

Brookdale Senior Living Inc.  
Form 10-Q/A  
November 15, 2011

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A  
(Amendment No. 1)

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

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

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 (§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  No

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

---

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).

---

---

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the “Amendment”) amends our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, as filed with the Securities and Exchange Commission (the “SEC”) on November 9, 2011 (the “Original Filing”). The Original Filing is being amended solely (i) to correct certain immaterial errors related to average monthly revenue per unit amounts in the tables entitled “Selected Operating and Other Data” and “Selected Segment Operating and Other Data” for the three and nine months ended September 30, 2011 and 2010 contained in Item 2 of Part I of the Original Filing under the heading “Consolidated Results of Operations” and (ii) to clarify that the number of units operated at period end included in such tables excludes equity homes (consistent with the presentation of weighted average units operated). Accordingly, Item 2 of Part I of the Original Filing is hereby amended and restated in its entirety.

In connection with the filing of this Amendment and pursuant to the rules of the SEC, we are including with this Amendment certain currently dated certifications as exhibits to this Form 10-Q/A under Item 6 of Part II hereof.

Except as described above, no other changes have been made to the Original Filing. The Original Filing, as amended by this Amendment, continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original Filing and our filings made with the SEC subsequent to the date of the Original Filing.

## PART I. FINANCIAL INFORMATION

### 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

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/A

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 %

5

---



	Nine Months Ended September 30,		Amount	Increase (Decrease)	
	2011	2010		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.

## 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.

7

---

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

(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	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	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	(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	(117 )	272	(389 )	(143.0 %)
Loss on extinguishment of debt, net	(715 )	(856 )	(141 )	(16.5 %)
Other non-operating expense	(116 )	(1,454 )	(1,338 )	(92.0 %)
Loss before income taxes	(6,523 )	(28,734 )	(22,211 )	(77.3 %)
(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	%
<b>Total units operated (2)</b>					
Period end	66,178	50,900	15,278	30.0	%
Weighted average	55,440	50,903	4,537	8.9	%
<b>Owned/leased communities units (2)</b>					
Period end	47,752	47,114	638	1.4	%
Weighted average	46,791	47,117	(326 )	(0.7	%)
<b>Owned/leased communities occupancy rate (weighted average)</b>	87.4	%	87.4	%	—
<b>Average monthly revenue per unit (3)</b>	\$	4,632	\$	4,457	\$
				175	3.9
					%

## Selected Segment Operating and Other Data:

## Retirement Centers

Number of communities (period end)	76	80	(4 )	(5.0 %)
Total units (2)				
Period end	14,464	14,734	(270 )	(1.8 %)
Weighted average	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 (2)				
Period end	21,524	21,114	410	1.9 %
Weighted average	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)	\$ 4,717	\$ 4,606	\$ 111	2.4 %

## CCRCs

Number of communities (period end)	40	36	4	11.1 %
Total units (2)				
Period end	11,764	11,266	498	4.4 %
Weighted average	11,395	11,269	126	1.1 %
Occupancy rate (weighted average)	84.4 %	84.4 %	—	—
Average monthly revenue per unit (3)	\$ 5,906	\$ 5,509	\$ 397	7.2 %

## Management Services

Number of communities (period end)	98	19	79	NM
Total units (2)				
Period end	18,426	3,786	14,640	NM
Weighted average	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) Period end units operated excludes equity homes. Weighted average units operated represents 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



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.

### 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	%
<b>Total</b>	<b>\$ 651,346</b>	<b>100.0</b>	<b>%</b>	<b>\$ 591,787</b>	<b>100.0</b>	<b>%</b>
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	%	—	—	
<b>General and administrative expenses (including non-cash stock-based compensation expense and integration and transaction-related costs)</b>	<b>\$ 38,711</b>	<b>5.9</b>	<b>%</b>	<b>\$ 33,231</b>	<b>5.6</b>	<b>%</b>

### 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.

### 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,		Increase (Decrease)	% Increase (Decrease)
	2011	2010		
<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/A

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	%

12

---

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

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						
Facility lease expense	105,935	97,017	8,918	9.2	%	
Depreciation and amortization	200,694	203,514	(2,820 )	(1.4	%)	
Asset impairment	206,430	221,180	(14,750 )	(6.7	%)	
Gain on acquisition	14,846	—	14,846	100.0	%	
Costs incurred on behalf of managed communities	(3,520 )	—	3,520	100.0	%	
Facility lease termination expense	72,584	50,451	22,133	43.9	%	
Total operating expense	—	4,616	(4,616 )	(100.0	%)	
Income from operations	1,715,579	1,654,089	61,490	3.7	%	
Interest income	70,368	48,222	22,146	45.9	%	
Interest expense	2,569	1,521	1,048	68.9	%	
Debt						
Amortization of deferred financing costs and debt discount	(92,667 )	(100,540 )	(7,873 )	(7.8	%)	
Change in fair value of derivatives and amortization	(9,024 )	(7,250 )	1,774	24.5	%	
Equity in earnings of unconsolidated ventures	(4,151 )	(5,023 )	(872 )	(17.4	%)	
Loss on extinguishment of debt, net	295	788	(493 )	(62.6	%)	
Other non-operating income (expense)	(18,863 )	(1,557 )	17,306	NM		
Loss before income taxes	260	(1,454 )	1,714	117.9	%	
(Provision) benefit for income taxes	(51,213 )	(65,293 )	(14,080 )	(21.6	%)	
Net loss	(2,087 )	24,528	(26,615 )	(108.5	%)	
	\$ (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 (2)						
Period end	66,178	50,900	15,278	30.0	%	
Weighted average	52,009	50,927	1,082	2.1	%	
Owned/leased communities units (2)						
Period end	47,752	47,114	638	1.4	%	
Weighted average	46,603	47,140	(537 )	(1.1	%)	
Owned/leased communities occupancy rate (weighted average)	87.1	%	86.9	%	0.2	%
				0.2	%	

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

Average monthly revenue per unit (3)	\$ 4,621	\$ 4,419	\$ 202	4.6	%
<b>Selected Segment Operating and Other Data:</b>					
<b>Retirement Centers</b>					
Number of communities (period end)	76	80	(4 )	(5.0	%)
Total units (2)					
Period end	14,464	14,734	(270 )	(1.8	%)
Weighted average	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	%
<b>Assisted Living</b>					
Number of communities (period end)	433	429	4	0.9	%
Total units (2)					
Period end	21,524	21,114	410	1.9	%
Weighted average	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)	\$ 4,714	\$ 4,568	\$ 146	3.2	%
<b>CCRCs</b>					
Number of communities (period end)	40	36	4	11.1	%
Total units (2)					
Period end	11,764	11,266	498	4.4	%
Weighted average	11,273	11,277	(4 )	—	
Occupancy rate (weighted average)	84.7	% 84.2	% 0.5	% 0.6	%



Average monthly revenue per unit (3)	\$5,885	\$5,456	\$429	7.9	%
Management Services					
Number of communities (period end)	98	19	79	NM	
Total units (2)					
Period end	18,426	3,786	14,640	NM	
Weighted average	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) Period end units operated excludes equity homes. Weighted average units operated represents 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.

### 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):



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	%
<b>Total</b>	<b>\$ 1,856,578</b>	<b>100.0</b>	<b>%</b>	<b>\$ 1,751,072</b>	<b>100.0</b>	<b>%</b>
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.

### 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



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

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.

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

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:



- 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.

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.

## 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

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



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

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):

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

	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

PART II. OTHER INFORMATION

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. The exhibits listed in the Exhibit Index are filed as exhibits to this Amendment and are meant to supplement the exhibits listed in Item 6 of Part II and the Exhibit Index of the Original Filing.

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:

Mark W. Ohlendorf

Title:

Co-President and Chief Financial  
Officer

(Principal Financial and Accounting  
Officer)

Date:

November 15, 2011

EXHIBIT INDEX

Exhibit No.	Description
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.

31