,831	7,540	23,905	22,754
Amortization of deferred financing costs and debt discount	4,310	2,244	9,024	7,250
Change in fair value of derivatives and amortization	1,508	176	4,151	5,023
Interest income	(1,171 )	(441 )	(2,569 )	(1,521 )
Income from operations	29,505	8,640	70,368	48,222
Facility lease termination expense	—	4,616	—	4,616
Depreciation and amortization	64,071	74,951	206,430	221,180
Asset impairment	—	—	14,846	—
Gain on acquisition	(3,520 )	—	(3,520 )	—
Straight-line lease expense	1,834	2,812	5,016	8,109
Amortization of deferred gain	(1,094 )	(1,086 )	(3,280 )	(3,258 )
Amortization of entrance fees	(6,499 )	(6,634 )	(18,865 )	(18,160 )
Non-cash stock-based compensation expense	5,221	5,823	14,316	15,799
	—	—	—	(1,064 )

Change in future service obligation				
Entrance fee receipts(2)	18,019	22,054	45,069	55,019
First generation entrance fees received(3)	(2,293 )	(2,921 )	(7,177 )	(14,488 )
Entrance fee disbursements	(5,475 )	(4,984 )	(16,886 )	(16,106 )
Adjusted EBITDA	\$ 99,769	\$ 103,271	\$ 306,317	\$ 299,869

(1) The calculation of Adjusted EBITDA includes integration and transaction-related costs of \$5.5 million and \$6.4 million for the three and nine months ended September 30, 2011, respectively.

(2) Includes the receipt of refundable and non-refundable entrance fees.

(3) First generation entrance fees received represents initial entrance fees received from the sale of units at a newly opened entrance fee CCRC.

Table of Contents

Cash From Facility Operations

Definition of Cash From Facility Operations

We define Cash From Facility Operations (CFFO) as follows:

Net cash provided by (used in) operating activities adjusted for:

- changes in operating assets and liabilities;
- deferred interest and fees added to principal;
- refundable entrance fees received;
- first generation entrance fee receipts on a newly opened entrance fee CCRC;
- entrance fee refunds disbursed;
- lease financing debt amortization with fair market value or no purchase options;
- facility lease termination expense;
- recurring capital expenditures;
- distributions from unconsolidated ventures from cumulative share of net earnings;
- Cash From Facility Operations from unconsolidated ventures; and
- other.

Recurring capital expenditures include routine expenditures capitalized in accordance with GAAP that are funded from current operations. Amounts excluded from recurring capital expenditures consist primarily of major projects, renovations, community repositionings, expansions, systems projects or other non-recurring or unusual capital items (including integration capital expenditures) or community purchases that are funded using lease or financing proceeds, available cash and/or proceeds from the sale of communities that are held for sale.

In the fourth quarter of 2010, we revised the definition of Cash From Facility Operations to exclude distributions from unconsolidated ventures from cumulative share of net earnings and include our proportionate share (based on equity ownership percentages) of the Cash From Facility Operations generated by our unconsolidated ventures. This impact is included in the Cash From Facility Operations for the three and nine months ended September 30, 2011. Due to immateriality, the prior periods have not been restated.

Management's Use of Cash From Facility Operations

We use CFFO to assess our overall liquidity. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial and liquidity goals as well as to achieve optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

This metric measures our liquidity based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. CFFO is one of the metrics used by our senior management and board of directors (i) to review our ability to service our outstanding indebtedness (including our credit facilities and long-term leases), (ii) to review our ability to pay dividends to stockholders, (iii) to review our ability to make regular recurring capital expenditures to maintain and improve our communities on a period-to-period basis, (iv) for planning purposes, including preparation of our annual budget, (v) in making compensation determinations for certain of our associates (including our named executive officers) and (vi) in setting various covenants in our credit agreements. These agreements generally require us to escrow or spend a minimum of between \$250 and \$450 per unit per year. Historically, we have spent in excess of these per unit amounts; however, there is no assurance that we will have funds available to escrow or spend these per unit amounts in the future. If we do not escrow or spend the required minimum annual amounts, we would be in default of the applicable debt or

Table of Contents

lease agreement which could trigger cross default provisions in our outstanding indebtedness and lease arrangements.

### Limitations of Cash From Facility Operations

CFFO has limitations as an analytical tool. It should not be viewed in isolation or as a substitute for GAAP measures of cash flow from operations. CFFO does not represent cash available for dividends or discretionary expenditures, since we may have mandatory debt service requirements or other non-discretionary expenditures not reflected in the measure. Material limitations in making the adjustment to our cash flow from operations to calculate CFFO, and using this non-GAAP financial measure as compared to GAAP operating cash flows, include:

- the cash portion of interest expense, income tax (benefit) provision and non-recurring charges related to gain (loss) on sale of communities and extinguishment of debt activities generally represent charges (gains), which may significantly affect our financial results; and
- depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our communities, which affects the services we provide to our residents and may be indicative of future needs for capital expenditures.

We believe CFFO is useful to investors because it assists their ability to meaningfully evaluate (1) our ability to service our outstanding indebtedness, including our credit facilities and capital and financing leases, (2) our ability to pay dividends to stockholders and (3) our ability to make regular recurring capital expenditures to maintain and improve our communities.

CFFO is not an alternative to cash flows provided by or used in operations as calculated and presented in accordance with GAAP. You should not rely on CFFO as a substitute for any such GAAP financial measure. We strongly urge you to review the reconciliation of CFFO to GAAP net cash provided by (used in) operating activities, along with our consolidated financial statements included herein. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because CFFO is not a measure of financial performance under GAAP and is susceptible to varying calculations, the CFFO measure, as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies.

The table below shows the reconciliation of net cash provided by operating activities to CFFO for the three and nine months ended September 30, 2011 and 2010 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011(1)	2010	2011(1)	2010
Net cash provided by operating activities	\$ 54,650	\$ 64,384	\$ 212,002	\$ 179,155
Changes in operating assets and liabilities	16,617	(3,812 )	7,369	18,823
Refundable entrance fees received(2)(3)	7,204	12,242	18,594	27,303
First generation entrance fees received(4)	(2,293 )	(2,921 )	(7,177 )	(14,488 )
Entrance fee refunds disbursed	(5,475 )	(4,984 )	(16,886 )	(16,106 )
Recurring capital expenditures, net	(8,675 )	(7,572 )	(25,000 )	(21,583 )

Lease financing debt amortization with fair market value or no purchase options	(2,645 )	(2,267 )	(7,765 )	(6,659 )
Facility lease termination expense	—	4,616	—	4,616
Cash From Facility Operations from unconsolidated ventures	738	—	2,040	—
Cash From Facility Operations	\$ 60,121	\$ 59,686	\$ 183,177	\$ 171,061

(1) The calculation of Cash From Facility Operations includes integration and transaction-related costs of \$5.5 million and \$6.4 million for the three and nine months ended September 30, 2011, respectively.

(2) Entrance fee receipts include promissory notes issued to the Company by the resident in lieu of a portion of the entrance fees due. Notes issued (net of collections) for the three months ended September 30, 2011 and

## Table of Contents

2010 were (\$1.6) million and \$1.1 million, respectively, and for the nine months ended September 30, 2011 and 2010 were (\$1.1) million and \$4.5 million, respectively.

(3) Total entrance fee receipts for the three months ended September 30, 2011 and 2010 were \$18.0 million and \$22.1 million, respectively, including \$10.8 million and \$9.8 million, respectively, of non-refundable entrance fee receipts included in net cash provided by operating activities. Total entrance fee receipts for the nine months ended September 30, 2011 and 2010 were \$45.1 million and \$55.0 million, respectively, including \$26.5 million and \$27.7 million, respectively, of non-refundable entrance fee receipts included in net cash provided by operating activities.

(4) First generation entrance fees received represents initial entrance fees received from the sale of units at a newly opened entrance fee CCRC.

## Facility Operating Income

### Definition of Facility Operating Income

We define Facility Operating Income as follows:

Net income (loss) before:

- provision (benefit) for income taxes;
- non-operating (income) expense items;
- (gain) loss on sale or acquisition of communities (including facility lease termination expense);
- depreciation and amortization (including non-cash impairment charges);
- facility lease expense;
- general and administrative expense, including non-cash stock-based compensation expense;
- change in future service obligation;
- amortization of deferred entrance fee revenue; and
- management fees.

### Management's Use of Facility Operating Income

We use Facility Operating Income to assess our facility operating performance. We believe this non-GAAP measure, as we have defined it, is helpful in identifying trends in our day-to-day facility performance because the items excluded have little or no significance on our day-to-day facility operations. This measure provides an assessment of revenue generation and expense management and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as to achieve optimal facility financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

Facility Operating Income provides us with a measure of facility financial performance, independent of items that are beyond the control of management in the short-term, such as the change in the liability for the obligation to provide

future services under existing lifecare contracts, depreciation and amortization (including non-cash impairment charges), straight-line lease expense (income), taxation and interest expense associated with our capital structure. This metric measures our facility financial performance based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. Facility Operating Income is one of the metrics used by our senior management and board of directors to review the financial performance of the business on a monthly basis. Facility Operating Income is also used by research analysts and investors to evaluate



## Table of Contents

the performance of and value companies in our industry by investors, lenders and lessors. In addition, Facility Operating Income is a common measure used in the industry to value the acquisition or sales price of communities and is used as a measure of the returns expected to be generated by a community.

A number of our debt and lease agreements contain covenants measuring Facility Operating Income to gauge debt or lease coverages. The debt or lease coverage covenants are generally calculated as facility net operating income (defined as total operating revenue less operating expenses, all as determined on an accrual basis in accordance with GAAP). For purposes of the coverage calculation, the lender or lessor will further require a pro forma adjustment to facility operating income to include a management fee (generally 4% to 5% of operating revenue) and an annual capital reserve (generally \$250 to \$450 per unit). An investor or potential investor may find this item important in evaluating our performance, results of operations and financial position, particularly on a facility-by-facility basis.

### Limitations of Facility Operating Income

Facility Operating Income has limitations as an analytical tool. It should not be viewed in isolation or as a substitute for GAAP measures of earnings. Material limitations in making the adjustments to our earnings to calculate Facility Operating Income, and using this non-GAAP financial measure as compared to GAAP net income (loss), include:

- interest expense, income tax (benefit) provision and non-recurring charges related to gain (loss) on sale of communities and extinguishment of debt activities generally represent charges (gains), which may significantly affect our financial results; and
- depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our communities, which affects the services we provide to our residents and may be indicative of future needs for capital expenditures.

An investor or potential investor may find this item important in evaluating our performance, results of operations and financial position on a facility-by-facility basis. We use non-GAAP financial measures to supplement our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

Facility Operating Income is not an alternative to net income, income from operations or cash flows provided by or used in operations as calculated and presented in accordance with GAAP. You should not rely on Facility Operating Income as a substitute for any such GAAP financial measure. We strongly urge you to review the reconciliation of Facility Operating Income to GAAP net income (loss), along with our consolidated financial statements included herein. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because Facility Operating Income is not a measure of financial performance under GAAP and is susceptible to varying calculations, the Facility Operating Income measure, as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies.

The table below shows the reconciliation of net loss to Facility Operating Income for the three and nine months ended September 30, 2011 and 2010 (dollars in thousands):

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net loss	\$ (7,036 )	\$ (16,913 )	\$ (53,300 )	\$ (40,765 )
Provision (benefit) for income taxes	513	(11,821 )	2,087	(24,528 )
Equity in loss (earnings) of unconsolidated ventures	117	(272 )	(295 )	(788 )
Loss on extinguishment of debt	715	856	18,863	1,557
Other non-operating expense (income)	116	1,454	(260 )	1,454
Interest expense:				
Debt	22,602	25,817	68,762	77,786
Capitalized lease obligation	7,831	7,540	23,905	22,754
Amortization of deferred financing costs and debt discount	4,310	2,244	9,024	7,250
Change in fair value of derivatives and amortization	1,508	176	4,151	5,023
Interest income	(1,171 )	(441 )	(2,569 )	(1,521 )
Income from operations	29,505	8,640	70,368	48,222
Facility lease termination expense	—	4,616	—	4,616
Depreciation and amortization	64,071	74,951	206,430	221,180
Asset impairment	—	—	14,846	—
Gain on acquisition	(3,520 )	—	(3,520 )	—
Change in future service obligation	—	—	—	(1,064 )
Facility lease expense	68,314	68,090	200,694	203,514
General and administrative (including non-cash stock-based compensation expense)	38,711	33,231	105,935	97,017
Amortization of entrance fees	(6,499 )	(6,634 )	(18,865 )	(18,160 )
Management fees	(3,336 )	(1,339 )	(6,246 )	(4,146 )
Facility Operating Income	\$ 187,246	\$ 181,555	\$ 569,642	\$ 551,179

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks from changes in interest rates charged on our credit facilities, other floating-rate indebtedness and lease payments subject to floating rates. The impact on earnings and the value of our long-term debt and lease payments are subject to change as a result of movements in market rates and prices. As of September 30, 2011, we had approximately \$1.4 billion of long-term fixed rate debt, \$0.6 billion of long-term variable rate debt and \$354.0 million of capital and financing lease obligations. As of September 30, 2011, our total fixed-rate debt and variable-rate debt outstanding had a weighted-average interest rate of 4.23%.

We enter into certain interest rate swap agreements with major financial institutions to manage our risk on variable rate debt. Additionally, we have entered into certain cap agreements to effectively manage our risk above certain interest rates. As of September 30, 2011, \$1.6 billion, or 77.6%, of our debt, excluding capital and financing lease

obligations, either has fixed rates or variable rates that are subject to swap agreements. As of September 30, 2011, \$243.8 million, or 11.9%, of our debt, excluding capital and financing lease obligations, is subject to cap agreements. The remaining \$216.0 million, or 10.5%, of our debt is variable rate debt, not subject to any cap or swap agreements. A change in interest rates would have impacted our interest rate expense related to all outstanding variable rate debt, excluding our secured line of credit and capital and financing lease obligations, as follows: a one, five and ten percent increase in interest rates would have an impact of \$3.7 million, \$22.5 million and \$36.6 million, respectively.

As noted above, 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 future financing transactions. Pursuant to certain of our hedge agreements, we are required to secure our obligation to the counterparty by posting cash or other collateral if the fair value liability exceeds a specified threshold.

## Table of Contents

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that, as of September 30, 2011, our disclosure controls and procedures were effective.

#### Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The information contained in Note 9 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by this reference.

#### Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) On September 1, 2011, we issued an aggregate of 96,862 shares of our common stock to the former owners of Horizon Bay Realty, L.L.C. as partial consideration for the acquisition of Horizon Bay. This issuance of securities was made pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. See Note 4 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for additional information regarding the Horizon Bay acquisition.

(b) Not applicable.

(c) The following table contains information regarding purchases of our common stock made during the quarter ended September 30, 2011 by or on behalf of the Company or any “affiliated purchaser,” as defined by Rule 10b-18(a)(3) of the Exchange Act:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans
--------	--	------------------------------------	---	--

	or Programs(2)				
07/01/11 – 07/31/11	—	\$	—	—	—
08/01/11 – 08/31/11	922,900		14.71	922,900	\$ 86,426,107
09/01/11 – 09/30/11	294,200		13.59	294,200	\$ 82,426,637
Total	1,217,100	\$	14.44	1,217,100	\$ 82,426,637

Table of Contents

(1) All share repurchases were made in open market transactions pursuant to the publicly announced repurchase program summarized in footnote 2 below.

(2) On August 11, 2011, we announced that our board of directors had approved a share repurchase program that authorizes us to purchase up to \$100.0 million in the aggregate of our common stock. Purchases may be made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or by any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The size, scope and timing of any purchases will be based on business, market and other conditions and factors, including price, regulatory and contractual requirements or consents, and capital availability. The repurchase program does not obligate us to acquire any particular amount of common stock, does not have an expiration date, and may be suspended, modified or discontinued at any time at our discretion without prior notice. We did not have any repurchase plan or program that expired during the third quarter of 2011, nor have we determined to terminate the current plan.

Item 6. Exhibits

See Exhibit Index immediately following the signature page hereto, which Exhibit Index is incorporated by reference as if fully set forth herein.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BROOKDALE SENIOR LIVING INC.  
(Registrant)

By: /s/ Mark W. Ohlendorf

Name:

Title:

Mark W. Ohlendorf

Co-President and Chief Financial  
Officer

(Principal Financial and Accounting  
Officer)

Date:

November 9, 2011

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on February 26, 2010).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on January 19, 2010).
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. 3) (No. 333-127372) filed on November 7, 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 June 30, 2006).
4.3	Amendment No. 1 to Stockholders Agreement, dated as of July 26, 2006, by and among Brookdale Senior Living Inc., FIT-ALT Investor LLC, Fortress Registered Investment Trust, Fortress Brookdale Investment Fund LLC, FRIT Holdings LLC, and FIT Holdings LLC (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2006).
4.4	Amendment Number Two to Stockholders Agreement, dated as of November 4, 2009 (incorporated by reference to Exhibit 4.4 to the Company's Quarterly Report on Form 10-Q filed on November 4, 2009).
4.5	Indenture, dated as of June 14, 2011, between the Company and American Stock Transfer & Trust Company, LLC, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 14, 2011).
4.6	Supplemental Indenture, dated as of June 14, 2011, between the Company and American Stock Transfer & Trust Company, LLC, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on June 14, 2011).
4.7	Form of 2.75% Convertible Senior Note due 2018 (included as part of Exhibit 4.6).
10.1	Master Credit Facility Agreement, dated as of July 29, 2011, by and among various subsidiaries of Brookdale Senior Living Inc. and Oak Grove Commercial Mortgage, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 4, 2011).
10.2	Form of Restricted Share Agreement under the Brookdale Senior Living Inc. Omnibus Stock Incentive Plan (Time-Vesting Form for Executive Committee Members)
10.3	Form of Restricted Share Agreement under the Brookdale Senior Living Inc. Omnibus Stock Incentive Plan (Time-Vesting Form for Executive Vice



	Presidents)
10.4	Form of Restricted Share Agreement under the Brookdale Senior Living Inc. Omnibus Stock Incentive Plan (2011 Performance-Vesting Form for Executive Committee Members)
10.5	Form of Restricted Share Agreement under the Brookdale Senior Living Inc. Omnibus Stock Incentive Plan (2011 Performance-Vesting Form for Executive Vice Presidents)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

\* Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.